◀ JO McCREERY RETIREMENT

WHERE I WOULD INVEST $10k

This should be an easy question to answer for a financial adviser. I spend my days advising people where to invest their money. When a client calls to say they got an extra $10,000 as a bonus this year, I can easily advise them what to do with it.

It all comes back to knowing your financial goals and priorities. If you have goals, they are much more likely to be achieved than if you haven't identified them.

If your current priority is paying down your home loan, then that's where most or maybe all of this money should go. If your home loan and other short-term savings goals are under control, then look to your longer-term goals, such as building your super.

If you are working and have the capacity within the $25,000 concessional contribution cap this year, then think about making a personal tax-deductible contribution to your super (remember to notify your super fund that you intend to claim it as a tax deduction).

It's also worth remembering that you should enjoy life now as well as planning for the future. So maybe take your partner or best friend out for dinner, too!

JO McCREERY
FINANCIAL ADVISER AT MAJELLA WEALTH

I'm retired but still want to see my money grow. Where do I invest?

Investing in retirement is a tricky business. You're now dependant on your retirement savings for income for the rest of your life, but you don't really know how long you need to make your money last.

If you are retiring today at 65, your savings probably need to last at least 20 years, and possibly 30. Most people will need to include growth assets in their investment mix to make their savings last the distance or at least to keep up with inflation.

However, the act of drawing down your capital over your retirement makes your portfolio a lot more sensitive to negative returns. A very aggressively invested pension portfolio may never recover from a sharemarket crash like we had in 2008-09. So you do have to be careful with how much and how you invest into growth assets.

To manage risk, diversification is key. Australian shares are great for income given our high dividend rates and franking credits, but Australia is a small part of the global sharemarket and lacks depth in many sectors (such as IT). The Australian sharemarket is also very concentrated in financials and resources. Including global shares in your portfolio is important for diversification. Other assets such as infrastructure and property can also improve diversification.

How you invest in growth assets is important to consider. You could:

- Invest in indexed funds or exchange traded funds (ETFs). This is a way to invest cheaply. For example, you can pay as little as 0.04%pa to get exposure to a fund that replicates the US S&P500 (ASX: IVV). You need to be aware, though, that you are investing into a portfolio with a historically high price to earnings ratio (PE) of 21. Investing into the market at a high PE increases your chance of earning low long-term returns.
- Invest in "smart beta" ETFs. These are funds that use rules to invest rather than simply market capitalisation like traditional indexed funds. The rules are typically designed to select stocks that should deliver a better outcome than the overall market over the long term. For instance, if you wanted to invest in US stocks but were concerned about the US market's overall PE, you could invest in the BetaShares FTSE RAFI US 1000 ETF (QUS). This fund invests in the top 1000 US companies, weighted in a way that reflects the economic size rather than the market capitalisation. The PE on this portfolio is currently 13.6.
- Select stocks yourself. You could try to pick the stocks you think will deliver good returns. This requires a lot of time and skill.
- Invest in actively managed funds. You pay a fund manager to do the stock selection for you. A good manager will be worth the fees – usually not every year, but certainly over the long term.
- Invest in funds that try to limit losses in times of market stress. For a retiree, investing in a fund where limiting short-term negative returns is a

joint priority with good long-term returns can be a comfort. Some fund managers, such as Magellan and Platinum, will actively defend portfolios from perceived short-term risks. Other funds offer a more automated capital protection strategy. For instance, BetaShares Managed Risk Global Share Fund (WRLD) is an indexed ETF that uses a quantitative process to reduce exposure to the global sharemarket when volatility rises.

Including growth assets in your retirement portfolio is very important, as is accepting some short-term negative returns. Equally important is protecting it against large losses. When you are drawing on capital, as most retires would expect to do, it can be difficult to recover from large losses, particularly if the recovery is lengthy. Choose your growth investments carefully.