CompleteFinancial PLANNING
Your family's future is our business

# Quarterly Update

September 2023

It's that time of the year where we go oh…. crap it's almost Christmas! Oh how the year has flown by!

Now this would not be a finance newsletter without some timely financial wisdom! The key to a truly Merry Christmas lies in careful financial planning. Here are some tips to help you navigate your finances in the lead-up to Christmas.

- Create a Budget: Start by setting a realistic budget for your holiday spending. Determine how much you can comfortably afford without compromising your financial stability.
- Make a List and Check It Twice: Create a list of all your holiday expenses, including gifts, decorations, travel, and food. Prioritize these expenses to ensure you're not overspending in any category.

And while the above can be a helpful strategy for some, those clients of ours who are in retirement phase pension….. just check in with us if you need a once off lump sum withdrawal from your pension for that Holiday spending! You've already done the hard yards saving throughout your lifetime.

Now since our last newsletter the financial markets for August saw mixed signals. Initial concerns included central bank policies, rising bond yields, and weak data from China and Europe. However, mid-month brought a more optimistic tone. Moving into September data released in China saw an increase in credit growth and steel production, which sparked a fresh iron ore rally.

## Important Updates

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| **Study** | Emma, Kathy and Jayden have completed their FASEA study. Jayden is ready to start his professional year on the path to becoming an adviser. Formal notice of Jayden's professional year status and supervisor details will be sent out soon. |
| **Team** | We have two new starters! Lucy and Goody! Lucy is an ex-adviser who brings a wealth of knowledge to our team and will be working on advice strategy. Goody is new to the industry; we will be training Goody in Administration. |
| **Christmas Trading Period** | Our office will be shut from the 18th of December until the 8th of January. Any processing and advice will be delayed during this period. |

# Article of Interest

## Should I pay down my mortgage or invest?

It's always a good idea to regularly check in on your financial position, whether there's been a significant change in your financial situation or not. And for those who find themselves with spare funds, it often raises the question, "Should I pay down my home loan or invest these funds elsewhere?".

For most, there is nothing like the comfort of reducing their mortgage. Knowing they are building ever more equity in their own home and moving just that little bit closer to owning their own home outright.

More, there is no risk associated with repaying your home loan in the way there is risk attached to investing funds beyond your home and somehow, it just seems that much easier to commit to paying more off your home loan, than strictly setting aside an amount each month to invest.

In addition, there is a significant tax benefit. The money you save by reducing your mortgage, and lowering your overall interest rate bill, is not taxed, while any earnings or capital gains received from investments will be most likely be taxed at your marginal tax rate.

Against that, while interest rates are at relatively low levels, there is a good argument that if you can generate returns from investments in excess of this rate, then the smart money is on making investments beyond your home. Especially if you contribute these extra savings to your superannuation fund and then invest the funds within superannuation. This is because the associated tax rate for assets held within super is a benign 15 per cent, which for most people is below their marginal tax rate.

In addition, you might be able to reduce the tax you are paying on your weekly earnings. Again, depending on your situation, you can contribute up to $27,500 a year to super and potentially claim a tax deduction for these contributions or up to $110,000 a year using after tax income or savings.

Investing funds outside of your home also means you are diversifying your asset pool. Rather than having all your funds tied up in one property, you can choose to invest any additional funds in a range of opportunities such as fixed interest investments, commercial property, domestic shares or international shares.

But just how do the numbers stack up? Just what sort of returns can you get from investments compared to repaying your own home loan?

Let's assume you take out a $500,000 home loan over 30 years at say 3.5 per cent.

The Government's Moneysmart online mortgage calculator suggests monthly repayments would be $2,245 and the total interest charged would be $308,280.

If you repaid an extra $500 a month to reduce this loan, you would reduce the term to 21 years and nine months and the total interest bill would be just $214,168 – saving you some $94,112 in interest payments.

Alternatively, if you invested $500 a month in an investment generating 7.5% per cent, at the end of 30 years, the Government's Moneysmart compound interest calculator suggests this investment would be worth $678,433. That's $584,321 more than the interest you've saved.

The numbers suggest overwhelmingly that you are better off investing outside your own home if you are confident that you can commit to this investment strategy, and if you are assured, you can obtain at least 7.5 per cent after tax year after year for 30 years.

For most people though, the best strategy is a mix of repaying your home loan early, contributing extra funds to super and, building up an investment portfolio. A Financial Planner is best person to help you decide just what the best mix is for you.