The Rich Live Vol 84

Most of us have been experiencing unexpectedly cold temperatures lately but the good news is that spring is on the way. As the days grow longer and warmer, there can be a sense of optimism and a feeling of renewal. The Centaur Team are now fully operational in our new office at 'The Rocket' - Level 11, 203 Robina Town Centre Drive, Robina 4226, and we can't wait to welcome you all to our new space.

Market watchers, investors and mortgage holders, who'd been anxiously awaiting the release of the latest inflation data at the end of July, could neither jump for joy nor collapse in despair.

The best that could be said about the figures was that they were not as bad as they could have been. It remains to be seen how the Reserve Bank board will view inflation's modest increase when it meets on August 5 and whether it decides on an interest rate rise to counter it. The Australian Bureau of Statistics says prices rose 1% in the June quarter and 3.8% annually.

Retail sales continue to splutter along with the latest data showing a 0.5% increase in sales in June thanks to the sales but over the quarter, retail sales volumes fell 0.3% for the sixth time in the past seven quarters. Meanwhile, building approvals fell 6.5% in June after a 5.7% rise the previous month.

The ASX S&P 200 index finished the month strongly with an increase of around 4%, riding out a mid-month plunge. But the currency didn't fare quite as well, falling below US65 cents for the first time in almost three months. In the US, the S&P 500 finished the month almost where it began after a big mid-month upward spike then fall but, for the year to date, it's recorded an increase of almost 15%.

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INVESTING CYCLES - Lessons from the Magnificent 7

When it comes to investing in shares, it's often said that time is your friend.

The data shows that investing small amounts consistently over time and riding out the ups and downs of the market by holding onto your investments for the long term, can produce a healthy return.

Over the past two decades, the top 500 US companies averaged a 10 per cent annual return and Australia's S&P ASX All Ordinaries Index recorded an average annual return of 9.2 per cent.[i]

Those returns have been delivered despite some catastrophic events that sent the markets plummeting including the dot-com bubble crash, the Global Financial Crisis, and the effects of Covid-19.

It takes grit to hold on as the markets plummet, but the best way might be to avoid the hype and tune out the 'noise'. It can be a trap checking prices every day and week, causing heightened stress and anxiety about your portfolio, a recent example being the mid-2024 Microsoft outage which briefly impacted investor confidence. We can help you maintain a longer-term view, so it you have any concerns give us a call.

The cycle of endless phases of good and bad times are a constant for markets. Most cycles follow a pattern of early upswing, after the market has bottomed out followed by the bull market, when investor confidence is strong and prices are rising faster than average. Then the market hits its peak as prices level out before negative investor sentiment drives a bear market. Finally, the bottom of the cycle is reached as prices are at their lowest.

There are also certain seasonal market cycles that may be helpful in buying and selling decisions. Note, though, that there are always exceptions.

In Australia, April, July, and December have tended to be the strongest months on the All Ordinaries Index. But these patterns have weakened a little over time, with lower average gains in April, July, and December more recently. Performance is usually the lowest in June.[ii]

November and April have been the strongest months for US shares for the past 30 years, with average monthly gains of 1.9 per cent and 1.6 per cent respectively.

The Magnificent Seven

The performance of Nvidia and the Magnificent 7 is a real-time lesson in market dynamics and cycles.

Despite the rise and rise of seven US technology stocks in the past 18 months – known as The Magnificent 7 – their price pattern has, more or less, followed these seasonal cycles.

The seven stocks – Nvidia, Alphabet, Microsoft, Apple, Meta, Amazon, and Tesla – returned more than 106 per cent in 2023 alone.[iii]

In the first half of 2024, their prices rose around 33 per cent on the US S&P 500 index while the rest of the index increased by only 5 per cent.

But another story has been emerging in recent months. The Magnificent 7 has now become the Magnificent 3, thanks to intense excitement around artificial intelligence (AI). Nvidia, Alphabet and Microsoft leapt into the lead on the index, doubling the performance of the other four.[iv]

Nvidia has been the market darling, with its price almost tripling in 12 months. But prices have been volatile at times. A correction in June knocked the company from the biggest in the world, a title it held briefly before the plunge, to number three after Microsoft and Apple.

Some describe the activity as a bubble that is due to burst at some time in the future. We saw the bubble deflate a little with the mid 2024 global outage which spurred a rotate out of tech stocks. But others say the Magnificent 7 stocks remain undervalued and have further to go.

Either way, be wary about getting caught up in the hype that surrounds rapidly rising prices.

Keeping a cool head and taking the time to understand what you are investing in, and the potential risks will help you stay focussed on your long-term investing goals.

Get in touch if you'd like to discuss your investment portfolio and to review in the context of your long-term investment goals.

