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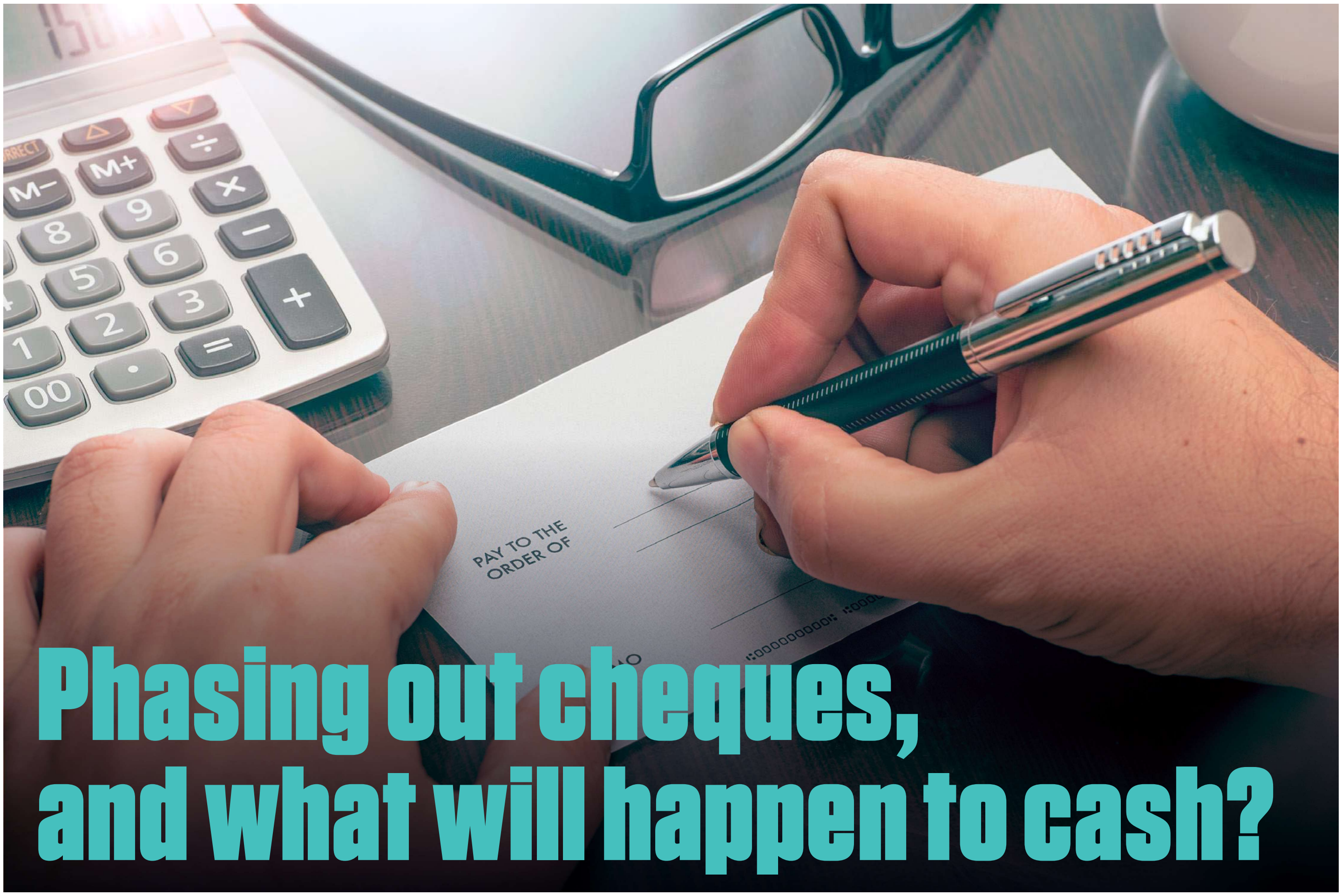


Phasing out cheques, and what will happen to cash?

INSIDE

BY NOEL WHITTAKER

Republished from firstlinks.com.au

Cheques and bank service, or the lack of, were major topics when I addressed a seniors' group recently. The word had got out that the government was phasing out cheques, and many of the members of the audience were feeling abandoned.

