

IN THIS ISSUE

- James: 20 Years At GFM
- Value Of Advice
- Client Profile – Tony & Libby Weir – Clients of GFM Since 2008
- Case Study – Aged Care
- Why Are Self Managed Super Funds Gaining In Popularity?
- Surging House Prices Continue.... But A Loan Crackdown Is Looming
- ACCC Warning On Phony Adviser Scams
- GFM Webinars



JAMES:
20 YEARS AT GFM
By Paul Nicol

On November 13, we are excited to have another staff member at GFM join the "20-year club" as James Malliaros reaches 20 years of employment.

The term privileged is often thrown around. However, the impact James has had in our business and the lives of the clients he diligently looks after, we are truly privileged to have him as a member of the GFM team.

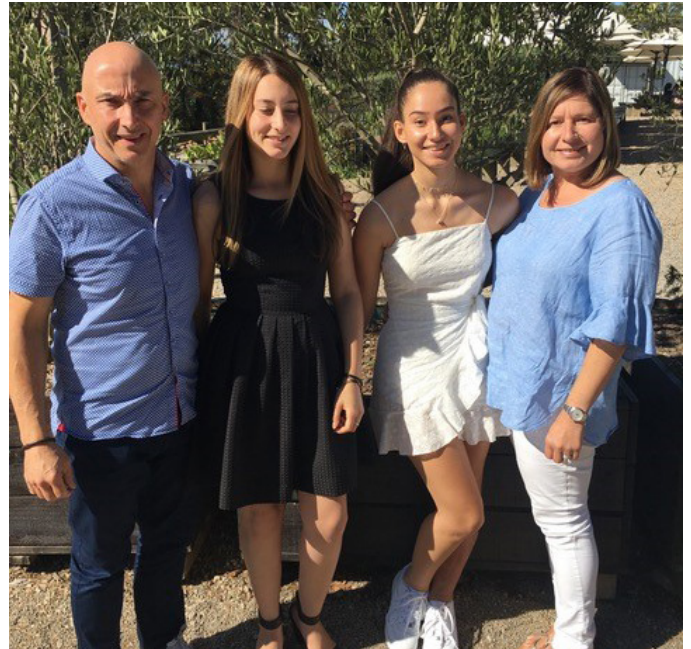
For anyone that knows James, they would know you will not meet a more selfless person. James always puts the organisational needs of our business and his clients before himself, and he does it without hesitation. These qualities are easily identified when dealing with James, making him a very popular member of the GFM team and incredibly well-liked by the clients he advises.

As clients that deal with James will attest, he is reliable, a voice of reason, assured and always very well thought out with the advice he provides. Clients trust what James is saying because of his steady hand and authenticity.

James overlays his wonderful personality traits with an exceptional level of technical skill. You will not find a Financial Adviser with a more rounded technical knowledge, and James complements this knowledge with a deep understanding of investment markets and economic trends.

James is an outstanding Financial Adviser, one of the very best in the industry due to his all-around skills and ability to convey to our clients what they need to do.

The whole team at GFM is genuinely thrilled James has reached this significant milestone, and we cannot wait to celebrate. GFM is blessed to have a staff member of the quality and calibre of James.



James: My 20 years at GFM

I find it hard to believe that this November marks my 20 years of service with GFM Wealth.

Married only a couple of years earlier to my beautiful wife Claudia, with a new baby girl, Isabella (eight months old) and a little more hair up top, I eagerly started my journey in the finance industry. The opportunity was afforded to me at the time by the founder of the business Tony Gilham. And what a journey it's been, working with a great team of employees and wonderful clients.

After studying economics and finance at Monash University, working in finance was something that I was very keen to get into straight away. However, the start of my career in finance was delayed. I graduated from university right in the middle of the infamous "recession that we had to have" in the early to mid-1990s, and graduate employment positions in the finance industry were almost non-existent.

After dozens of rejections, I decided to put my finance career on hold. I stayed on working in the hospitality industry, which had supported me whilst I was studying at university. I worked casually and then eventually full time for several years at venues such as Leonda by the Yarra, Caulfield Racecourse and finally the Victorian Arts Centre (where I met Claudia). I eventually decided to leave the industry and went travelling for a few months overseas.

On my arrival back home, I updated my technology skills, expanded my finance knowledge, and landed a job at GFM as the Financial Controller.

My job was primarily involved in managing the accounts, payroll and invoicing. However, after a couple of years of performing this role, I was moved into a more front-line position

within the organisation by taking a para-planning role in the newly established Para-Planning/Technical Services division. After being in the position of para-planner for a few years, I then became a financial planner, a role that I have been performing since mid-2005.

