



Baby Boomer housing needs

BY MICHAEL MATUSIK

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In Australia, baby boomers, born between 1946 and 1964, are shaping the housing landscape with their unique preferences.

Today, this cohort are between 60 and 78 years of age. There are over 4.1 million baby boomers in Australia, and this generation is expected to grow by 133,500 people per annum over the next five years.

If this happens, baby boomers will account for a third of Australia's population growth between 2024 and 2029, making this generation the biggest age-related growth sector over this period.

BEFORE YOU GET STARTED

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Australia: Growth in generations, 2024 to 2029

Generation	Total change	Annual change	% Growth
Generation Alpha	103,505	20,701	5%
Zoomers - Generation Z	422,608	84,522	21%
Millennials - Generation Y	541,043	108,209	26%
Generation X	133,939	26,788	7%
Baby Boomers	667,366	133,473	33%
Silent Generation	173,453	34,691	8%
Greatest or G.I. Generation	3,991	798	0%
Total population growth	2,045,905	409,181	100%

Matusik + ABS, medium population projections (Financial 2022 base)

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Boomer's needs for housing

So, what does this generation want when it comes to housing?

As they transition into retirement or semi-retirement, many baby boomers are opting to downsize from larger family homes to more manageable properties.

This trend is driven by a desire to reduce expenses and simplify their lifestyles.

Age-friendly housing options are increasingly sought after, with features like single-level layouts and room to house visiting family and friends becoming essential.

This 'spare' room - given our polling over recent years - is best if it can play a multifunctional role (i.e., used as an office or escape space) and is somewhat distant from the rest of the home.

This can be achieved via a backyard home or dual occupancy arrangement. Also, when it comes to apartments and townhouses, this distance can be achieved by thoughtful layout and the provision of an ensuite.

Being able to lock-up this new home and travel is also of importance to many.

Proximity to amenities is crucial and healthcare services important, as baby boomers prioritise convenience and accessibility in their housing choices. While some opt for traditional retirement communities, many prefer mixed-age neighbourhoods that offer opportunities for social interaction and community engagement.

Location plays a significant role, with preferences leaning towards either very urban locales with cultural attractions or regional hubs with facilities plus natural beauty.

Financial considerations are paramount, with baby boomers aiming to maximize home equity and secure their long-term financial well-being. Downsizing allows them to free up funds for retirement savings or lifestyle pursuits, while options like reverse mortgages provide flexibility in accessing home equity.

Yet, as a general rule of thumb, baby boomers like to have at least 20% cash in their pockets when it comes to selling the family home and buying their downsizing residence.

Sometimes - well to be honest, often - downsizers cannot find value for money when it comes to selling their family home and securing a nearby smaller housing option. So a backyard home can also work, allowing them to move into this new smaller space and 'renting' out the main residence to their children or others.

Overall, baby boomers in Australia seek housing options that cater to their evolving needs, from downsizing to age-friendly features, proximity to amenities, and financial security. Understanding and addressing these preferences are central for meeting the housing needs of this demographic.

In summary baby boomers are after these housing related items:

- Age-in-place features:** Incorporate design elements such as single-level layouts, wider doorways, accessible bathrooms and functional to accommodate potential mobility issues and allow for aging in place. Also make sure there is room to house family and friends, via a spare bedroom plus ensuite. Again backyard homes and/or dual occupancy style housing is in high demand here.
- Low maintenance:** Offer housing options that require minimal upkeep, including features like manageable outdoor spaces, durable materials, and optional maintenance services.
- Community amenities:** Provide opportunities for social engagement and recreational activities within the community, such as clubhouse facilities, walking trails, and fitness centres, to support active lifestyles and foster a sense of community.
- Location and accessibility:** Offer housing options in walkable neighbourhoods with easy access to amenities such as grocery stores, restaurants, and public transportation, allowing for independent living and maintaining social connections.
- Proximity to healthcare:** Ensure convenient access to medical facilities, pharmacies, and healthcare services to meet the healthcare needs of aging residents.