On cheques

One person told me he was shocked to receive a letter from his bank telling him the Federal Government would be phasing out cheques. He said: "For years I have used cheques for donations to charities and sending family members a gift of money. Sending cash in the mail is not secure, and I have always found cheques to be a reliable and safe way to send money. How can I send a surprise gift of cash to family and friends once the cheque option is no longer available?"

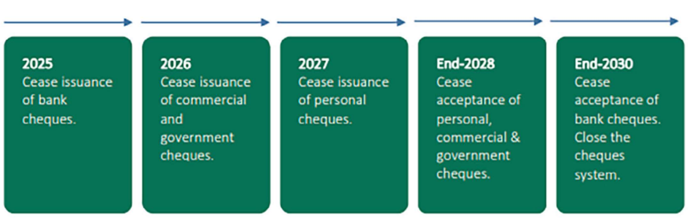
I must confess it caught me by surprise. It's been years since I've sent or received a cheque, and I have never given them much thought. They are one of the most inefficient methods of payment around. To send someone a cheque you have to write the check out in legible handwriting, find their address and write that on an envelope, also legibly, add a postage stamp and then take the letter to a post box. If you receive a cheque, you've got the hassle of finding a bank branch that's still open, making out a deposit form, standing in line for the teller, and then waiting a week for the funds to be cleared.

I spoke to the Reserve Bank, who told me that cheque use has declined drastically in recent decades. At its peak in the 1980s, cheque payments accounted for 85% of all non-cash payments. Today, cheques are used for just 0.01% of total payments. One of the main reasons is how easy the system is to defraud. The bank tells me that common cheque frauds include:

- counterfeit cheques (false copies of cheques previously issued),
- materially altered cheques (the payee or amount has been altered) and
- lost or stolen cheques (sometimes a whole chequebook has been stolen).

The government has a timetable for phasing out cheques. Next year will see the end of bank cheques, 2026 will be the end of commercial and government cheques, and by 2027 there will be no more personal cheques. By the end of 2030, the entire cheque system should be over and done with.

Figure 1: Potential staged transition plan for cheques system



Source: treasury.gov.au

The reality is that there are now much better methods payment available. For domestic transfers I love Osko, which appears on many transfers I make through St George bank. Once you press the confirm button a message comes up that the payment has been successfully received by the payee. It's instantaneous. And of course, you get an immediate receipt. Almost all my bills now come by email, and I just make an electronic payment through the bank account, print off a confirmation receipt, and staple that to the bill itself.

Not all the audience were convinced. One pointed out that there are elderly people who have never learnt to do internet banking, and plenty of people in the bush have no access to the internet if they knew how to use it. Very good points, and I had no solution for them.

Box 3: Alternate payment methods – personal cheque use

Most activities that consumers commonly use cheques for already have alternative payment methods that are reliable, faster and more cost-effective. However, it is important to note that many of these alternatives are digital or require access to the internet.

Activity	Alternative payment methods
Pay a bill	BPAY, Debit/Credit card via in store EFTPOS terminals or online/over the phone, Electronic Funds Transfer (EFT), Fast payment using New Payments Platform (NPP), Money order.
Donating to charities	Payment methods vary between organisations but most offer options such as EFT, Direct debit, Cash, Debit/Credit card online, via tap-and-go, or over the phone, Money order.
Pay a friend/send a gift	Fast payment using NPP, EFT, Gift Card, Cash, Money order.
Send money overseas	International Money Transfer (IMT), Travel Card.
Pay in instalments	Direct debit agreements, scheduled payments, Buy Now Pay Later (BNPL), PayTo.
Make a payment at auction or private sale	Pre-approved transfer (can be subjected to first time hold/daily withdrawal limit), Cash (noting security risk of holding large quantities), Fast Payment using NPP (for private sale) and Money order.