Much has changed over the time that I've been involved.

GFM has developed a real speciality in managing Self-Managed Superannuation Funds and Private Investment Portfolios, which has seen significant growth in the industry and our firm, particularly over the last fifteen years. As Witi mentioned in the previous edition of Trade Secrets, the company only managed seven such portfolios when she started 25 years ago, but now we have almost 800.

As a result, we've seen many new staff members arrive over the last 20 years, over half of who have now been with GFM for ten years or more. It says so much about the company that so many have been here for so long.

The industry is also very different to the one when I first started. A constantly changing regulatory environment, particularly over the past decade, has forced much-needed change. From the Future of Financial Advice (FOFA) legislation in 2013 to the Royal Commission into Misconduct in Banking, Superannuation and Financial Services in 2018, the industry has been forced to adapt and evolve in a very limited timeframe.

There have been many challenges, but I feel that the industry now finally seems to be on the right path to being recognised as a real profession, with the introduction of mandatory education standards, ongoing professional development and legislated ethical and duty of care requirements. The bad old days of the sales culture and the banks' dominance in the wealth management sector are well and truly over and replaced by mid-sized independently owned firms like GFM Wealth, which continue to grow and diversify their business models.

Outside of work, I enjoy cycling along the local bike paths and swimming at the neighbourhood pool.

I also enjoy going to the MCG to watch my mighty Tigers and have particularly enjoyed supporting them over the last few years (we took a break this year!!)

Claudia and I enjoy travelling, and with Italian and Greek heritages, Europe has been our regular go-to destination. However, we had recently taken a couple of shorter trips to Thailand and Singapore.

Like all parents, we are incredibly proud of our children. Our youngest daughter Anastasia has shown incredible resilience and determination in undertaking her VCE studies over the last couple of years under extremely trying circumstances. Isabella is about to graduate as a vet nurse.

I am extremely fortunate to have been part of the GFM team over the last 20 years, and I certainly have managed to find my dream job in the industry that I have always wanted to work in. The support and encouragement from my work colleagues and Paul and Patrick as the business owners has allowed me to develop and become a better person and financial planner.

It is such a satisfying job, particularly when your clients tell you how you've made such a difference to their lives and how you've taken away all of their stresses and frustrations. Positive client feedback is rewarding and makes a difference in your day, particularly in the challenging and stressful times we are

currently going through. COVID has affected so many people in so many different ways, and being there to provide ongoing support is a privilege, which I and all of the team at GFM take very seriously.

It's been a wonderful journey so far; it's had its moments but has been extremely rewarding. I've met some wonderful people, who I know I will have long term friendships with. I just hope that there are many more years ahead like the previous 20 years.



VALUE OF ADVICE

By Patrick Malcolm

At GFM Wealth, we have an unwavering, strong belief that our financial planners and accountants can make a big difference in people's lives.

However, the value of advice is often misunderstood. Our role in co-ordinating an individual or family's wealth management needs by assisting with the accumulation, distribution and transfer of wealth is complex.

The full value of advice includes benefits such as preventing behavioural mistakes, portfolio rebalancing, planning and additional advisory services and investing tax efficiently.

People who do not seek out advice tend to have lower financial literacy, competence and confidence, but also much higher levels of anxiety. This is why working with professionals is so important.

Asset Allocation:

Research suggests that asset allocation drives over 85% of investment outcomes. However, there can be risks for those who build their own portfolios. Without the guidance of an adviser, many make fatal flaws when it comes to setting an appropriate asset allocation to meet their investment objectives and needs. Investors may not set the right investment strategy for their circumstances, and they may lack the knowledge and time to research the many investment options available. There is also the added temptation to chase past performance and overreact to market events.

Preventing behavioural mistakes:

There is no question that 2020 was a wild ride. Many were tempted to flee for the exit in mid-March 2020 when the S&P/ASX 300 fell by 36.2%.

This is where the value from an adviser's behavioural guidance comes into focus. Those that stayed invested throughout the volatility not only recovered losses but also added gains.

Missing out on even a few days of good performance can have a detrimental effect on a portfolio. Markets can be unpredictable. But their long term trend has been up. Those guided by advisers and who stick to their plans are likely to benefit. Doing nothing can often be the better choice.

Planning and additional advisory services:

A common misconception is that financial advisers are purely investment managers whose only job is to select investments and achieve a certain level of return. Good financial advice goes far beyond this.

An adviser's expertise includes technical skills to navigate investment, legal, tax, superannuation, and insurance requirements. However, advisers also incorporate the important skills of effective communication, understanding, behavioural awareness and overall efficiencies.

Technical expertise, client engagement and overall efficiency are the key elements an adviser delivers. However, the most important benefit is the feeling of confidence in their future and peace of mind.