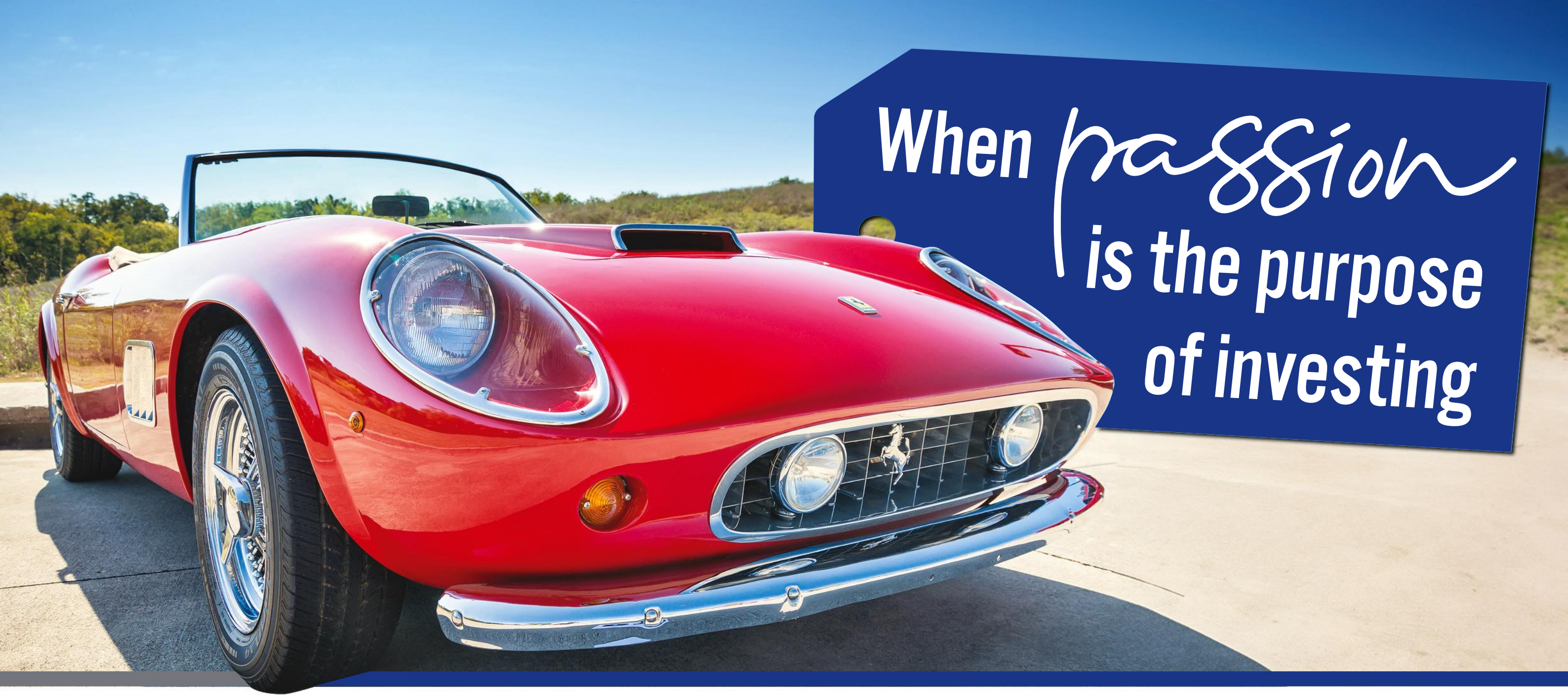
i https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/the-real-value-of-time

ii https://www.asx.com.au/blog/investor-update/2024/the--best--and-the--worst--months-for-shares

iii https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/investing-in-the-magnificent-seven

iv https://www.abc.net.au/news/programs/kohler-report

When passion is the purpose of investing



Investing is often considered best undertaken with a cool head and heart. But for some investors, passion is the whole purpose of the investment.

Passion investing is what it sounds like – investing in things you love, non-traditional assets that generally allow you to enjoy ownership while hopefully watching them appreciate in value at the same time.

Most traditional investments take into consideration time horizon, risk appetite and investment capital appreciation goals. For the passion investor, while financial considerations may dictate their investments to some extent, they are strongly influenced by more than market returns and want to invest – and collect – in a way that supports their interests and passions.

The growth of passion investing

We Australians certainly love collecting and, according to the *eBay State of Collectibles* report, we also care about the financial implications of our collections. In fact, more than one in four Aussies collect goods such as coins, toys, sneakers and art and more than 40% of those collectors could be considered passion investors as they have a financial objective in mind.[i]

The top 10 luxury passion investments

While buying and selling on Ebay is one end of the scale, the other end of the scale is the luxury passion investments. For those who have the cash to splash, some high-end investments can prove very lucrative.