Source: treasury.gov.au

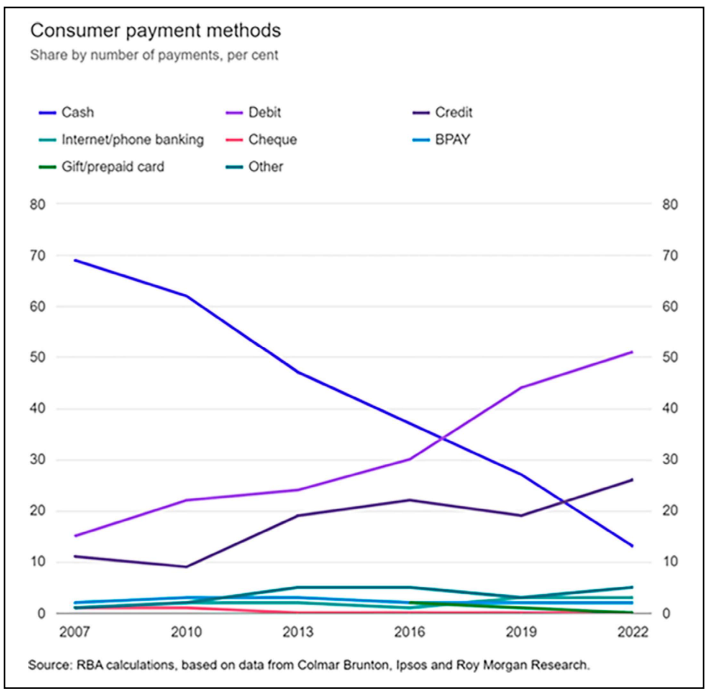
Bye bye to cash

A more contentious issue is the phasing out of cash. The main functions of cash are as a means of exchange (to buy things), and as a store of value (you can safely tuck away a few $100 notes knowing that they will retain value into the future as legal tender).

The Reserve Bank's sixth triennial Consumer Payments Survey found that most in-person payments are now made by tapping cards or mobile devices, even for small purchases. This means the share of in-person transactions made with cash halved – from 32% to 16% –over the three years to 2022. The demographic groups that traditionally used cash more frequently for payments, including the elderly, people on lower incomes, and regional residents, had the largest declines in cash use. Cash usage has generally been replaced with card payments. While Australians are aware of and use a range of other newer payment methods, such as digital wallets and buy now pay later services, they still make up a small share of payments.

When things get risky, like during the pandemic, people tuck $100 notes away as a risk management strategy. So, people now use cash less often as a means of exchange, but still value it highly as a store of value. And the numbers are big. It's estimated there are now $60 billion worth of bank notes in circulation – that's about $2600 a person. There must be somebody with plenty - there are none at my place.

> **The Australian Bankers Association say the remedy is to ask the overseas institution to use the SWIFT (Society for Worldwide Interbank Financial Telecommunication) system which facilitates secure and swift international payments between financial institutions worldwide. It ensures efficient transfer of funds, enabling businesses and individuals to conduct cross-border transactions seamlessly. SWIFT is utilized by over 11,000 financial institutions across more than 200 countries and territories globally.**



The lack of bank service

The next issue was the refusal of banks to accept overseas cheques. One woman said her SMSF owns several properties in the USA and last year received two cheques for insurance claims on those properties. Both St George and Westpac refused to accept the cheques as, like almost every other Australian Bank, they no longer accept cheques in overseas currencies.

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However, there is a glimmer of hope. Both HSBC bank and Heritage Bank tell me that they will accept cheques in US dollars on behalf of customers. Maybe it's worthwhile opening an account with them.

Firstlinks is a publishing service providing content written by financial market professionals with experience in wealth management, superannuation, banking, academia and financial advice.

Playing with fire: The dangers of chasing hot trends

BY PATRICK POKE

Republished from betashares.com.au

Periodically, the world of finance throws up enticing investment trends capable of seducing even the most disciplined investors into changing their strategy.

The beginning of this year exemplifies this phenomenon, as much attention is centred around the unfolding excitement in the US, particularly with Nvidia and the 'Magnificent Seven' leading the charge in the AI craze.

This surge has ignited lively discussions across various social media platforms, with investors posing a spectrum of questions ranging from bold inquiries like "Should I go all-in on Nvidia?" to cautious reflections such as "Is it wise to sell everything before a potential market downturn?".

In this blog, we explore the risks associated with impulsively reacting to investment trends fuelled by media hype, and explain why prudent asset selection, diversification, and maintaining a composed approach are essential for long-term success.

When chasing performance backfires

Over the past 15 years, we've observed a wide range of hot trends, including the rise of coal seam gas, the emergence of buy now, pay later platforms, the surge of cryptocurrencies, the cannabis craze, and the heightened interest in healthcare stocks prompted by COVID-19.