Investing Tax Efficiently:

An adviser can provide expertise on managing and optimising investment tax. The concept of investment tax isn't just limited to what goes into a tax return. It can impact the asset value or portfolio return, even though it may not always be seen. As a result, it can be difficult for investors to know how to be tax-effective in their portfolios.

Advisers can assist in managing and optimising investment tax in several ways, including structural tax strategies, managing client-driven trading, and making tax-efficient portfolio recommendations.

Summary:

The great thing about financial planning is that it makes people focus on the future, but this is also one of the challenges. People can be anxious about their future. This is where engaging a professional can help by breaking down the mental barriers around that anxiety so that people have confidence.

Financial position dictates lifestyle in retirement. This is why it is crucial to begin planning for financial security as early as possible.

Turning retirement into reality requires careful planning. Like any new chapter in your life, preparation can go a long way in ensuring you're ready. Despite the obvious benefits, only 44% of Australians over age 40 feel prepared for retirement (Investment Trends, October 2016). By working with a professional, people focus on what they would like to achieve in retirement, whether it is just around the corner or still several years away.



TONY & LIBBY WEIR: CLIENTS OF GFM SINCE 2008

By Paul Nicol

Libby has kindly written the article below on her and Tony's working life, family, retirement and relationship with GFM Wealth Advisory. We greatly appreciate Libby's contribution to Trade Secrets.

We joined GFM in 2008 on the recommendation of my brother and sister-in-law, Terry and Judy Buscombe. Judy had met and worked with Paul while he was still studying, and they became clients when he qualified.

Our first meeting with Paul back in early 2008 decided us. Paul was interested and listened to our questions. We've never looked back. We tried to run our own super fund with little success, so having Paul and the GFM team take over was an easy decision and a great relief. Why have a dog and bark yourself?

Tony and I were married in 1972 and spent our first year of

married life in Singapore. I was 20, Tony 21 and Tony was doing National Service in the army. When we returned to Australia, Tony went to work in a liquor store, and I went back to my job as a medical technician. A few years later, we started our family. Michael was born in 1976, Adam in 1979.



Libby and Tony Weir in San Gimignano

Eventually, we invested in our own business with a business partner. He and Tony ran two liquor stores. We then branched out into cleanskin wines, and while Tony and his partner ran the business, I looked after the office work. Subsequently, we sold the stores and ran the business from a warehouse, which we eventually purchased.

About seven years ago, we sold our share of the business to our partner. I retired, and Tony continued to work part-time for two more years. He retired fully five years ago.

We moved to the Mornington Peninsula to live and are both involved in the local community. We, together with a group of like-minded people, started the Blairgowrie Community Garden. It is a huge success, and aside from growing fruit and vegetables, we have made wonderful friends.

We both play golf, Tony much more seriously than I do. However, we enjoy the game and the camaraderie and have met some wonderful people.

Both of us enjoy exercise, we do Pilates together whilst I also do Zumba. We love our garden, grow lots of veggies and flowers and keep chickens.

Both our sons are married. We have two marvellous daughters-in-law and four grandchildren. We get enormous pleasure from our family, being the most important thing in our lives.

We have been fortunate to travel and see a lot of the world, both for pleasure and in business. We had planned a return trip to Europe in 2021, but COVID put that to rest for now. While in lock-down, we did some renovations to our house and garden. We are fortunate to live in a safe part of the world; we didn't have to worry about work and had open spaces surround us.

In all our dealings with GFM, we have always been happy. The staff treat us like old friends, and nothing is ever too much trouble.

Paul has been our advisor from the beginning. His advice is always in line with our thinking, and I am continually impressed by his uncanny ability to read upside down, and he never falters! He puts a report in front of us across the table and highlights a line he wants to discuss with us.

We have loved our retirement so far. We have a lovely home, a beautiful family and our SMSF and investments are in good hands.



CASE STUDY: AGED CARE

By Sam Eley

One of the advice areas we are seeing an increased number of enquiries about is Aged Care.

There are initial and ongoing costs associated with funding aged care. The right funding option will differ depending on individual financial circumstances – there is no “one-size-fits-all” approach.

On entry into aged care, there are potentially two costs to consider:

- **Refundable Accommodation Deposit (RAD):** This is a lump sum paid to the Aged Care provider for a residence in their facility. Each Aged Care provider will have a RAD price depending on the suburb, how new the facility is, and the available room’s size. As the name suggests, this deposit is refunded on exit from the facility.
- **Daily Accommodation Payment (DAP):** Should the RAD option not be financially viable, the alternative upfront payment option is called the ‘Daily Accommodation Payment’, or DAP. This is effectively a regular interest repayment on the unpaid RAD amount and is subject to a Maximum Permissible Interest Rate (MPIR). The current MPIR is 4.01% per annum.
- **Combination of RAD and DAP:** You can also pay the upfront entry costs via a hybrid funding model, paying a part-RAD and part-DAP to cover the entry costs to the respective facility.

