Stockbroking | Wealth Management | Corporate Advice

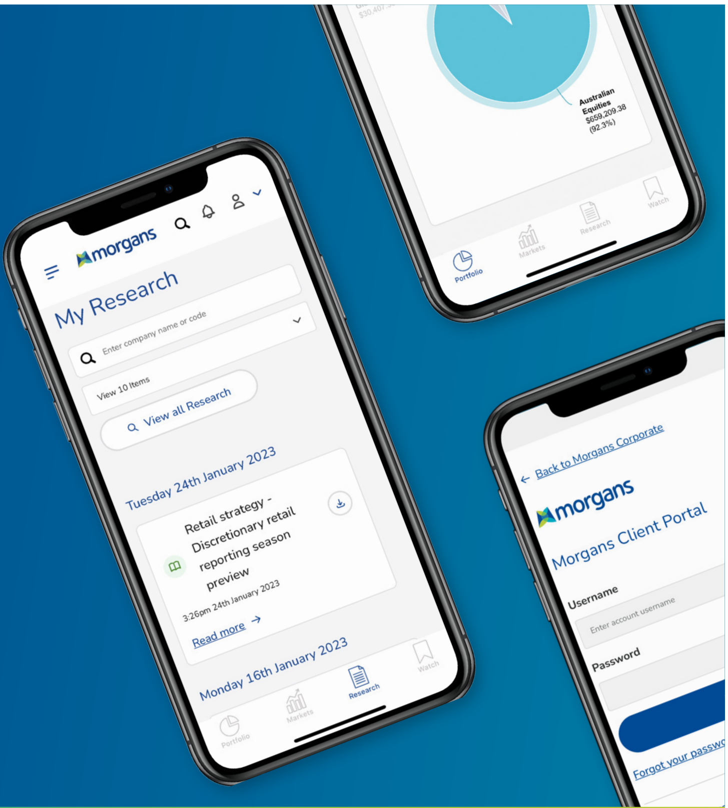
A Guide to Financial Independence

In your 30s and 40s

Wherever you are, we're within reach.

The new Morgans client website and mobile app is here.

For access to your adviser, portfolio, research, market information and more, download the app today.



GET IT ON Google Play | Download on the App Store

Awards and recognition

Morgans is proud to have been won the Best Retail Investor Access Award at the ARIA 2023 Best Practice Awards. This follows our previous recognition as the Best Australasian Retail Broker; an award we have won on six occasions.

AIRA
AUSTRALASIAN INVESTOR RELATIONS ASSOCIATION
Best Practice Awards
2023 WINNER | BEST RETAIL INVESTOR ACCESS AWARD

Follow us

Stay up-to-date with market news, company research and exclusive interviews.

- @MorgansFinancialLimited
- @morgansau
- @morgans-financial-limited
- @morgansAU
- @morgans.australia
- @morgansfinancial
- @Morgans Financial Limited

morgans.com.au

morgans

In Your 30s and 40s

With your focus moving to financial stability, maybe starting a family, your needs change to wealth creation and wealth protection. The big changes in life; a young family, a home, a change at work, windfalls, provide the perfect opportunity to review your financial situation.

Debt Management

Efficient debt

When you are in your 30s and 40s debt can play an important role in helping you achieve your lifestyle and financial goals. It must, however, be managed effectively as some debt structures are more efficient than others.

Inefficient debt

Any debt used to purchase assets that will generate an income can result in the interest costs being tax deductible. Where these assets also grow in value, this form of debt is considered to be efficient.

On the other hand, loans taken out to purchase non-income producing assets or services (for example a car or holiday) do not qualify for a tax deduction in relation to the interest cost. This form of debt is considered to be inefficient from a wealth creation perspective and is often a drain on accelerating your long-term wealth accumulation if not managed properly.

Inefficient debt results in high interest costs that hamper you achieving your goals.

Wherever possible you should try to accelerate the repayment of inefficient debt and replace it with more efficient debt structures that can be used to create wealth, tax effectively.