While acknowledging the validity of some of these trends, it's crucial to recognise that exuberance surrounding these investments led to such significant distortions in their fundamentals that it contributed to massive boom-bust cycles. Consider the examples outlined in the table below.

Many of these became 10-baggers quickly, only for those gains to evaporate before most investors knew what hit them.

The once lively forums, brimming with excitement over these companies, quickly transformed into realms of

Company	Theme	Decline from peak price
Karoon Gas	Coal seam gas (2009-10)	-82%
Cann Group	Medical cannabis (2017-18)	-98%
Gamestop	Short squeeze (2021)	-83%
Dogecoin	Endorsement by Elon Musk (2021)	-84%

Source: Betashares (as of February 25, 2024). Peak price denotes the highest value reached by the stock or asset according to publicly accessible data.

despondency. Some investors, like the individual mentioned below, found themselves grappling with a market downturn and steep losses of hard-earned savings.

I am a zip bull who lost a LOT of money

LOSSES

Long story short: I was completely convinced of ZIP's upside and threw the kitchen sink at it.

I bought it in small parcels, up and down, over the entire course of the pandemic. I'm still holding but I'm now down over 80% or over $40,000. At one point my holding was worth nearly $80k, now it is worth around $5k.

Additionally, I had to pay over $5k in CGT last year because I had locked in gains before reinvesting them. So it's no exaggeration to say I lost 100% of my investment.

I can't provide a convenient screencap of proof because the ticker changed, but I can show a mod my trades if need be.

Anyway, that was literally my life savings. So this is just a PSA to keep an emergency fund and maybe diversify at least a little. Thanks for coming to my TED talk.

Source: Reddit.

Yet even disciplined and diversified investors are not immune to the allure of chasing fads, as evidenced by empirical data.

A US study revealed that despite the S&P 500 returning 9.65% p.a. over a 30-year period ending in 2022, the average equity fund investor achieved only a 6.81% annual return during the same time[1]. This significant variance can be attributed to factors including emotional decision-making, excessive trading activity and incurring high fees.

The pain train: Key lessons for investors

When reflecting on these market bubbles, it's essential to distill the key lessons for investors:

1. The dangers of herd mentality: Investing due to the fear of missing out (FOMO) often leads to poor outcomes. As Warren Buffett once wisely cautioned, "Never invest in a business you cannot understand."
2. Having unrealistic expectations: Assuming that recent high returns will persist indefinitely is a common mistake. Investments don't go up in a straight line forever.
3. Investors often get timing wrong: Unfortunately, investors who chase performance often buy when prices are near their peak and sell at or near the bottom.
4. Be mindful of concentration risk: Placing all or sizable portions of your wealth into a single investment can jeopardise your long-term financial security if things go wrong.
5. Don't ignore costs: Frequent trading incurs higher transaction costs, which gradually diminish investment returns over time.

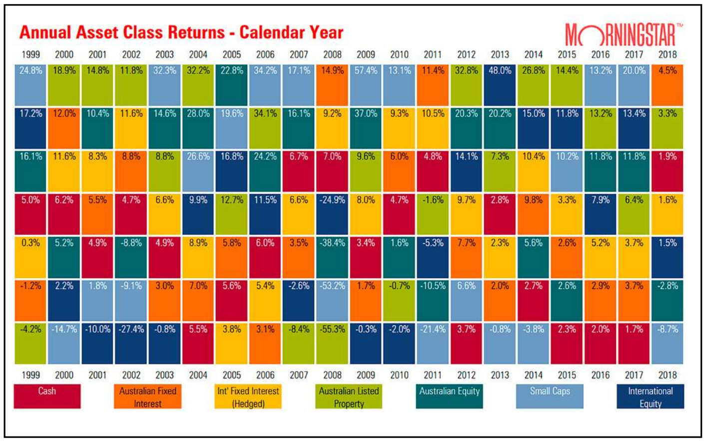
Asset allocation is the ultimate driver of success

While many investors are enticed by the prospect of predicting the market's next big winner, they shouldn't overlook the most crucial element of long-term success: asset allocation.

Your asset allocation is probably the most important decision you will make. According to Roger G. Ibbotson and Paul D. Kaplan, asset allocation explains about 90% of the variability of investment returns over time[2].