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Michael Matusik is an Australian housing market specialist, providing commissioned housing and demographic market reviews, updates and outlooks for over 30 years, and shares his thoughts in his blog, Matusik Missive.

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

Israel and Iran fears and rate cut uncertainty

A nighttime photograph of a cityscape, likely Tel Aviv, with numerous lights from buildings and houses. Three bright, parallel orange lines, representing missile trails, streak across the dark sky from the upper right towards the city.

KEY POINTS

- After strong gains, shares are vulnerable to a pull back or more volatile/constrained returns than seen so far this year.
- The key threats at present are Iran's attack on Israel which risks escalating the war in the Middle East, threatening oil supplies, and higher inflation delaying rate cuts.
- Ultimately, we see the trend remaining up for shares.
- The key for investors is to stick to an appropriate long term investment strategy. Trying to time markets is hard.

BY DR SHANE OLIVER

Republished from amp.com.au

Introduction

From their lows last October, it has been relatively smooth sailing for shares - with US shares up 28%, global shares up 25% & Australian shares up 17% to recent highs. But the last few weeks have seen a rough patch with renewed concerns about interest rates and fears of an escalation in the war around Israel to include Iran (after Iran fired missiles & launched drones at Israel in retaliation for an attack on its consulate in Syria). The obvious issue is how vulnerable are shares? Could the bull market that got under way from the

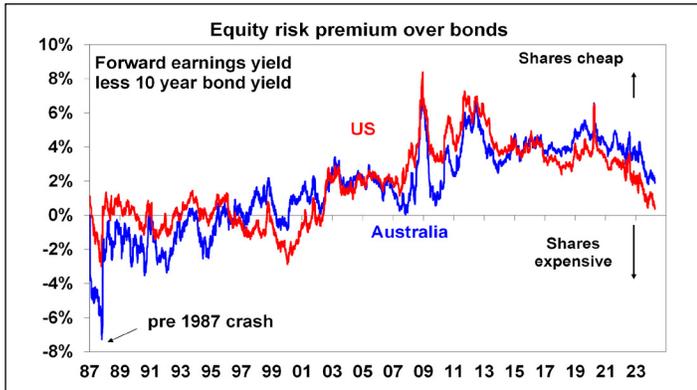
inflation and interest rate lows of 2022 (that has seen global shares rise 42% and Australian shares rise 23%) be over?

The worry list for shares

The bull market since the 2022 lows has been driven by optimism that inflation is falling enabling central banks to lower interest rates at the same time that economic growth has held up better than feared resulting in a sort of Goldilocks - not too hot and not too cold - scenario. But after such strong gains there is now a significant worry list for shares.

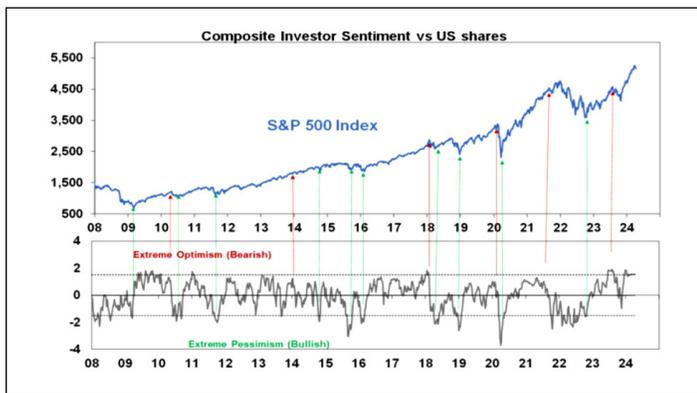
- First, share market valuations are stretched. The next chart shows that the risk premium offered by shares over bonds - proxied by the gap between forward earnings yields and

10-year bond yields - has fallen to its lowest since the early 2000s in the US. Australia is a bit more attractive, but the premium is still near the lowest since 2010.