When looking at ways to reduce inefficient debt, you need to manage and understand your cashflow to ensure you are making the maximum possible loan repayments.

You also need to choose the loan that has the best structure for you. A lower interest rate does not necessarily mean that you will pay less interest over the life of your loan. Often it is the flexibility and the features offered in a loan that will determine how well various strategies can be put in place to reduce the outstanding loan as quickly as possible (and hence reduce the amount of interest payable).

Debt, structured effectively, can allow you to use any surplus funds to reduce your overall interest cost while at the same time retaining access to these funds should you need them in the future. You can further benefit from these facilities by utilising a credit card effectively in conjunction with your loan.

Making use of the interest-free component of your credit card for everyday expenses allows your money to reduce your average daily loan balance and as a result your interest bill and the loan term.

Useful terms

Fixed Interest: where the interest rate remains unchanged for a set period, often one, three or five-year periods.

Interest Only: the borrower does not make principal repayments for the interest only period. Repayments are calculated to cover the amount of interest and any fees.

Principal and Interest: the repayment amount on this type of loan goes to paying off the outstanding loan balance and the interest each month.

Split Loan: a combination of loan types forming one loan. Usually the loan is split between fixed/variable interest rates.

Variable Interest: where the rate increases or decreases with changes in financial market conditions. Repayments change to cover the new interest rate.

Investing

Borrowing to invest

The ‘efficient’ debt we referred to is a popular strategy for this age group. With plenty of years left until retirement, many thirty and forty-something investors borrow funds to build their wealth. The long-term view on this strategy allows them to increase their investment portfolio and manage their tax deductible debt in an effective way. Be very mindful, however, that borrowing can also magnify capital losses. Any borrowing strategy should therefore be approached with caution. Understanding the risks involved is very important.

Table 1: Leveraging - gains vs losses @5% market variation

Details	Capital Gain of 5%			Capital Loss of 5%		
	0% geared	50%	70%	0% geared	50%	70%
Personal funds	50,000	50,000	50,000	50,000	50,000	50,000
Amount of loan	-	50,000	116,666	-	50,000	116,666
Total investment	50,000	100,000	166,666	50,000	100,000	166,666
Annual income @ 5% p.a.	2,500	5,000	8,333	2,500	5,000	8,333
Franking @ 85%	911	1,821	3,035	911	1,821	3,035
Loan interest @ 6.5% p.a.	-	(3,250)	(7,583)	-	(3,250)	(7,583)
Assessable income	3,411	3,571	3,785	3,411	3,571	3,785
Capital growth	2,500	5,000	8,333	(2,500)	(5,000)	(8,333)
Total return	5,911	8,571	12,118	911	(1,429)	(4,548)
Client funds invested	50,000	50,000	50,000	50,000	50,000	50,000
Return on investment	11.8%	17%	24%	1.8%	-2.8%	-9.1%

Source: Morgans

Margin lending

A margin loan lets you borrow money to invest in shares and other financial products, using existing investments as security. You cannot use your home as security for a margin loan. Commonly, borrowing limits are set to a certain value or percent depending on the type of asset (e.g. shares) you are buying, with the difference made up from cash or existing investments. This difference is referred to as the ‘margin’.

To help achieve capital growth, investors will generally consider assets that have a strong likelihood of increasing in value over time. The most commonly used ‘growth’ assets are shares and property.

Shares

Regardless of whether you borrow to invest or not, it is always a good time to think about investing in shares, either directly via the sharemarket, or via an unlisted managed fund. Your adviser will be able to help select the most appropriate method of investing to suit you.

Property

Property investors can choose to invest directly into a property, or via a listed or unlisted property trust. Again, your adviser will be able to help select an appropriate strategy for you, depending on your personal circumstances and investment objectives.

morgans

Franking credits

Most companies listed on the Australian Stock Exchange (ASX) pay dividends to shareholders that include franking credits. The franking credit and resulting tax benefit available from the dividends means the actual return from that particular stock needs to be 'grossed up' to reflect its true value.

A common mistake investors make is to assume an interest rate from a bank's term deposit or at-call account is the same value as a dividend yield from an Australian listed share.