Asset allocation involves distributing your money across various asset classes including shares, bonds, cash, and others. Each asset class carries its own level of risk and potential returns, so diversifying helps mitigate the risk of significant losses from any single investment.

As the data in the table below demonstrates, predicting the top-performing asset class in any given year is challenging[3]. For example, during periods of poor sharemarket performance such as 2008, 2009 and 2020, bonds acted as a shock absorber, improving overall returns while providing income.



Source: Morningstar. Cash – RBA Bank accepted Bills 90 Days; Aust. Fixed Interest – UBS Composite 0+ Yr TR AUD; Intl. Fixed Interest (H) – BarCap Global Aggregate TR Hdg AUD; A-REITs – S&P/ASX 300 A-REIT TR; Global REITs (H) – UBS Global Investors Ex AUS NR Hdg AUD; Aust. Equity – S&P/ASX 200 TR; Small Caps – S&P/ASX Small Ordinaries TR; Intl. Equity – MSCI World Ex Australia NR AUD © 2018 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/s/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement (Australian products) or Investment Statement (New Zealand products) before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance.

How to determine the right asset allocation

Finding the right asset mix requires some initial groundwork. We've laid out key steps to help you determine it.

1. Understand your goals

Your investment journey starts with a clear understanding of your goals. To define your goals, consider questions such as:

- What are you saving and investing for?
- When will you need access to these funds?

Remember, goals can evolve over time, so periodically reassess how changes to your circumstances may affect your overall strategy.

2. Establish your asset mix

Asset allocation boils down to a simple principle: dividing your investment portfolio into different categories like stocks, bonds, cash and alternatives.

Crafting the right mix and amount invested in each category depends on factors including your age, time horizon, goals and risk tolerance.

3. Determine investment choices

You'll then want to think about how you'll put your asset allocation choices into play. There are three main ways to implement this:

- **Direct shares:** Offer direct ownership of a company but carry stock-specific risks.
- **Managed funds:** Pool money from multiple investors and invest in a portfolio of assets such as stocks or bonds.
- **ETFs:** Special managed funds tradable on an exchange like the ASX, offering better liquidity and transparency.

4. Consider costs

Take into account the management expense ratio (MER) and implementation costs (brokerage) associated with each investment, as these costs vary between active and passive investments.

One approach to consider is the core-satellite strategy, where the bulk of your investments are held in low-cost ETFs, while you allocate smaller portions to individual stocks or managed funds.

This way you keep costs low, but retain the flexibility to invest small amounts into assets with higher return potential with manageable concentration risk.

5. Maintain portfolio balance

Rebalancing entails adjusting your portfolio to realign with its target asset allocation.

For instance, if you initially allocated 80% to shares and 20% to bonds, but due to market gains, the share portion increased to 85%, rebalancing would involve selling some shares to return to the desired 80-20 split.

While there isn't a universal method for rebalancing, experts typically suggest doing so once or twice a year to ensure your portfolio stays aligned with your investment objectives.

ETFs for asset allocation

Some of the ETFs you can use to achieve diversified exposure to different asset classes include:

- **A200 Australia 200 ETF:** Offering a cost-effective pathway to Australia's top 200 companies, including industry giants like CommBank, Telstra, CSL, and BHP, this ETF provides instant and diversified exposure to the domestic share market (before fees and expenses), making it a solid portfolio core.
- **QNDQ Nasdaq 100 Equal Weight ETF:** In response to the surge of interest in certain Nasdaq-listed companies driven by the AI craze, QNDQ adopts an equal-weight approach, limiting each stock to 1% of the portfolio at rebalance. This strategy mitigates overexposure to individual stocks like Nvidia, Microsoft, and Meta, offering investors a well-rounded exposure to the technology sector.
- **OZBD Australian Composite Bond ETF:** OZBD provides a cost-effective avenue to a diversified portfolio of over 400 quality bonds issued by Australian and state governments, as well as corporates. This ETF serves as a valuable tool for income generation while also offering a cushion against market downturns.
- **DHHF Diversified All Growth ETF :** DHHF stands out as an all-in-one investment solution, leveraging a passive blend of cost-effective ETFs traded on both the ASX and global exchanges. With exposure to over 8,000 shares listed across 60 exchanges worldwide, DHHF is tailored for investors seeking diversified growth opportunities.