From an ongoing costs perspective, there are several potential costs to consider:

- **Basic Daily Fee:** This covers day-to-day living costs such as meals, cleaning, laundry and heating. It is currently 85% of the full Age Pension rate. This is currently \$19,549.40 per annum or \$53.56 per day.
- **Means-Tested Care Fee:** This fee contributes to your day-to-day care costs. This is a complex formula that assesses your financial assets by the Department of Human Services. The current annual means-tested fee cap is \$28,792.36, with a lifetime cap of \$69,101.75.
- **Additional Services Fee:** This covers additional “premium features” such as pay-TV, hairdresser appointments, manicures and various social activities, among other items. The individual Aged Care provider sets this and it is typically optional for the resident.

Case Study:

Joan is 94 years old and is a single widower. Joan is in very poor health and on a full Age Pension. She has a \$150,000 investment portfolio (with very large embedded capital gains given she bought CBA in the float!) that pays a 4% income yield (\$6,000 p/a) plus franking credit refunds and \$120,000 in her bank account, earning no interest. Her only other major financial asset is her home in Balwyn, worth \$1,500,000. Joan is no longer able to take care of herself at home and needs to move into care. She would prefer not to sell her home as she would like her adult children to inherit the property. Given she has

lived in the area for 60 years, she would like to stay in the same area and has secured a one-bedroom residence at a local Aged Care provider with a Refundable Accommodation Deposit of \$700,000.

Assets	Value
Home Residence - Balwyn	\$1,500,000
Bank Account	\$120,000
Share Portfolio	\$150,000
TOTAL	\$1,770,000

When considering Joan’s asset position to fund her entry into Aged Care, it may appear that Joan does not have many options available to her. If she sold her home, this would allow her to pay her full RAD. However, this would also cause her to lose her full Age Pension and not meet her goal of passing on the family home to her children.

If she sold her investment portfolio to reduce her potential DAP, she may end up paying a large amount of capital gains tax. In addition, the yield from the investment portfolio and the MPIR payable for the DAP are effectively the same, so no financial benefit would be achieved by selling the portfolio and using this asset to put towards her RAD.

An alternative option could be to pay a \$100,000 RAD to the Aged Care facility from Joan’s emergency cash, retaining \$20,000 in this account as a cash-float. This would reduce the DAP to \$24,060 per annum (\$600,000 x 4.01% MPIR). As Joan doesn’t have the cash flow to fund this DAP payment regularly, she can discuss with the Aged Care provider to deduct the DAP from the \$100,000 RAD she has paid to the facility. The RAD is exempt from the Assets Test for Age Pension testing, and her (now vacant) home residence has a 2-year Social Security Assets Test exemption for Joan’s Age Pension from the time of entering care. Given Joan’s very poor health prognosis, she has essentially bought herself two more years to decide on what to do with her home rather than being forced into selling it now, against her wishes.

From an ongoing costs perspective, Joan can comfortably meet her Basic Daily Fee of 85% of the full Age Pension (\$53.56 per day, or \$19,549.40 per annum) from what she receives in Age Pension (\$952.70 per fortnight, or \$24,770.20 per annum). While the value of Joan’s Balwyn residence will partially count towards her Means-Tested Care Fee (up to a maximum cap on the property value of \$175,239), her total assessed Means-Tested Assets are \$445,239, making her means-tested fee \$10.35 per day, or \$3,777.75 per annum. Joan has also decided to use the Extra Services at the cost of \$24.99 per day (\$9,121.35 per annum).

Type of Fee	Cost per Day	Cost per Annum
Basic Daily Fee	\$53.56	\$19,549.40
Means-Tested Care Fee	\$10.35	\$3,777.75
Extra Services Fee	\$24.99	\$9,121.35
TOTAL	\$88.90	\$32,448.50

To summarise, Joan’s upfront costs are covered by the \$100,000 RAD she has paid to the Aged Care provider and the \$24,060 per annum DAP payment deducted from this RAD. This could cover her DAP payments for approximately four years.

Her ongoing annual costs of \$32,448.50 per annum are met from her annual income of \$25,155 Age Pension, plus her \$6,000 per annum income yield from her investment portfolio. She funds the residual cash flow deficit from her \$20,000 emergency cash funds, with annual franking credit refunds topping up her cash balance.

