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# QUARTERLY INSIGHT

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## Spring update

SPRING has arrived. Warmer weather. Blooming flowers. Footy finals. Spring racing.

Are you ready?

While there's lots to look forward to, we can't overlook the headwinds we are facing. Higher interest rates, inflation, energy costs and uncertainty are creating increased levels of stress and anxiety.

This edition of our quarterly Insight newsletter includes a timely piece on meditation, and how it can help with mental health and wellbeing as well as improving efficiency at work. Similarly, the article on facing mortgage stress is particularly relevant.

More generally, "Preparing For The Next Chapter" highlights the value of more carefully considering what a fulfilling retirement looks like for you personally, even if it is still a way off. Additionally, while many of us have life insurance in some form, how good are we at ensuring that it has kept up with our lives? Read on for some food for thought.

As we face the current headwinds, remember that it's easier if you have some help. Please look out for each other, stay safe and contact us if you have concerns or queries.





# Three Reasons to Stay the Course

Markets have moved with such speed and velocity in both directions since the beginning of the COVID outbreak it has been difficult for investors to adjust with so much conflicting information being circulated.

Decades of data, however, shows that staying invested through volatile times has been a smart long-term strategy.

There are three main reasons why you should avoid the impulse to hit the sell button, and keep invested when times get tough.

- 1. Cashing out can mean missing out –**  
investors who panic and sell, often miss the upside if markets rebound.
- 2. Markets have historically been resilient –**  
when markets react consider a broader historical perspective before changing your course.
- 3. Time is on your side –** it's not a timing issue  
it's a matter of time in the market.

## Cashing out can mean missing out

Looking at data going back to 1930, the firm found that if an investor missed the S&P 500's 10 best days each decade, the total return would stand at 28 per cent. If, on the other hand, the investor held steady through the ups and downs, the return would have been 17,715 per cent.



## Markets have historically been resilient

History shows that markets rebound after a crisis. It was reported in the Australian Financial Review that over the course of 29 separate events dating back to Germany defeating France in 1940, it has taken the Dow Jones index 18 days on average from the beginning of the crisis to hit its low point, with an average decrease over that period of 11.6 per cent, according to data compiled by Bell Potter.

The recovery from the fall is even quicker: 23 out of the 29 events, or 86 per cent of the time, the benchmark was, on average, 7.6 per cent higher a month later. A year later, the market rebounds by an average of 24.7 per cent.

Global firm, Ned Davis Research notes the same trend, finding that based on numerous crises since 1907, the US sharemarket declined 7 per cent on average, but six months later it was up 10 per cent and one year later it was around 15 per cent higher.

The Global Financial Crisis of 2008 is another example. The crisis sent international equities markets spiraling. But according to research from JP Morgan, staying invested helped superannuation accounts recover more quickly. According to JP Morgan's Katherine Roy, for those who stayed the course, account values fully bounced back within three years.

## Time is on your side

Global equity markets can be volatile but have historically outperformed over the longer term.

As a long-term investor, it's wise to remember that it's not a timing issue it's a matter of time in the market. It is important that investors look beyond the positive and negative commentary and concentrate on long-term goals. Global equity markets can be volatile but have historically outperformed over the longer term. Investors should stay the course and keep focused on long term strategy.

Sharp market falls accompanied by screaming headlines are stressful for investors. The current situation is especially nerve-wracking as there are so many moving parts – inflation is high, interest rates are rising, the threat of a recession looms large, and, there are a number of geo-political tensions, including the war in Ukraine.

Katherine Roy says “most people react when negative things happen and now, because things are happening so tightly together in terms of those rebound days, you're not able to get back in in time, nor do people have the courage to do so. Therefore, the best thing is to stay invested.”

Source: Informed Investor, September 5th 2022





# Know where you stand – stress testing your mortgage

With the double whammy of cost of living and mortgage interest rate rises, it's no wonder many mortgage holders, and those saving to buy their first property, are feeling anxious about meeting their repayments or savings goals.

The best way to check, is to stress test your household budget and mortgage repayment capacity. Your reality may not be as dire as the media leads you to believe.