Final thoughts

Determining the appropriate asset allocation and putting your strategy into action may require some time and effort, but building your portfolio itself is relatively straightforward given the tools investors have at their disposal today.

The real challenge lies in maintaining discipline and resisting the urge to constantly adjust your strategy in pursuit of fleeting opportunities in hot stocks, sectors, or markets.

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21 great investment quotes

BY DR SHANE OLIVER

Republished from amp.com.au

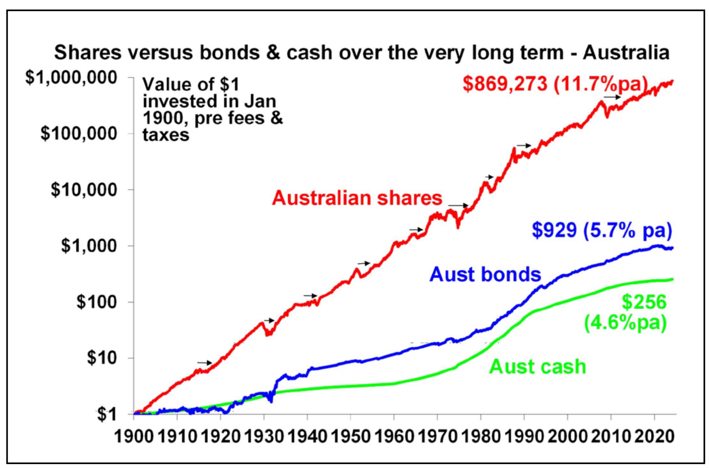
Introduction

Investing can be scary and confusing at times. But the basic principles of successful investing are timeless and quotes from experts help illuminate these. This note revisits a series on insightful quotes on investing I first started a decade ago.

The aim of investing

"How many millionaires do you know who have become wealthy by investing in savings accounts?" Robert G Allen, investment author

Cash and bank deposits are low risk and fine for near term spending requirements and emergency funds, but they won't build wealth over long periods of time. The chart below shows the value of $1 invested in various assets since 1900. Despite periodic setbacks (see the arrows) shares and other growth assets like property (not shown) provide much higher returns over the long term than cash and bank deposits.



Source: ASX, RBA, AMP

"The aim is to make money, not to be right." Ned Davis, investment analyst

There is a big difference between the two. But many let their blind faith in a strongly held view (e.g. "there is too much debt", "aging populations will destroy share returns", "global oil production will soon peak", "the IT revolution means this time it's different") drive their decisions. They could be right at some point but end up losing a lot of money in the interim.

The investment process

"Much success can be attributed to inactivity. Most investors cannot resist the temptation to constantly buy and sell." Warren Buffet, investor, chair & CEO of Berkshire Hathaway

Unless you really want to put a lot of time into trading, it's advisable to only invest in assets you would be comfortable holding for the long term. This is less risky than constantly tinkering in response to predictions of short-term changes in value and all the noise around investment markets.

"Investing should be like watching paint dry or watching grass grow. If you want excitement...go to Las Vegas." Paul Samuelson, economist

Investing is not the same as gambling and requires a much longer time frame to payoff.

"Successful investing professionals are disciplined and consistent and they think a great deal about what they do and how they do it." Benjamin Graham, investment author, "father of value investing"

Having a disciplined investment process and consistently applying it is critical for investors if they wish to actively manage their investments successfully in the short term.

"Don't look for the needle in the haystack, just buy the haystack!" John C Bogle, founder of Vanguard

The key insight here is that trying to beat the market by stock picking can be hard and so if you want to grow wealth over time the key is to get a broad exposure to the market and letting compound interest do its job.

The investment market

"Remember that the stock market is a manic depressive." Warren Buffett

Rules of logic often don't apply in investment markets. The well-known advocate of value investing, Benjamin Graham, coined the term "Mr Market" (in 1949) as a metaphor to explain the share market. Sometimes Mr Market sets sensible share prices based on economic and business developments. At other times he is emotionally unstable, swinging from euphoria to pessimism. But not only is Mr Market highly unstable, he is also highly seductive - sucking investors in during the good times with dreams of riches and spitting them out during the bad times when all hope seems lost. Investors need to recognise this.