The table below highlights the grossed-up effect of various dividend yields, as well as the equivalent after tax yield based on flat 19%, 32.5% and 45% tax rates.

Table 2: Franking credits - grossed up effects on various dividend yields

Dividend Yield	Grossed-Up Yield	After Tax Returns		
		19% MTR	32.5% MTR	45% MTR
4.50%	6.44%	5.21%	4.35%	3.54%
5.00%	7.14%	5.78%	4.82%	3.93%
5.50%	7.86%	6.36%	5.30%	4.32%
6.00%	8.57%	6.94%	5.78%	4.71%
6.50%	9.28%	7.52%	6.26%	5.11%
7.00%	10.00%	8.10%	6.75%	5.50%

Investment ideas

If you already have an investment portfolio, consider the following fundamentals of investing:

- Always keep the big picture in mind. If you are investing for the long term, don't make rash decisions based on short-term volatility. If your strategy is sound, stick with it and recognise that short-term market wobbles happen. History has proven time and again that markets always recover. It really does pay to be patient.
- Quality assets have the best chance of recovery if markets fall. Take the opportunity to review your portfolio and switch out of at-risk investments that could be more susceptible to an economic downturn.
- Maintain a properly diversified portfolio of investments. Diversification of your investment portfolio across all asset sectors allows you to 'hedge your bets'. By spreading your exposure and investing in different assets you create a portfolio in which you are able to minimise to some degree, the losses that may occur in one asset sector with gains in another. The overall effect is that you moderate the risk and smooth out your investment returns over time.
- Long-term strategic asset allocation has proven to be the most effective method for long-term strategies. Combined with optimum rebalancing, a long-term strategic asset allocation will usually be the most effective technique. It is easy to understand and follow and therefore is more likely to meet your objectives as its primary benefit is to manage risk and return.

Fixed Interest

Portfolio diversification is an essential element to a successful investment strategy. This applies equally across a portfolio and within asset sectors.

When investing in fixed interest, a spread of investments helps provide both capital certainty and regular income. As part of your planning you will most likely require some component of liquidity i.e. ready access to cash, some longer-term investments as well as attractive levels of regular income.

Liquidity within a portfolio can be achieved by maintaining an 'at-call' cash account which is linked to your investment account. Morgans has a selection of approved accounts that offer competitive interest rates, ready access and act as an important cash hub to your investment portfolio.

Alternative income paying securities such as ASX-listed hybrid investments issued by Australia's banks, insurers and industrial companies continue to play an important role in portfolios. They generally deliver higher levels of income, paid quarterly, many with the benefits of franking.

The government's simplification of listing disclosure requirements has seen a number of senior ranked corporate bonds offered to Australian retail investors over recent years. These securities generally pay higher interest rates than bank deposits but still offer a high level of security due to their ranking in the issuer's capital structure. Over time, investors can seek further diversification as other ASX-listed companies offer bonds via ASX. Exchange traded corporate bond units (XTBs) offer investors access to a range of wholesale corporate bonds issued by many of Australia's leading companies. The corporate bond market will continue to develop and investors should remain alert to opportunities as they arise.

ASX also offers access to government bonds. These trade in the same manner as other listed fixed interest securities and offer investors the security of investing in Australian Government backed securities. The yields on government bonds will generally be lower than most other interest rate investments but provide absolute security when held to maturity. Importantly, in times of uncertainty government bonds provide a safe haven against volatility and therefore can have a useful place within a portfolio.

Investors should discuss with their adviser which securities will suit their objectives and risk profile. Investors can tailor a portfolio to meet their specific needs.

Top money sites in your 30s and 40s

- moneysmart.gov.au
- savingsguide.com.au
- news.com.au/business/money
- ato.gov.au/superseeker
- moneymanager.com.au
- yourmortgage.com.au
- canstar.com.au

Is it time to re-assess your financial health? Don't wait for interest rates to rise to see how healthy (or not) you are.

Financial health check

Have you wondered how you would rate if your personal financial position was analysed in the same way as companies? Using the same financial ratios that analysts use to rate companies, you can assess the health of your financial position.