The first thing to remember is that when mortgage brokers and lenders evaluate how much they could loan you, they assess your borrowing capacity and ability to service your loan assuming mortgage rate increases. This was tightened by APRA in 2021, requiring all new home loan applications to be assessed at an interest rate at least 3% above the loan product rate.

So, if your income and expenses haven't dramatically changed since then, you should have a buffer built in. If you have had your mortgage for some years and are ahead on your repayments, or have savings in an offset account, you can also draw on these funds to lower your repayments.

## Stress test your budget

Both our incomes and expenses change over our lives, so whether you took out your mortgage 12 years or 12 months ago, or are saving to buy in the near future, it's always a good idea to re-visit your budget every couple of years or at a major life event.

This includes checking your home loan interest rate and repayment structure and defining your property goals. This enables you to see if you're still on the best loan for your circumstances or on track to buy in your chosen area.

A common measure of mortgage stress is when a household spends 30% or more of its pre-tax income on mortgage repayments.<sup>1</sup> However, every

household is different, so it's important to do your own calculations and work out mortgage stress is for you and how changing mortgage rates will impact this.

One household, for example, may be able to cope with interest rates at 6% while another may find that impossible. Knowing your numbers means you can recognise when you might need to look for help or make changes to your lifestyle as rates increase. The government's MoneySmart website has a general budget calculator which can help you with accurate budget planning.

## Making room for rate increases

You may want to start cutting back on non-essentials before you really have to; streaming subscriptions, cheaper utility and phone deals, and reducing your credit card debt all make a difference and can help you feel more in control.

It's also important to consider the type of mortgage you have and if it still offers you the best outcome for your circumstances. If you have a flexible mortgage rate, it might be a good idea to look into fixing it, so you know exactly how much to budget for each month. You could also have a split loan that's part fixed and part flexible. We can help you work out what type of mortgage structure could be best, moving forward.

The other thing to consider is increasing your income by negotiating a wage rise, evaluating a move in your job or starting that side gig you put on the back burner. Even a small increase in income may reduce the need to cut back on non-essentials and stop you eating into savings or any extra mortgage payments you've made.

## How interest rates effect what you can borrow

If you're saving for your first home or interested in an investment property, higher interest rates may reduce your overall borrowing capacity. Most lenders are honouring existing agreed-in-principal amounts, but please get in touch to discuss your current pre-approved amount or what you are likely to be able to borrow moving forward. More than ever, you need to keep up to date with your current buying limit – and stick to it when looking.

## What to do if you are concerned about mortgage stress

The first thing is to contact us. We can speak to your lender and provide advice about your options moving forward. You can also access the government's free financial counselling service via the National Debt Helpline on 1800 007 007.

*Please get in touch if you'd like to discuss your current mortgage in light of recent rate increases so we can work with you to ensure you are able to withstand the changing environment – no matter what the news is telling you.*

i <https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release>





# Preparing for the next chapter

Retirement means starting a new chapter of your life, one that gives you the freedom to create your own story, as you decide exactly how you want to spend your time. While retirement may not be part of your immediate plans, there are advantages to giving some thought as to what retirement looks like for you and how to best position yourself, well before you leave the workforce behind.

## A time of profound change

Even setting aside the huge financial implications of leaving a regular salary behind, retiring from work represents one of the biggest life changes you can experience.

For most people, the freedom of being able to do whatever you want to do, whenever you want to do it,

is pretty enticing. However, it is quite common to have mixed feelings about retiring, particularly as you get closer to retirement. What we do for a living often defines us to some extent and leaving your job can mean a struggle with how you perceive yourself as well as how others view you. Coupled with the desire for financial security in retirement and the need to make your retirement savings last the distance, you have a lot to be dealing with.



So, let's look at the things you need to be thinking about sooner rather than later, from an emotional and practical perspective, to ensure your retirement is everything you want it to be.