"Markets can remain irrational longer than you can remain solvent." John Maynard Keynes, economist

A key is to respect the market and recognise that it can be fickle rather than try and take big bets that can send you bust if you get the timing wrong. For example, by heavily selling shares short if you think a crash is about to happen or gearing in too heavily via margin debt when the market is strong. Such approaches can often undo investors and send them bust as they are too dependent on accurately timing the market.

Investment cycles and contrarian investing

"Bull markets are born on pessimism, grow on scepticism, mature on optimism and die of euphoria." John Templeton, investor

This is one of the best characterisations of how the investment cycle unfolds. It follows that the point of maximum opportunity in terms of prospective return is around the time most investors are pessimistic and bearish and the point of maximum risk is when most investors are euphoric and bullish, but unfortunately many don't realise this because it involves going against the crowd.

"The four most dangerous words in investing are: 'this time it's different'." John Templeton

History tells us that that there are good times and bad and assuming that either will persist indefinitely is a big mistake. Whenever you hear talk of "new paradigms", "new eras", "new normals" or "new whatevers" it's usually getting time for the cycle to go in the other direction.

"History doesn't repeat but it rhymes." Often attributed to Mark Twain (although it's not sure he actually said it), author

No two cycles are the same, but they do have common elements which make them rhyme. In upswings investment markets are pushed to the point where the relevant asset has become overvalued, over loved (in that everyone is on board) and over bought and vice versa in downturns.

Recognising these common elements is necessary if you are to get a handle on cyclical swings in investment markets.

"If it's obvious, it's obviously wrong." Joe Granville, investment author

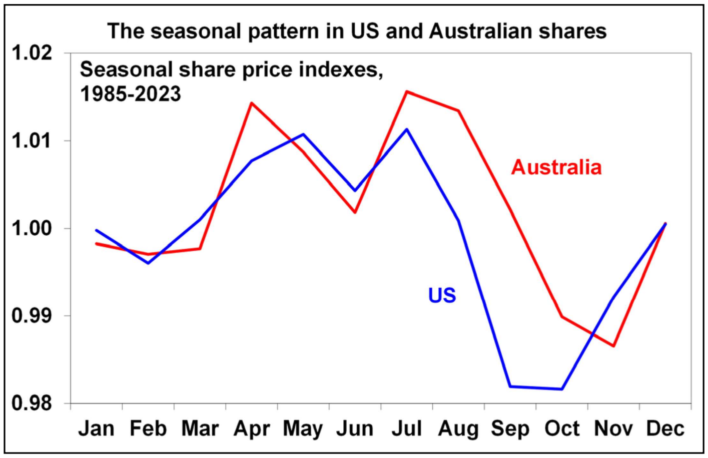
This doesn't apply to everything (e.g. if it is obviously sunny outside according to the usual definition, then it is!), but investing can be perverse. When everyone is saying "it's obvious that the recession will continue" or "it's impossible to see a recession as things are obviously good" then maybe the crowd is already on board and the cycle will soon turn.

"I will tell you how to become rich...Be fearful when others are greedy. Be greedy when others are fearful." Warren Buffett

This is another great quote on contrarian investing that follows on from those above.

"Sell in May and go away, buy again on St Leger's Day." Anon

Shares have long been observed to have a seasonal pattern that sees strength from November through to May and then relative weakness through to around October. This can be seen in seasonal indexes for US and Australian shares in the next chart. (St Leger's Day in terms of the UK horse race on the second Saturday in September may be a bit early, but not to worry!)



Source: Bloomberg, AMPI

The reasons vary and relate to tax loss selling associated with a September tax year end for US mutual funds, a wind down in new equity raisings around December/January, New Year cheer and the investment of bonuses, but may have its origins in crop cycles. The point is that buying in May, might not be the best time, nor selling in September or October.

Investor pessimism

"To be an investor you must be a believer in a better tomorrow." Benjamin Graham

This is a pre-requisite. If you don't believe the bank will look after your term deposits, that most borrowers will pay back their debts, that most companies will see rising profits over time, that properties will earn rents etc then there is no point investing. This is flippant but true – to be a successful investor you need a favourable view of the future.

