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Fiducian Financial Services in 2022

Robby Southall
Executive Chairman,
Fiducian Financial Services

Following quite an eventful year in many respects, Fiducian Financial Services continues to implement many changes in response to legislative changes to the financial advice industry following the 2019 Royal Commission. However, I believe we have made fantastic progress and we embrace any changes that provide our clients with a better experience and outcome.

This year, all our financial advisers will have completed their professional FASEA (Financial Adviser Standards & Ethics Authority) examinations, and I feel very proud of the professionalism, dedication and focus that our advisers have shown throughout a pretty tough year. For 2022, I am confident that we have one of the strongest financial advice teams, industry-wide. In January, newly appointed AFA (Association of Financial Advisers) CEO, Phil Anderson was quoted stating; "…the need for the value of advice will only continue to increase and I think we can take quite a lot of comfort from the fact that the momentum has started to change". Personally, I am a passionate believer that more Australians should be getting financial advice to help them get where they'd like to be financially, but I am assured that when a client has a need, that my team is dedicated to get the best possible outcome for them instilling our values of Integrity, Trust & Expertise.

I would also like to take this opportunity to welcome clients and staff joining Fiducian from People's Choice Credit Union. This acquisition strengthens our current team and provides access to planners throughout South Australia and the Northern Territory.

Is property a good investment for retirement?

Life after the nine-to-five routine can be equally exciting and intimidating, knowing that you'll no longer receive a regular income from your employer.

While relying on superannuation and the Aged Pension may have once been the norm, with an ageing Australian population we need to be a little more self-sufficient. Having a retirement plan in place is not only recommended, but essential.

Diversifying your investments to include property may make a whole lot of sense to providing extra income to sustain your retirement lifestyle. However, there are considerations in owning investment property in retirement and you should obtain good financial advice ensuring your investment aligns with your lifestyle, dreams and goals.

How much do you need to retire?

The cost of living post retirement can influence your investment decisions. The ASFA Retirement Standard September 2021 indicates that the minimum annual cost of a comfortable retirement for those aged around 65 is $45,239 for singles and $63,799 for couples. Being clear on your retirement dreams and goals and creating a budget will help you determine exactly how much you need to live on each year.

You can find our free budget planner here.

The value of property vs return on investment

The PropTrack Housing Market Outlook 2022 has reported that property prices across Australia's combined capital cities grew by 23.8% in 2021, with the REA Group predicting further increases between 6 and 9 per cent this year. If you plan to live off rental income to fund your retirement you will need to ensure the rental return of the property per year covers your cost of living, taking into consideration the associated costs of property maintenance, repayments, insurance and rates and the expected growth in property value. By working with a real estate agent and a financial planner you'll be able to determine what might work best for you.

Capital appreciation

If you have owned an investment property for some time or made significant home improvements, it is likely the property will have appreciated in value. With many choices available, you may decide that selling the property is the best solution for you, giving you access to built-up equity. You could decide to live off the total sum, reinvest into an income producing investment, downsize into a smaller property or boost your superannuation.

Does an investment property affect my Aged Pension?

Centrelink uses an income and assets test, and it applies whichever test results in lower pension payments. Your investment property will come under the asset test regardless of whether it is tenanted.

However, if you have a loan secured by the investment property, Centrelink will deduct this from the property's value, using the net value of your asset. For example, if your investment property is worth $900,000 and the loan is $200,000, then Centrelink will count $700,000 under the assets test.

Seek financial advice

Knowing that an investment property can help you fund your retirement is one thing. But what are the financial implications, and how can it impact other payments, including your super and Age Pension payments? Your financial planner is there to help you whatever your lifestyle and financial needs are in retirement.

Investing for the long term

Rewards for patience

There is often a great deal of 'noise' associated with investing in equities, due to constant news flow, short term volatility and the occasional large pullbacks in financial markets. But for investors who are prepared to be patient, the rewards of exposure to this asset class can be seen over the longer term. Using the last 40 years of data from the ASX, it has not been possible to generate a negative return from the market with a holding period of 10 calendar years, and the longer an investment in equities (index return) is held, the smaller the range of potential returns.

Time is on your side

The table below summarises the last 40 years of returns data for the All Ordinaries Accumulation Index to the end of 2020, and looks at the returns received for various holding periods. For example, the '5 years' column calculates the returns for each rolling five year return in the series:

The value of good advice

Individual investors do need to be aware of their own behavioural biases when investing, as long term data shows that over-trading and following short term trends has resulted in long term performance for the average investor that is below index. During the most recent significant market falls in 2020, shown in the ASX Australian Investor Study 2020, investors who received professional advice were more likely to increase their investments in equities at a low point in the market as opposed to those who did not receive professional advice.

The ASX Investor Study 2020 also tells us that unlike previous cycles, more investors decided to shift money to riskier investments when markets were weak as opposed to selling.

The clear majority of respondents reported either increasing allocations to risky investments or investing all spare cash as opposed to moving to safer investments or completely liquidating and moving to cash.

	1 year	2 years	3 years	4 years	5 years	10 years	15 years	20 years
Average return	13.0%	11.4%	11.1%	11.3%	11.2%	10.6%	10.7%	10.2%
Worst	-40.4%	-16.1%	-4.9%	-6.6%	-2.1%	4.0%	6.9%	7.2%
Best	66.8%	48.1%	32.9%	37.5%	26.9%	17.7%	16.6%	14.5%
% +ve	75.6%	87.5%	92.3%	97.4%	94.6%	100.0%	100.0%	100.0%
% -ve	24.4%	12.5%	7.7%	2.6%	5.4%	0.0%	0.0%	0.0%

Source: ASX, Fiducian 2021

A couple of points to note. Firstly, the longer the time period, the less likely you are to experience a negative return. Over one calendar year, returns have been positive about 75% of the time. By the time you have held for five calendar years, returns have been positive 95% of the time. And for ten calendar years and beyond, there is no point where you could have invested in the index and finished with a negative return over the last 40 years.

Secondly, the longer you hold, the smaller the dispersion of returns. The returns for a one year holding period range from -40.4% to +66.8%. By the time this is extended to ten years, the range has narrowed to +4.0% to +17.7%. The longer an investment is held in the market, the range of realised returns becomes narrower.

There was a marked difference between advised and non-advised individuals. Non-advised individuals were more likely to liquidate their holdings (4% vs 1%) or increase allocations to cash (14% vs 12%). Advised individuals were more likely to invest all spare cash (26% vs 16%) and shift to a riskier allocation (6% vs 1%).

Whether or not this behaviour will be seen again in future market pullbacks, or is simply reflective of locked down individuals with spare time and money to speculate on stocks, as some have suggested, remains to be seen.

Fiducian Family

Welcome our new financial planners

Bjorn Elix
Fiducian Financial Services Adelaide

Chelsea Schar
Fiducian Financial Services Adelaide

Craig Rothall
Fiducian Financial Services Adelaide

Steve O’Connell
Fiducian Financial Services Adelaide

Judy Hughes
Fiducian Financial Services Adelaide

Karen Sowle
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Linda Austin
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Paul Champion
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Sean Tanner
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Mark Taylor
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Kieran Smith
Fiducian Financial Services Adelaide

Laura Campbell
Fiducian Financial Services South Perth

Manual Oswald
Fiducian Financial Services South Perth

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