## Forge your own path

Don't be tied to preconceptions of what retirement is all about. Retirement has evolved from making a grand departure from the workplace with the gift of a gold watch to a more flexible transition that may unfold over several years. Equally, if the idea of a clean break appeals to you then that's okay too and you just need to plan accordingly.

The same applies for your timeframe for retirement. The idea that you 'have' to retire at a certain age is no longer relevant given advances in healthcare and longer lifespans. If work makes you happy and fulfilled, then it can make sense to delay your departure from the workforce.

## Planning how to spend your time

It sounds obvious but you'll have more time on your hands so it's important to think about what you want to devote that time to. A study found that 97 per cent of retirees with a strong sense of purpose were generally happy and satisfied in retirement, compared with 76 per cent without that sense.<sup>i</sup> Think about what gives your life meaning and purpose and weave those elements into your plans.

If you are part of a couple, it's critical to ensure that you are both on the same page about what retirement means to you. This calls for open and honest communication about what you both want and may also involve some degree of compromise as you work together to come up with a plan that meets both of your needs.

## Practical considerations

There's a myriad of practical considerations once you have started to plan how you'll spend your time.

Here are a few things you may wish to consider:

- **Where do you want to live?** Do you want to be close to a city or are you interested in living in a more coastal or rural area? Are you wanting to travel or live overseas for extended periods?
- **What infrastructure and health services might you need as you age?** Are these services adequate and accessible in the area you are thinking of living in?
- **What hobbies and activities do you want to be involved in?** Do you need to start developing networks for those activities in advance?
- **Who do you want to spend time with?** If you have children and grandchildren, think about what role you'd like to play in their lives upon retirement.

## The best laid plans...

Of course, with all this planning it's also important to acknowledge that the best laid plans can go astray due to factors beyond your control. It's important to keep an open mind and be adaptable. While redundancy or poor health can play havoc with retirement dreams, it's still possible to make the best of what life throws at you.

*And of course, we are here to help you with the financial side of things to ensure that retirement is not only something to look forward to, but a wonderful chapter of your life once you start to live out your retirement dreams.*

<sup>i</sup> <https://www.inc.com/magazine/201804/kathy-kristof/happy-retirement-satisfaction-enjoy-life.html>





# Taking cover in changing times

Change is a constant. Life is about change and as we embrace each new milestone and deal with the challenges life throws us from time to time, we grow as human beings.

Just as life changes, so do your insurance needs. Personal insurance is never a 'set and forget' so let's look at how to ensure you are appropriately covered through each stage of your life. Changes to your insurance needs at any given time are a constant throughout your life.

## Insurance through the ages

What you need as a single 20-something building your career is generally quite different from your requirements in your 40s when you may be juggling a young family and a mortgage. Then as you approach retirement and beyond, perhaps with your mortgage paid off, your needs change yet again.

Whatever your circumstances, now is a good time to consider whether your current policies work for you.

## What's covered?

Life insurance is the umbrella term for four main types of cover – death, total and permanent disability (TPD), income protection and trauma.

Death cover is self-explanatory. It pays a lump sum to your nominated beneficiaries when you die. It is often packaged with TPD which covers things like living expenses, repayment of debt and medical costs if you are no longer able to work. If your TPD is held through your super fund, generally this will only be paid if you cannot work in "any" occupation; if it is held outside super, you may be covered if you can no longer work in your "own" occupation.

Income protection cover will pay part of your lost income for a pre-determined time if you get sick or are injured and need time off work. It is particularly useful if you are self-employed or a small business owner as you don't have access to sick leave.

Trauma cover meanwhile provides a lump sum amount if you are diagnosed with a major illness or serious

injury such as cancer, a heart condition, stroke or head injury. Such payments can be a big help with paying medical bills.

## Check your super

Death and TPD insurance can often be purchased through your super fund. If, however, you took advantage of the early release of super allowed during COVID in 2020, it could be that you no longer have sufficient savings in your fund to cover the premium payments. Or, if you've been out of work and not made any contributions to your super for 16 months, your account may have been deemed inactive under super law and closed.