According to Knight Frank's Luxury Investment Index, the top 10 most successful passion investments ranked in order from those recording the highest returns are art, jewellery, watches, coins, coloured diamonds, wine, furniture, luxury handbags, classic cars and rare whisky.[ii] While major auction houses recorded record sales last year, the Luxury Investment Index recorded a marginal decline of -1%, largely due to a drop in the rare whisky index of -9%. This overall decline was on the back of an impressive 16% increase the previous year, highlighting the volatility of the index.

Art typically records the most gains as investors pay stellar prices for museum quality works of art, with several single owner collections producing totals in excess of US$2.5 billion. It's not just art setting records though. A US$143 million Mercedes-Benz Uhlenhaut Coupé set a new record for the most expensive car ever sold, with the most expensive watch, a 1957 Patek Philippe 2499, going for almost $10 million dollars.

Exploring other passions

Of course, passion investing is more than just the above luxury goods. If you thought Lego was just a toy that possesses enduring popularity, think again - the biggest online database for collectible Lego sets is now worth $1.2bn and it is possible for investors to realise profits in the range of 150% to 250%.[iii]

Following in Lego's footsteps as a popular passion investment is sneakers. More than just comfy footwear to collectors, sneaker reselling has become a $6 billion industry globally, with the most sought-after limited-edition shoes commanding six-figure prices on the resale market.[iv]

Things to consider

While collecting items you love may seem like an exciting way to park some extra capital, passion investing can be a risky proposition and there are a number of things to consider.

Passion investments can be extremely susceptible to fluctuations in their value and luxury niche items can be hard to sell during economic downturns.

You have to know what to look for and it can be difficult, if not impossible, to predict what will be of interest to collectors in years to come. As with more traditional investments, you usually need to hold on to passion investments for some time in order for their value to grow so they are rarely a 'get rich quick' scheme.

They are also called passion investments for a reason. Any investment you are strongly attached to can potentially cloud your judgment when making decisions about buying, selling, or holding onto them.

You also need to think about where and how your objects are stored so they don't lose value and insurance is a consideration when you possess items of significant value.

If you enjoy owning things that bring you joy, by all means pursue your passions – that's what life is all about after all. Just approach with caution when mixing passion with investing.

i https://static.ebayinc.com/assets/Uploads/PressRoom/Local/eBay-State-Of-Collectibles.pdf

ii https://www.knightfrank.com.au/blog/2024/04/04/art-leads-knight-franks-luxury-investment-index-with-prices-rising-11-in-2023

iii https://www.wsj.com/video/series/in-depth-features/lego-investing-is-booming-heres-how-it-works/5F2B44FE-2789-46E2-B280-9CA089EAB458

iv https://www.firstonline.info/en/sneakers-da-collezione-una-folle-ossessione-chi-ci-guadagna/

Preparing your SMSF for the *future*

What happens to a self managed super fund (SMSF) when a trustee dies or becomes mentally impaired? While these are circumstances that many of us would rather not think about, some time spent planning now could make a big difference to you and your family later.

Australia's 620,000 SMSFs hold an estimated $933 billion in assets, so there is a lot at stake.[i]

But it's not just about money – control of the SMSF may also be crucial.

The best way to ensure that your wishes are carried out is with a properly documented succession plan and an up-to-date trust deed.

An SMSF succession plan sets out what will happen if you or another trustee dies or loses mental capacity. It makes sure that there's a smooth transition and is quite separate to your Will.

It's important to be aware that instructions in a Will are not binding on SMSF trustees, so it's essential to have a valid (preferably non-lapsing) binding death benefit nomination in place so the new trustees are required to pay your death benefit to your nominated beneficiary.

Your Will cannot determine who takes control of your SMSF or who receives your super death benefit as the fund's trust deed and super law take precedence.[ii]

Succession plans also reduce the potential for the fund to become non-compliant due to overlooked reporting or compliance obligations. They can even provide opportunities for death benefits to be paid tax effectively.[iii]

Selecting successor trustees

Super law requires SMSFs with an individual trustee structure to have a minimum of two trustees, so it's important to consider what will happen after the death or mental incapacity of one of the trustees.

An alternative to appointing a successor trustee can be introducing a sole purpose corporate trustee structure for your SMSF, as death or incapacity is then not an issue. This structure makes it easy to keep the SMSF functioning and fully compliant when a trustee transition is required.[iv]

Appoint a power of attorney

Good SMSF succession planning also means ensuring your Will is updated to reflect your current family or personal circumstances.

It requires having a valid Enduring Power of Attorney (EPOA) in place to help keep the SMSF operating smoothly if you lose mental capacity. Your EPOA can step in as fund trustee and take over administration of the fund or make necessary decisions about the fund's investment assets.

Checking compliance

When developing a succession plan, ensure your wishes comply with all the requirements of the SIS Act and will not inadvertently compromise your SMSF's compliance status.

