PREPARE FOR LIFE

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HOW MUCH MONEY DO YOU WASTE?

The amount could be frightening

By Mark Teale, National Technical Manager, Centrepoint Alliance

There are many articles written about how much you need in retirement to live a comfortable life.

A very good report that provides a detailed overview of how much you need is the **Association of Superannuation Funds of Australia (ASFA) Retirement Standard report.**[1]

This report includes a budget breakdown to demonstrate how they arrived at the figures they did.

Most of us want to be able to lead a comfortable retirement, which according to the ASFA report equates to an annual income for a couple of $62,083 (as at September 2020) or, $1,193.90 week.

Using this figure as a basis for your retirement lifestyle, it's a good idea to investigate your current spending habits and compare them to the budget outlined in the ASFA report.

For most of us, this investigation will no doubt show how much money we waste without giving it a second thought.

To provide a real example, I have decided to use my spending habits as a guide. Now, I am not saying that we are all wasteful with our money, but I am sure you will recognise some of those areas that I am spending my money, that could well be worth rethinking as I move towards my retirement.

The most confronting figure for me was how much I spend on my flat white coffees and what I thought was only an occasional breakfast at a café. Over the last four weeks, I have spent more than $500, bringing my yearly spend on coffees and breakfast to $6,500 – I had no idea that I was spending this much money!

After letting that sink in, I then took the next step and had a look at the rest of my lifestyle expenses.

The next out of control area is my running shoes. I like to run, and I do so on a regular basis - at the moment at least four times a week. Between my partner and I we would have more than 12 pairs of runners.

Each pair of these shoes cost around $200. I should mention that they come in an array of nice colours, which is always a good reason to buy a new pair.

Next items on the list – t-shirts and board shorts. I have no idea how many of each I have but at least two shelves in my wardrobe are jam packed; yet for some unknown reason, I decided I needed at least one more. The depressing part of this waste is that I would not wear half of the t-shirts and board shorts that I already have.

Then there are my bicycles. I have three and my lovely partner has two. Five in total and I am not going to tell you how much they cost as that would be embarrassing. What is even more ironic is that during the last 12 months I have only ridden one bicycle and my partner has not ridden any, the remaining 4 are gathering dust.

I could continue but I will not. The examination of my expenses was an eye opener and it has provided me with an insight to my spending habits which I know will not be sustainable in retirement.

An excellent suggestion is to practice living on your retirement budget before retiring. That way you will know if you can actually afford to retire.

However, before you do this, take a good look at your bank statements and understand exactly what you are spending on a weekly basis. Where are you wasting your money purchasing "things" you don't need?

Now I am not saying you need to become a scrooge or a hermit, but do you really need to buy two coffees a day? Do you need another t-shirt? Should I really buy that brand new bicycle when I already have three?

The good news for me is that the money that I spend on a weekly basis for groceries and other fresh food is comparable to the budget outlined in the ASFA report. So, there is hope for me yet!

1. https://www.superannuation.asn.au/resources/retirement-standard

WHAT IS ESG AND HOW IS IT LINKED TO ETHICAL INVESTING?

By Daniel Stojanovski, Head of Research, Centrepoint Alliance

Are you wanting to be more mindful about where you are investing your savings? Increasingly, people are asking about whether their funds are being invested responsibly and ethically.

However, the answer to that question can be complex. That's partly because terms such as sustainable investing, environmental, social and governance (ESG) investing, socially responsible investing (SRI), green investing, ethical investing, and impact investing are often used interchangeably.

In Australia, responsible investing has reached a critical moment, driven by the strengthening demand and interest for more substantial alignment to society's values, in addition to delivering strong investment returns. An ethically conscious investor's objective is to stop supporting businesses that engage in activities harmful to people, animals and the planet.

ESG integration is defined as *the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions*.

ESG are a set of criteria that help constitute standards for an investor to use when analysing a company's operations.

- The **Environmental** refers to how conscious a company/investment is towards their direct environment and towards nature.
- **Social** refers to how a company/investment manages its impact on people; this can include employees, suppliers, customers, and the communities it operates in.
- **Governance** focuses on the corporate structure of the company/investment; this includes leadership, internal controls, shareholder rights, executive pay, compliance with the law.

When it comes to ESG investing, there are two schools of thought.