"More money has been lost trying to anticipate and protect from corrections than actually in them." Peter Lynch, investor, fund manager

Preserving capital is important, but this can be taken too far and often is in the aftermath of bad times with the result that investors end up so focused on trying to avoid capital losses in share markets that they miss the returns they offer.

"I have observed that not the man who hopes when others despair, but the man who despairs when others hope, is admired by a large class of persons as a sage." J.S. Mill, economist

It invariably seems that higher regard is had for pessimists predicting disaster than for optimists seeing better times. As the US economist JK Galbraith once observed "we all agree that pessimism is a mark of a superior intellect." And we all know that bad news sells. There may be a neurological reason for this as the human brain evolved in the Pleistocene era when the key was to dodge woolly mammoths and sabre tooth tigers, so it has been hard wired to be always on guard and so naturally attracted to doom sayers. But for investors, giving too much attention to pessimists doesn't pay over the long term.

Risk

"There is nothing riskier than the widespread perception that there is no risk." Howard Marks (I think), investor, co-founder of Oaktree Capital

Many like to measure risk by looking at measures of volatility, but the riskiest time in markets is invariably when the common view is that there is no risk for it's often around this point that everyone who wants to invest has already done so leaving the market vulnerable to bad news.

Debt

"It's not what you own that will send you bust but what you owe." Anon

Always make sure that you don't take on so much debt that it may force you to sell all your investments and potentially send you bust, just at the time you should be buying.

The right mindset for an investor

"The investor's chief problem and even his worst enemy is likely to be himself." Benjamin Graham

This may sound perverse as surely it is events which drive investment markets down and destroy value. But the trouble is that events and bear markets are normal. Rather what causes the greatest damage is our reaction to events – selling after markets have already plunged and only buying back in after euphoria has returned. Smart investors have an awareness of their psychological weaknesses and their tolerance for risk and seem to manage them.

"You get recessions, you have stock market declines. If you don't understand that's going to happen then you're not ready, you won't do well in the markets." Peter Lynch

If you can't handle volatility associated with investment markets, then either they are not for you or you should just take a long term approach and leave it to someone else to manage and advise on the investment of your funds.

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Q&A: Ask a Question

Question 1

I hear that everyone has an offset account connected to their home loans or property loans. What is an offset account and how does it work?

An offset account is a transaction account linked to your mortgage or home loan. The funds in the account are effectively reduce the outstanding balance of the loan. By reducing the net balance of the mortgage, you can save on interest charged over the life of the loan, which helps with paying off your mortgage faster. Offset accounts offer you the flexibility to deposit and withdraw funds as needed, while still benefiting from interest savings. Overall, offset accounts can be a valuable tool to minimise interest costs, accelerate loan repayment, and maintain financial flexibility.

Question 2

My partner has Own occupation TPD while I have Any occupation TPD. What is the difference between Any and Own occupation TPD?

Own occupation and Any occupation Total and Permanent Disability (TPD) insurance differ in how they define and assess disability for coverage eligibility. With own occupation TPD insurance, you are considered totally and permanently disabled if you cannot perform the duties of your specific occupation, regardless of your ability to work in a different occupation. In contrast, Any occupation TPD insurance only considers you totally and permanently disabled if you are unable to engage in any gainful employment for which you are reasonably qualified by education, training, or experience. Therefore, the choice between own occupation and any occupation TPD insurance or a combination of both depends on your individual circumstances, occupation-specific risks, and desired level of coverage. It is important that you review this with your financial adviser.

Question 3

I'm interested in getting into investing and I hear people say it's best to have a combination of both growth and defensive assets in your portfolio. What are some examples of growth and defensive assets?

Growth assets are investments that aim to achieve capital growth over time and often carry higher risk but also the potential for higher returns. Examples include company shares and real estate.

Defensive assets are aimed at preserving capital and providing stability during market downturns, making them less volatile but offering lower potential returns. Examples of defensive assets include bonds, cash, and cash equivalents such as money market funds or Treasury bills.

A well-diversified investment portfolio typically includes a mix of growth and defensive assets to balance risk and return objectives, with the specific allocation depending on factors such as your investment goals, time horizon, risk tolerance, and market conditions. You should consult your financial adviser to help you invest according to your relevant needs and objectives.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**

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