Your planning process should include a regular review of both the fund's trust deed and any changes in both the SMSF's circumstances and membership, and the super legislation and regulations.

Tax is an important consideration when it comes to estate and succession planning as the super and tax laws use different definitions for who is and isn't considered a dependant.

Your SMSF is able to pay super death benefits to both your dependants and non-dependants, but the subsequent tax bills vary based on the beneficiary's dependency status under tax law.

The problems that can occur, due to the differences between super and tax law dependency definitions, were highlighted in recent private advice (1052187560814) provided by the ATO. It found that even if a beneficiary was receiving "a reasonable degree of financial support" from a deceased person just before they died, they would not necessarily be considered a death benefit dependant under tax law.

There is also the potential for capital gains tax to be payable if fund assets need to be sold because your super pension ceases when you die. Nominating a reversionary beneficiary for your pension ensures payments continue automatically without requiring any asset sales.[v]

If you would like to discuss or require assistance with drawing up your SMSF succession plan, give us a call today.

i https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/smsf-newsroom/highlights-smsf-quarterly-statistical-report-march-20247

ii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/paying-benefits/death-of-a-member

iii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/administering-and-reporting/how-we-help-and-regulate-smsfs/how-we-deal-with-non-compliance

iv https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/setting-up-an-smsf/choose-individual-trustees-or-a-corporate-trustee

v https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/in-detail/smsf-resources/smsf-technical-funds/funds-starting-and-stopping-a-pension#Pensionceasingupondeath

Releasing the value in your *home*

Rising property prices have led many people to look for ways to unlock the increased equity in their homes so they enjoy a comfortable lifestyle in their golden years.

For most of us, our homes represent the biggest or most significant portion of our wealth. But it's an asset that can't necessarily be realised quickly. It might take some time to sell your home and, in any case, you still need somewhere to live. And, if you're selling in a rising market, you're also buying in a rising market.

There are a number of ways to access the equity in your home, although be mindful of the consequences for your particular circumstances. With such a big decision and the complex financial products available, it's best to get independent financial advice, we can help clarify how you might be affected now and in the future.

Reverse mortgages

Reverse mortgages are more popular than ever, allowing you to borrow money using the equity in your home as security.

Following the introduction of tougher regulatory requirements, today, reverse mortgages are provided by a number of small bank and non-bank lenders.

The highest amount you can borrow, using your home as security, varies according to your age. At age 60, it's likely you will be able to borrow around 20 per cent of the value of your home. This amount usually increases as you get older so by 65, you may be able to borrow about 20-25 per cent.[i]

The advantage of a reverse mortgage is that, while you're living in your home, you don't make any repayments on the loan. The loan, including interest and fees, is repaid when you move out or sell your home. Interest charged on the loan is usually higher than for standard mortgages. Currently, rates average just over 8 per cent to just under 10 per cent.[ii]

The Australian Securities and Investments Commission MoneySmart website provides a reverse mortgage calculator to help you decide if it's the right course of action for you.

A Government scheme

The Federal Government's Home Equity Access Scheme is a popular alternative to private reverse mortgages products, with the scheme growing by about 60 per cent a year.[iii]

The Scheme provides loans to eligible older people, secured against your home. You can choose to receive a lump sum or a fortnightly tax-free payment.[iv]

The loan and any costs must be repaid to the government but you can make repayments or stop them at any time. If you sell the property you can repay the loan on settlement or transfer the loan to another property.

If there's an outstanding loan after your death, the government will seek repayment from your estate.

The current interest rate is 3.95 per cent.

Home reversion

Slightly different to a reverse mortgage, home reversion is another way of accessing the equity in your home while still living in the property.

You don't pay interest because it's not a loan but there are transaction fees. The provider pays you a discounted amount for the percentage of the property you sell based on today's value. Then, when the property is sold, the provider receives the same percentage of the sale price, meaning that the more your home increases in value, the more the provider receives.

Other options

Another way of taking advantage of the equity in your home is to sell it and buy a smaller one. Downsizing could allow you to clear the mortgage and invest or spend anything left over.

Those aged 55 or older can contribute up to $300,000 (for each spouse) from the sale into your superannuation fund. It's considered a non-concessional contribution, but it doesn't count towards the contribution cap.[v]

You could also consider converting your home to a dual occupancy or, if you're on a large block, subdividing.

Get in touch with us for a review of the options available to you, so you can look forward to enjoying your golden years with confidence.

i https://moneysmart.gov.au/retirement-income/reverse-mortgage-and-home-equity-release

ii https://www.finder.com.au/home-loans/reverse-mortgages

iii https://www.dss.gov.au/sites/default/files/documents/10_2023/dss-annual-report-published-version.pdf

iv https://www.servicesaustralia.gov.au/home-equity-access-scheme

v https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/how-to-save-more-in-your-super/downsizer-super-contributions