The first came from early adopters to responsible and ethical investing and focused on negative screening, while the second is more recent, and is focused on impact investing.

1. EXCLUSIONARY STRATEGIES (NEGATIVE SCREENING)

These strategies placed emphasis on removing companies from portfolios that do not fit to their defined integration of environmental, social, and governance (ESG) considerations.

This includes funds that negatively screen investments that are associated with specific sin industries like tobacco, alcohol, weapons, pornography, gambling, animal testing, genetic engineering, deforestation, oil and gas, nuclear power, mining, and climate change (to name a few).

2. IMPACT INVESTING (DIRECTLY TARGETING ESG CAUSES FOR INVESTMENT)

This includes funds that look to generate positive returns while measuring an investment's environmental and social impact alongside its financial return. Funds in this category tend to be more active when voting and advising companies. They seek to positively reward firms which take a proactive approach to improving their ESG footprint. The benefits of these types of strategies mean funds can attempt to keep firms accountable while improving companies who have traditionally been bad actors (to make a meaningful change we should be invested in these firms).

There are risks in this space that are specific to ESG investing.

By excluding specific sectors and investments, investors may limit opportunities available to them. Therefore, it is important that your ESG investments take a holistic approach to responsible and ethical investing, focusing on both exclusion and impact strategies (where possible) to create a portfolio which seeks to meet the ESG requirements you wish to achieve.

What are the risks of ESG investments?

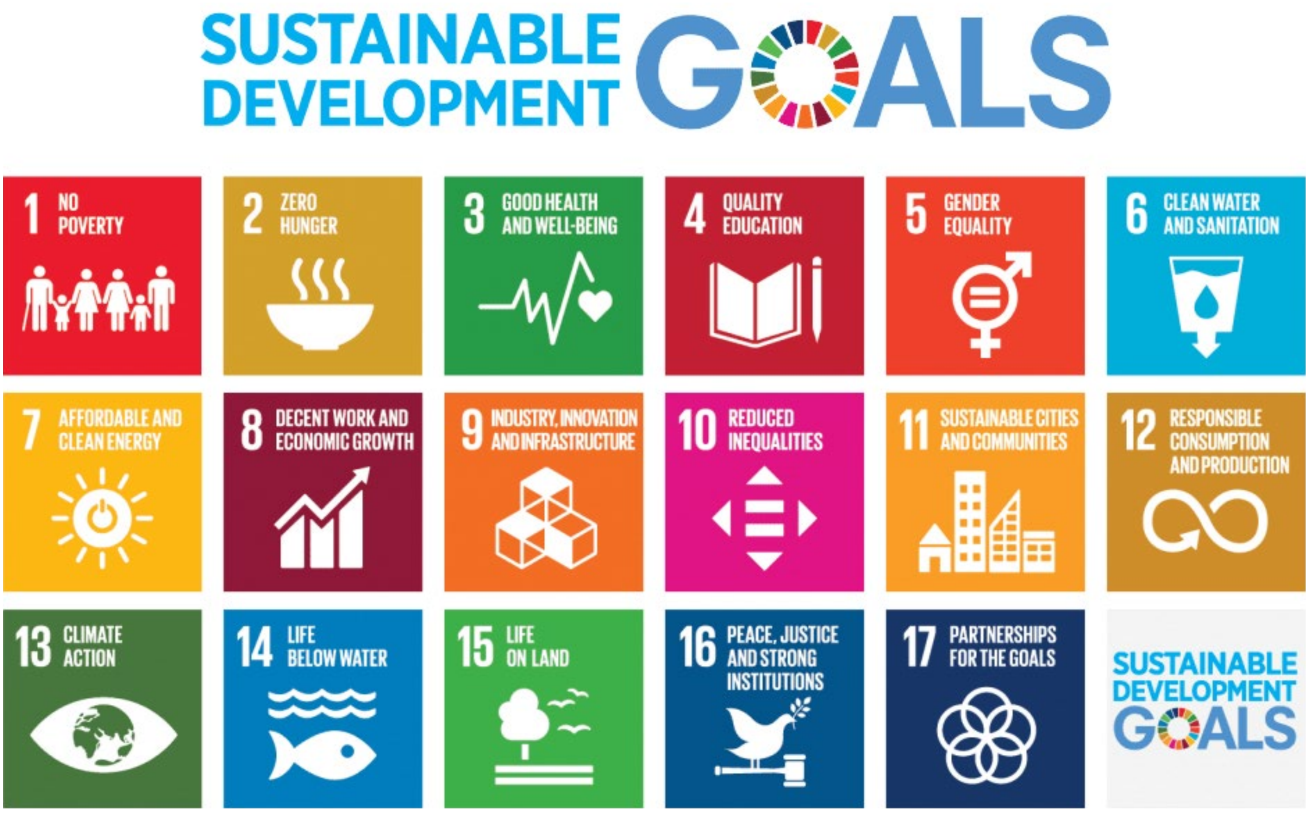
While there are inherent risks with every investment, ESG investments will tend to offer lower overall risk by placing a strong emphasis on governance.