Banks have long used ratios to determine whether applicants are credit-worthy for mortgage loans. They like to limit your housing expenses to 30% of your net income and your total debt payments to no more than 40% of your income.

ASIC's Moneysmart website has a "Net Worth Calculator" to help individuals (and families) work out their financial position. The calculator can help you work out:

- if your total assets outweigh your debts
- the strength of your current financial situation.

Visit moneysmart.gov.au/managing-debt/net-worth-calculator.

Wealth protection

Greater financial responsibility, such as mortgages, marriage and children, means the impact of illness, injury or death will be greater.

Protecting your family and assets through insurance has more of a sense of urgency, especially when the family is reliant on your income.

Things you need to consider at this stage in life are:

- the elimination of your debt (mortgage, car loans or even credit cards)
- provision for daily expenses for you and your family in the event you're unable to provide income
- education expenses
- medical costs.

As you can see, the list is more extensive than when you're in your 20s.

Due to the vast range of products on the market, in order to get the right features for your personal situation, you need specialist advice.

Some things you need to consider are:

- the level of insurance
- ownership structures
- funding arrangements.

Protecting your wealth in this stage of life is more complex so it is crucial you speak with a financial adviser before committing to a decision.

Things to do

Life, trauma and total and permanent disablement (TPD) protection can provide a lump sum payment to cover debts and secure your financial future or that of your loved ones. Trauma insurance will provide a lump sum in the event you're diagnosed with a serious illness, while TPD protection covers you in the event you're permanently unable to work due to injury.

Income protection, as in your 20s, will help you continue to meet your financial commitments and daily living expenses.

Business expense insurance should be considered if you have a business or are self-employed and injury, illness or premature death would cause financial problems. Consider if you were unable to meet expenses such as electricity, rent, telephones and staff salaries, would your business survive?

Superannuation

This is the time to really get serious about your superannuation savings. Laying the groundwork for retirement now will help you reap the rewards when you finally give up work. As they say "failing to plan means planning to fail".

Salary sacrifice

A common strategy for employees is to forego a portion of salary in lieu of increased contributions to superannuation. Contributing pre-tax salary into super not only reduces your income tax, it increases your savings within super. Over the long term, these additional savings can make a significant difference to your account balance for retirement.

Deductible concessional contributions

Individuals with taxable income can make contributions to superannuation and claim up to 100% of the contributions as a tax deduction.

However, one thing to bear in mind if you are going to make additional contributions to superannuation; there are limits on concessional (deductible) and non-concessional (non-deductible) contributions. The below table summarises the contribution limits for concessional contributions and non-concessional contributions from 1 July 2023.

Description	Cap/Limit Up to age 75*
Concessional Contributions (deductible)*	$27,500 p.a. per person
Non-Concessional Contributions (non-deductible)**	$110,000 p.a. per person, or
	$330,000 per person (over 3 year period)

* If over age 67 must meet work test.

**Depending on Total Super Balance.

Redundancies

The ability to roll a redundancy payment into superannuation ceased on 1 July 2012. From this date, termination payments must be paid in cash, after tax, to the employee.

Similarly, unused annual leave and long service leave payments must be paid net after tax to the employee, who may then contribute funds into super as a personal contribution. Or it may be more appropriate to reduce debt. Speak to your Morgans adviser to help you decide.

Regular savings plan

Don't forget the benefits of 'dollar cost averaging' via a regular savings plan to help save for future goals. Your money will buy more shares or units when prices are low and as prices eventually rise your investment will also grow proportionately.

A simple case study

Sally and Paul each receive a $1,000 tax refund.

Sally invests $1,000 today into a diversified 'growth' fund that returns 6.5% p.a. She also uses $100 from her surplus cashflow to commence a regular savings plan, investing $100 per month into this fund.

Paul invests his $1,000 plus an additional $1,200 into a similar 'growth' fund, making a total lump sum investment of $2,200. He does not make any further investments.

They both reinvest their fund distributions.