Income Source	Income per Annum
Age Pension	\$25,155.00
Share Dividends	\$6,000.00
Franking Credit Refund	\$2,571.43
TOTAL	\$33,726.43

As the above scenario shows, Aged Care is a complex area. The most practical and best solution will differ from person to person, with the right financial and lifestyle outcome dependent on an individual's circumstances. It is important professional advice is obtained to make the most informed decision on how best to fund the significant upfront and ongoing costs associated with Aged Care.



WHY ARE SELF MANAGED SUPER FUNDS GAINING IN POPULARITY?

By Witi Suma

With almost 600,000 self-managed superannuation funds (SMSFs) in existence at the end of June 2021 and assets of just over \$822 billion, the SMSF sector is rising more quickly than any other. For many, it is becoming the retirement vehicle of choice. Why is this the case?

Firstly to explain, an SMSF is an ATO-regulated fund that can have up to 6 members, all of whom are also the trustees or directors of the trustee company. As such, the members are in full control of how their balances are managed, so they can align their retirement goals with the investments they choose. As a general rule of thumb, SMSFs become cost-effective for those with super balances of around \$500,000.

Retail and industry funds are regulated by the Australian Prudential Regulatory Authority (APRA) and are managed by large institutions. Given their size, APRA funds cannot consider every member's circumstance and offer a "one size fits all" approach when investing the members' funds.

Let's look at some of the reasons why setting up an SMSF can provide benefits over joining an APRA fund:

Control:

This is perhaps the biggest reason why an individual would choose an SMSF over an APRA fund. As the members of an SMSF are also the trustees, they have complete control over the running of their fund, from selecting specific investments to constructing tailored contribution and pension strategies designed to meet their retirement objectives. The sense of comfort and confidence in knowing exactly where your money is invested and how it is performing is a leading motivation in setting up an SMSF.

Wider investment choice:

SMSFs offer much wider investment choices than APRA funds

by investing directly in shares, managed funds, and other less common investments. Nothing stops the trustees from selecting any investment if it satisfies the "sole purpose test" of providing for the members' retirement benefits and adheres to super laws.

Trustees can also invest directly in market sectors that can grow over the medium to long term. SMSFs also have a distinct advantage over APRA funds in that it is possible to invest in specific companies, e.g. CSL.

For those wanting to buy residential or commercial property using their superannuation, the only way this can be done is via an SMSF.

A benefit of SMSFs that is particularly attractive to small business owners and the self-employed is the ability to have their business property owned within their SMSF and leased back to them at market rates. This provides the fund with a steady income and super contributions that the members deposit into the fund.

Ability to purchase investments "in specie":

A member of an SMSF can transfer the ownership of an investment held in their name to their fund (such as a parcel of BHP shares) without physically selling it, which cannot be done in an APRA fund. Further, the member has the option of treating this transfer as a super contribution if they wish, or they can pay for it with the fund's cash.

Transparency:

With APRA funds, more often than not, most members have very little idea about where their superannuation is invested. By comparison, SMSF trustees can see exactly where their money is at all times, as they have complete visibility over the individual assets and the performance of those assets.

Flexibility to adapt quickly:

When making decisions to invest or sell, market timing can be crucial. SMSF trustees have complete control over their investment portfolio. They can respond easily and quickly whenever there are changes in market conditions, legislation or circumstances. Having direct access to the fund's bank account enables them to deposit contributions or make withdrawals easily and quickly. Compare this to an APRA fund whereby the member has to go through a lengthy process of requesting a purchase or redemption, having that transaction approved and then waiting for the request to be executed.

Pooling funds:

An SMSF can pool the superannuation assets of up to six members, which opens up opportunities to invest in larger assets that one or two members may not be able to access on their own, e.g. direct property.

Control over tax outcomes:

Another benefit of SMSFs is the control that the trustees have over the tax position of their fund. They can seamlessly transition from the accumulation phase to the pension phase without selling down assets, which can incur costly fees and capital gains tax.

SMSF trustees can set up multiple pensions within one fund, each having separate taxable components. They have flexibility in determining how often they draw funds, how much they draw, and the timing of those drawdowns.

Managing the Transfer Balance Cap (TBC), the maximum amount a super fund member can transfer from the accumulation phase to the tax-free retirement phase, is a complex exercise. However, SMSF trustees are in a better position to ensure members remain within their TBC limit as they can sell down specific assets to realise a certain amount and are also able to do so in a much more timely manner. By comparison, the process for APRA funds to sell assets not only takes time, but many funds place restrictions on how much of the member's pension balance can be sold down depending on how their investment portfolio is structured.