It's important to note that if you have lost your job, then any automatic cover in your super with your previous employer may have stopped. If you have a new employer, the cost may have increased. Also keep in mind that income protection insurance doesn't cover you if you have lost your job due to a business closure or other COVID-related event.

## Protect your mental health

Not all insurance policies provide cover for mental health without exclusions or additional premiums. Nevertheless, according to the Financial Services Council, insurers paid out \$1.47 billion in mental health claims in 2020.<sup>i</sup>

If your circumstances have changed, then it may be worth examining whether your life insurance cover still suits your needs and whether there are ways you can save money through lower premiums. For instance, you might reduce the amount you are insured for or remove some of the benefits.

*If you would like to discuss your life insurance needs and whether your existing cover is still appropriate give us a call.*

<sup>i</sup> <https://www.abc.net.au/news/2021-02-08/insurance-coverage-mental-health-after-covid-19/13122144>







# Top five benefits of meditation

Life can be stressful, especially when you feel as if you're being pulled in different directions, whether at work or in your personal life. Meditation is a powerful tool to deal with stress and anxiety so that you can take back control and focus on achieving your goals.

Meditation is not a new concept, and with a recent surge of popularity, many professionals, athletes and celebrities – Tom Hanks, Hugh Jackman and Oprah, to name a few – are active practitioners. Whether you own a business, work full-time for a company or are a stay-at-home parent, meditation can improve all aspects of your life. Here are the top five benefits of meditation:

Ready to use meditation to take productivity to new heights?

## Learn the priming method

### 1. Reduces stress

Meditation can help alleviate stress from just about any situation you may be in. When there is a stressor in our life, we react with an instinct to fight or fly (leave) the situation. You may notice your heart racing or a sense of anger that makes you want to be explosive (hence, the need to fight your way out).

When you meditate, you are helping that response from occurring in the first place. Meditation gives you the tools to take a step back, breathe and return to a more relaxed state of mind.

## 2. Promotes productivity

If you meditate daily, you'll notice a boost in your productivity. You'll be more engaged in your projects and assignments while having a new sense of clarity to execute them.

## 3. Helps you stay focused

Another benefit of meditation is that your sense of focus will be enhanced. You'll stay in the present moment through concentrated time spent focusing on your breath and presence instead of quickly going from one task to the next. If your attention span is short, studies show that even a few minutes of meditation can vastly improve your ability to focus.

## 4. Improves relationships

When you meditate regularly, you may notice how you're more grateful and appreciative toward the people in your life.

Healthy relationships are important not only in personal but professional settings; in each, you need to feel comfortable sharing your point of view while respecting and acknowledging others' contributions as well.

## 5. Regulates mood

A regular meditation practice has been shown to improve your overall mood. You're more in-tune with the way you feel and how you react in any given situation. Meditation influences our physical state to be more relaxed and helps us respond more appropriately to our external world. You'll have a new understanding and sense of self, where you'll find yourself feeling better and possibly having more energy since your stress levels are lower.

## How to start your meditation practice

The benefits of meditation continue to be researched. What's remarkable about meditation is its convenience and accessibility – anyone can use meditation at anytime to bring more balance, calm and focus into their life.

To ease in to your practice, prime your mind and body in the morning – this will ease your mind into a positive state that allows you to transition into a more focused practice.

Once you've finished priming, find somewhere comfortable to sit. This can be on your bed, the couch or the floor with a pillow and blanket. Choose how long you'd like to spend based on your experience and available time.

Now, start slowly breathing in your nose and out through your mouth. Try concentrating on your breathing or on a word the whole time. This may be more difficult than you imagined – but meditation isn't meant to be easy. If you find yourself struggling, you can engage with meditation by writing down the thoughts and emotions you experience while you sit.

The good news? Even when you feel like you aren't meditating "well" or "correctly," you will still begin to see benefits from your practice. Meditation is part of an ongoing journey toward overall well-being, not a goal or a skill to perfect in itself.

Once you're finished, repeat the next morning, at night or whenever you feel it is needed. Meditation is a tool that you can access anytime to create greater empathy, peace and focus – regardless of what's going on around you.

Source: Tony Robbins



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