The difference between Sally's and Paul's investments

Term	Sally	Paul	Difference
1 Year	$2,307	$2,343	($36)
3 Years	$5,181	$2,657	$2,524
5 Years	$8,441	$3,014	$5,427
10 Years	$18,635	$4,130	$14,505

Total amount contributed

Over the total period up to ten years, Sally will have contributed $13,000 against Paul's initial lump sum of $2,200. If Sally was to index her regular monthly payments each year in line with inflationary increases (i.e. CPI), her investment balance would increase accordingly. At the end of the ten year period, for example, Sally's investment total would be approximately $20,642.

Where to from here?

- **Review your debt**
  Is there a better way to structure your debt?
- **Review your investment strategies**
- **Take a financial health check**
  Make an appointment with your financial adviser if it turns out you're not as financially healthy as you thought.
- **Implement a wealth protection plan**
- **Are you making the most of superannuation contribution strategies?**
  Talk to your adviser if you could be doing more.
- **Are you redundancy ready?**
  Ask your adviser for options and strategies if the unexpected happens.

morgans

Things to discuss with my financial adviser

Your first step after reading this guide is to make an appointment with your financial adviser to discuss any issues you may have.

Use the space below to jot down the specific questions or strategies you want to discuss with your adviser before the meeting, then take this guide along with you.

Budget Planner	January	February	March	April	May
Income					
Salary/Wage					
Bonuses					
Investment income					
Interest					
TOTAL INCOME					
Personal expenses					
Credit cards					
Mobile phones					
Personal loans					
Gym/Club memberships					
Clothes and shoes					
Medical					
Food					
Transport					
Housing expenses					
Rent/Board/Mortgage					
Rates/Body corporate					
Telephone/Internet					
House/Contents insurance					
Insurance and wealth protection					
Income protection premiums					
Life insurance premiums					
Trauma/TPD premiums					
Private health insurance					
Education					
Child care fees					
School fees					
Extra-curricular fees					
Coaching/Tutoring					
Books					
HECS/HELP					
Car expenses					
Repayments					
Insurance					
Registration					
Petrol/Oil					
Maintenance/Tyres					
Motoring association fees					
Driver's licence					
Parking					
Other					
Restaurants					
Subscriptions					
Magazines/CDs/Books					
Gifts					
Donations					
Fitness					
Personal loan repayments					
Savings					
Regular savings					
Superannuation contributions					
TOTAL EXPENSES					

June	July	August	September	October	November	December

Stockbroking | Wealth Management | Corporate Advice

Queensland

Brisbane Stockbroking, Corporate Advice, Wealth Management	+61 7 3334 4888
Brisbane Edward Street	+61 7 3121 5677
Brisbane Tynan Partners	+61 7 3152 0600
Brisbane North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Newstead	+61 7 3151 4151
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Springfield-Ipswich	+61 7 3202 3995
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba Chalk Capital	+61 7 4639 1277
Townsville	+61 7 4725 5787
West End	+61 7 3151 8300

Northern Territory

Darwin	+61 8 8981 9555

New South Wales

Sydney Stockbroking, Corporate Advice, Wealth Management	+61 2 9043 7900
Sydney Margaret Street	+61 2 8215 5000
Sydney Reynolds Securities	+61 2 9373 4452
Sydney Currency House	+61 2 8216 5111
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Cronulla	+61 2 8215 5079
Gosford	+61 2 4325 0884
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Australian Capital Territory

Canberra	+61 2 6232 4999

Victoria

Melbourne Stockbroking, Corporate Advice, Wealth Management	+61 3 9947 4111
Brighton	+61 3 9519 3555
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Hawthorn	+61 1300 382 075
South Yarra	+61 3 9006 9955
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Western Australia

West Perth Stockbroking, Corporate Advice, Wealth Management	+61 8 6160 8700
Perth	+61 8 6462 1999

South Australia

Adelaide Stockbroking, Corporate Advice, Wealth Management	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

Tasmania

Hobart	+61 3 6236 9000

1800 777 946
info@morgans.com.au

morgans.com.au