Further, unlike most APRA funds where the 15% tax on contributions is deducted on receipt of the funds, SMSFs can defer the payment of contributions tax until the lodgement of their return.

Conclusion:

There is no "one size fits all" when it comes to selecting an appropriate superannuation fund.

SMSFs are certainly not for everyone, particularly those who don't have a substantial super balance, do not have the requisite knowledge and skills, and are unwilling to invest a significant amount of their time in managing their own fund. If your super balance is relatively low, and you prefer to outsource the responsibility of managing and investing your retirement funds, then an APRA fund may be more suited to you. However, the many advantages of SMSFs and the sense of confidence and security achieved from controlling and managing your own nest egg can make setting up an SMSF very compelling and well worth considering.

If you are currently weighing up your options and need assistance in making an informed decision, please contact us.



SURGING HOUSE PRICES CONTINUE... BUT A LOAN CRACKDOWN IS LOOMING

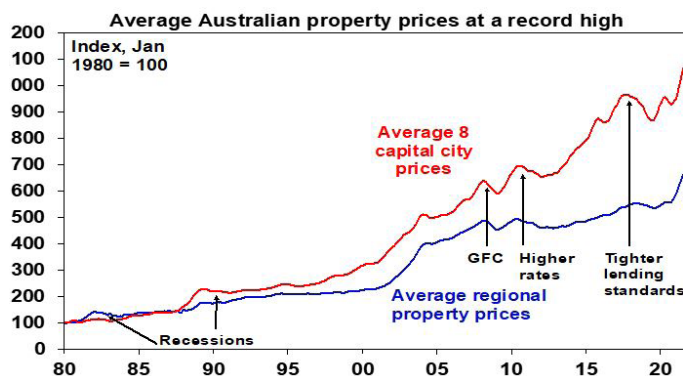
By James Malliaros

After a small dip around mid-last year, national house prices have surged 20.3 per cent over the past year, with some cities and many regional areas seeing larger price jumps.

Over the nine months so far in 2021, house prices have increased by 17.6 per cent. Prices are expected to continue to rise strongly for the remainder of the year, even in Sydney and Melbourne, where increasing levels of mobility restrictions have been in place since June in response to the rising number of Delta COVID cases.

Ultra-low interest rates, high savings buffers, ongoing fiscal support in the form of numerous home buyer incentives for new buyers and negative gearing and capital gains tax discounts for investors, and finally, lower than normal listing have all played a part.

Even the psychological phenomenon of "Fear Of Missing Out" (FOMO) has been thought to have affected house prices.

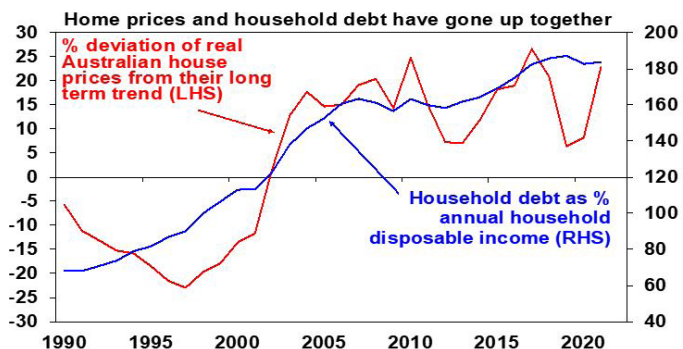


Source: CoreLogic, AMP Capital

The market remains tight, with the combination of strong demand and chronically low supply pushing prices higher. Sales continue to outpace new listings, and auction clearance rates remain in the mid-70s, leaving stock levels very low compared with historical trends.

Adding to the already major problem of higher house prices, an 83% rise in housing finance in the year to June 2021 suggests that prices will continue to rise solidly in the coming months. While owner-occupiers were the early drivers of the market, investor lending is now surging. Over the six months to June, investor lending rose 55% and has more than doubled since June last year. While still running solidly, owner-occupier lending has slowed a little, largely because of a pull-back by first home buyers. Over the six months to June, lending to first home buyers fell 3%, while lending to other owner-occupiers rose 23%.

As a result, average house prices have now been pushed to record highs, with real house prices (adjusted for inflation) up around 23% above their long-term trend, causing a massive issue with housing affordability.



Source: ABS, RBA, AMP Capital

The latest data from CoreLogic show that housing affordability has deteriorated in all states and territories across all four metrics used to measure affordability. Measures of value-to-income, serviceability and years to save a deposit show that buying a home is now even more out of reach for many, while rental affordability has deteriorated sharply.