ESG strategies seek to uncover hidden dangers that may remain undiscovered without the analysis of ESG information and trends. These strategies also search for investment opportunities to enhance returns. If we use automotive companies as an example for analysing future risks, we could conclude that if that automotive company transitions to car electrification, other automotive companies who do not transition may see their forecasted revenue decrease over time, increasing their overall risk.

ESG investing is quickly becoming another important risk measure for how we evaluate investments today.

If you are interested in learning more about ESG investing, speak to your financial adviser who can provide you with insights into the models they use and the criteria that's applied to investment decisions.

How to apply ESG goals to your portfolio:



Source: United Nations Principles for Responsible Investment - https://www.unpri.org/sdgs

ELIMINATE FINANCIAL STRESS FROM YOUR LIFE - **FOREVER**

By Peter Kelly, National Technical Manager, Centrepoint Alliance

It is a well-known fact that financial stress can be very damaging to our physical and mental health, and to our relationships with family and friends.

It's always a good time to do a personal stock-take and check out how we are travelling financially. Here are summaries of four well-known books that grace my minimalist bookshelf.

These books will not tell you how to invest – what shares to buy, or whether to invest in real estate as opposed to shares. They do not provide the secret to getting rich quickly.

However, they will set out the steps for getting, and staying out of debt, and building healthy habits to live within your means and accumulate wealth and financial freedom.

The Richest Man in Babylon — George S Clason (first published 1926)

Between 1920 and 1924 the author published a series of flyers covering thrift, financial planning and personal wealth. These flyers were subsequently published in this book.

The messages in this book remain as relevant today as when it was first published. This is a quick and simple read for anyone keen to understand the concepts of paying oneself first, budgeting, the power of compound interest, protecting investments, home ownership, providing for retirement and investing in ourselves.

Think and Grow Rich — Napoleon Hill (originally published 1937, but updated)

Another timeless classic, *Think and Grow Rich* was the result of 20 years research into the habits and traits of more than 500 exceedingly wealthy Americans.

The author researched and identified the key attributes of the super-wealthy and presents his findings in a simple and easy to use 13 step formula that readers can adopt and apply.

The Millionaire Next Door — Thomas J Stanley and William D Danko (first published 1996)

A more modern book, *The Millionaire Next Door* is based on research conducted by the authors and compares the behaviour of two cohorts, "Under Accumulators of Wealth" (UAW) and "Prodigious Accumulators of Wealth" (PAW).

The authors found that American millionaires are disproportionately clustered in the middle-class blue-collar neighbourhoods, rather than in the flashy suburbs like Beverley Hills.

The key characteristics of the millionaire next door include:

1. Spend less than they earn
2. Avoid buying status objects or leading a status lifestyle
3. Only take financial risks if worth the reward

Those that rely on family or generational wealth to afford their lifestyle are more likely to be under accumulators of wealth.

Total Money Makeover — Dave Ramsey (first published 2003)

If I had to pick one book as my favourite, this would probably be the one.

The theme of this book is all about getting out of debt and achieving financial stability, no matter how much debt we might have and how dire our financial circumstances.

The book's key message is built around seven simple "baby steps".

For anyone who has seen the author's popular show on YouTube, "The Dave Ramsey Show", you will know he deals out "tough love" when it comes to providing guidance and advice. The key messages are built around:

1. Building an emergency fund
2. Getting, and staying out of debt
3. Saving and investing
4. Being generous

Each of these books follows a similar theme – it's all about getting out of debt, living within your means, and providing for the future. They provide some age-old and proven techniques for building a stress-free financial future.

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