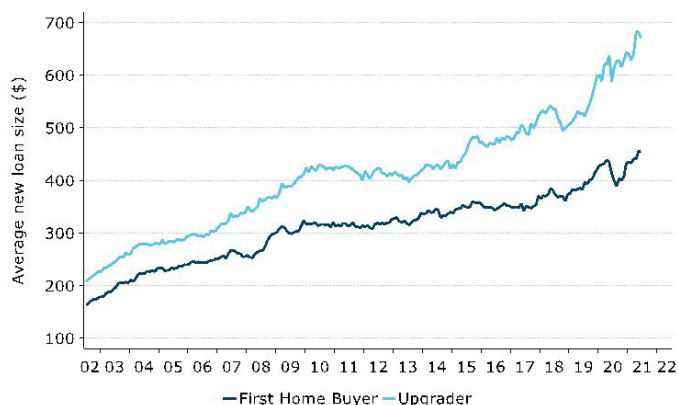
Sydney continues to be the most expensive city to buy a home, needing more than 12.5 years of saving for a deposit. In September alone, Sydney's median house price soared by \$18,000 to \$1,311,641, a stunning gain of about \$600 a day. In Melbourne, the median jumped by \$7,750 to \$962,250, up about \$260 a day.

The data shows that over the last 20 years, average capital city dwelling prices in Australia have risen 200%, compared to just an 82% rise in wages over the same period. Not surprisingly, a recent survey of 92 major markets in eight countries ranking cities by housing affordability found Sydney ranked 3rd least affordable and Melbourne the 6th least affordable. Affordability has deteriorated more in Australia than in other comparable countries.

The 2021 Demographia Housing Affordability Survey showed that the median multiple of house prices to income for major cities is 7.7 times in Australia compared to 4.8 times in the UK and 4.2 times in the US. In Sydney, it's 11.8 times, and in Melbourne, it's 9.7 times.

This has led to an increased debt burden for today's generation of home buyers. After a reduction in the average first home buyer loan in 2020, first home buyer loans reached a new peak of \$456,000 in June 2021, with no signs of the average loan size easing. New upgrader loans are also far higher this year than previously, at an average of \$671,000.

Average new loan size



Source: ABS, Macrobond, ANZ Research

So, can anything be done about rising house prices?

Given the current surge in house prices, the banking regulator APRA and other members of the Council of Financial Regulators (CFR) have become concerned. Therefore, it is expected that they will step in to cool the housing market before the end of 2021 via the introduction of macroprudential controls. However, the increased uncertainty around the economic impact of the Delta strain may delay the timing.

Raising interest rates is impossible given the weakness and uncertainty hanging over the rest of the economy, so a tightening in macroprudential controls to slow the record levels of housing finance is most likely to be the first of many such measures.

It is expected that APRA will target debt-to-income ratios by limiting the proportion of loans made above six times an applicant's household income. These loans now account for about 22 per cent of new mortgages, up from just 16 per cent a year ago, before the latest boom.

APRA has written to many institutions in the banking sector to "seek assurances that they are proactively managing risks within their housing loan portfolios, and will maintain a strong focus on lending standards and lenders' risk appetites."

More than one measure is likely to be needed, with the CFR discussing potential policy options to address the risks in the housing market. RBA Governor Phil Lowe, in his media comments on July 6, noted that these options include:

- increasing the buffer on the mortgage rate (currently at 2.5%) to determine serviceability
- targeting high Loan to Valuation Ratio (LVR) and Debt to Income (DTI) loans

Other options he has recently suggested include restrictions on investor lending and interest-only lending, although these are currently running well below historical levels.

With credit growth set to accelerate over the coming months, it is expected that APRA will announce the start of macroprudential controls by the end of the year. The strongest likelihood is that more than one measure will be introduced, and the choice will depend on how the data evolves over the next couple of months.

Fine-tuning a gentle slowdown in the housing market will be a challenge. The regulators will need to avoid triggering a sharp turnaround in house prices, so most likely will go lightly in the first instance.

STOP PRESS – Update

APRA recently announced tougher serviceability tests for home loans, requiring that all banks now increase the minimum interest rate buffer on home loan applications from 2.5 to 3 percentage points over the loan interest rate.

In making a case for tighter loan restrictions, APRA said that "the buffer provides an important contingency for rises in interest rates over the life of the loan, as well as for any unforeseen changes in a borrower's income or expenses."

This means that, from November, banks will have to test whether new borrowers can still afford their mortgage repayments if home loan interest rates rose to be three percentage points above their current rate. If they do not use this higher test, they will be financially penalised by holding more reserves against losses, which would reduce their profitability.

For home loan applicants, it means the maximum amount people can borrow relative to their income and expenses will be lower than under the old serviceability test of 2.5 per cent.

APRA chairman Wayne Byres said the move was intended to head off building risks from a growing number of very large mortgages.

"While the banking system is well capitalised and lending standards overall have held up, increases in the share of heavily indebted borrowers, and leverage in the household sector more broadly, mean that medium-term risks to financial stability are building."

Although APRA said that the overall impact on aggregate housing credit growth flowing from this measure is expected to be fairly modest, they haven't ruled out additional measures should the lift in the buffer rate fail to temper credit growth in the sector.



ACCC WARNING ON PHONY ADVISER SCAMS

By Ngoc Christodoulou

The Australian Competition and Consumers Commission (ACCC) has reported instances of scammers impersonating reputable wealth management firms after a man was duped by a scammer pretending to be a JP Morgan adviser.

Tony Papagiannopoulos was scammed out of \$200,000 after a google search for investment comparison sites, which led to him having multiple conversations with a phony adviser over the phone. The scammer pretended to be a representative of JP Morgan, with JP Morgan notifying ASIC in April this year as soon as they became aware of the scam.

The ACCC has acknowledged that this is not the first case they have seen of this kind on their Scamwatch website. A spokesperson said, "Scammers create high-quality prospectus documents using images and documentation available on the websites of these legitimate companies. They then change the email and phone contact details to their own."

The ACCC has shared the below tips on how people can best protect themselves from scammers:

- If an opportunity sounds too good to be true, it probably is. Be suspicious of investment opportunities that promise a high return with little or no risk.
- Never give your details to an unsolicited caller, or reply to emails offering financial advice or investment opportunities – hang up or delete the email.
- Always obtain contact details from a company's official home page. Be aware that scammers may create fake websites with stolen logos to imitate well-known companies.
- Do not respond to emails from strangers offering predictions on shares, investment tips, or investment advice, especially if you've only met this person online.
- If you are going to invest, check that ASIC has licensed the investment company you have been recommended.
- Don't feel pressured to act quickly. If you are thinking about investing, always seek independent legal and financial advice.
- You can check if a financial adviser is registered via the ASIC website. Any business or person that offers advice about financial products must be an AFS licence holder.
- Visit the Moneysmart website before investing. It has a list of steps to take to prepare for investing and contains a list of companies you should not deal with.

The financial services ombudsman AFCA has warned that scams of this nature are becoming increasingly common,

and scammers are getting more sophisticated. It is important always to remain vigilant when it comes to your financial matters.



GFM WEBINARS

By Mai Davies

We have recently held our seventh and eighth webinars for the year. As always, we were delighted to see so many interested clients and guests dialling in.

We look forward to hosting live seminars again when we can. In the meantime, we will continue to run additional webinars and hope you can join us.

If you have missed any of the previous webinars, they are located on the GFM website. Click on the link below to watch the recordings of the previous webinars.

<https://www.gfmwealth.com.au/news-info/past-webinars/>

We held our seventh webinar for the year on Thursday, September 2, providing an update on the Perpetual Pure Microcap Fund.

Patrick Malcolm, our Senior Partner and special guests Jack Collopy, Portfolio Manager for the Perpetual Pure Microcap and Smaller Companies Funds and Alex Patten, Deputy Portfolio Manager, Perpetual Smaller Companies Fund, discussed the positioning of the Perpetual Microcap portfolio against the backdrop of the complex conditions, Jack and Alex's current views on Microcaps and the opportunity and risks.

We held our eighth webinar for the year on Thursday, September 23, providing an update on the Ellerston Global Mid Small Cap Fund.

Paul Nicol, our Managing Partner and special guest Bill Pridham, Portfolio Manager of the Ellerston Global Mid Small Cap Fund, discussed global mid-small cap investing, reflected on recent market events and provided an update on the positioning of the Ellerston Global Mid Small Cap portfolio.

Disclaimer: This document is not an offer or invitation to any person to buy or sell any interest in or deposit funds with any institution. The information here is of a generic nature, and does not take into account your investment objectives or financial needs. No person should act upon this information without firstly seeking competent professional advice specifically relating to their own particular situations.

Copyright: © This publication is copyright. Subject to the conditions prescribed under the Copyright Act, no part of it may, in any form, or by any means (electronic, mechanical, microcopying, photocopying, recording or otherwise) be reproduced or transmitted without permission. Enquiries should be addressed to Gilham Financial Management Pty Ltd.



GFM IS NOW ON FACEBOOK

GFM has recently established a company Facebook page, and we will share our webinars, articles of interest and a range of other informative content.

GFM Wealth would like to connect with you on Facebook. You can "Like" our page by clicking on the button on our page. Please feel free to invite your friends, family or colleagues to "Like" our page as well.

www.facebook.com/gfmwealthadvisory