Source: Bloomberg, AMP

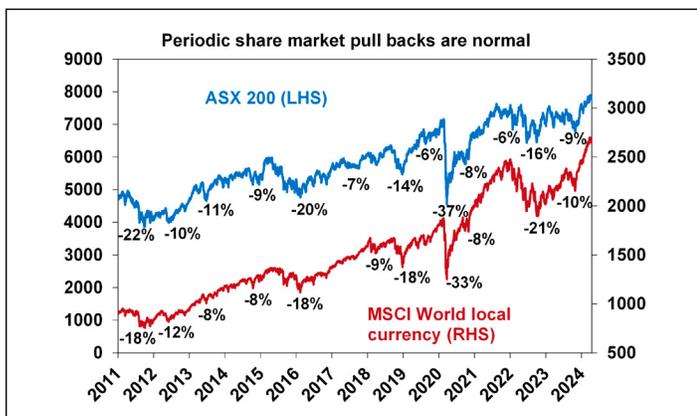
- Second, US investor sentiment is at levels that can warn of corrections (red arrows). It's not a super reliable timing indicator but it is back to levels seen last July prior to the 10% fall in shares into October.



Sentiment index based on a composite of surveys of investors and investment advisers and options positioning.

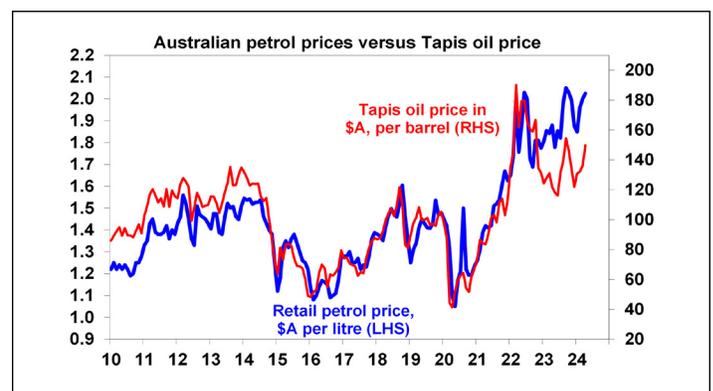
Source: Bloomberg, AMP

- Thirdly, after strong gains shares have become technically overbought, but it's normal to have 5% plus pullbacks every so often.



Source: Bloomberg, AMP

- Fourth, uncertainty over when the Fed will start to cut rates has been increased by three worse than expected monthly CPI inflation results in a row as a result of sticky services inflation. This has seen money market expectations for 0.25% rate cuts this year scaled back from 7 starting in March this year to now less than two starting in September. And in Australia they have been scaled back from nearly three starting in June to no rate cut until late this year/early next.
- Fifth, Iran's retaliatory attack on Israel risks an escalation depending on how Israel responds. This would threaten Iran's 3% of world oil production and the flow of oil through the Strait of Hormuz (through which roughly 20 million barrels a day or 20% of world oil production flows mainly enroute to Asia). Another sharp spike in oil prices would be a threat to the economic outlook as it could boost inflation again and risk adding to inflation expectations potentially resulting in higher than otherwise interest rates and act as a tax hike on consumers leaving less to spend on other things. Australian petrol prices are already around record levels despite oil prices still being well below their 2022 highs because of the rise in oil prices this year and wider refinery margins. A spike in world oil prices from around \$US85/barrel for West Texas to around \$US100/barrel would add around \$15cents/litre to average Australian petrol prices and push the weekly household petrol bill in Australia to a record \$76 up \$10 a week from where it was a year ago. This would mean more than \$500 less a year for the average family available to spend on other things.



Source: Bloomberg, AMP

- Sixth, the US presidential election threatens to cause volatility particularly if it looks like former President Trump will be returned. His policies to lower taxes would be taken positively by the US share market as they were in 2017, but his talk of raising tariffs (10% on all imports and 60% or more on Chinese imports) threatening higher inflation and an all out trade war would be negative. In

his first term he went with tax cuts first (shares surged in 2017) then tariffs (shares slumped in 2018), but he may go with tariffs first if he wins this time.

- Finally, while the global economy has held up well, the risk of recession remains high as the full impact of the monetary tightening since 2022 continues to feed through as things like savings buffers built up through the pandemic are run down. Chinese growth also remains at risk given the ongoing weakness in its property sector.

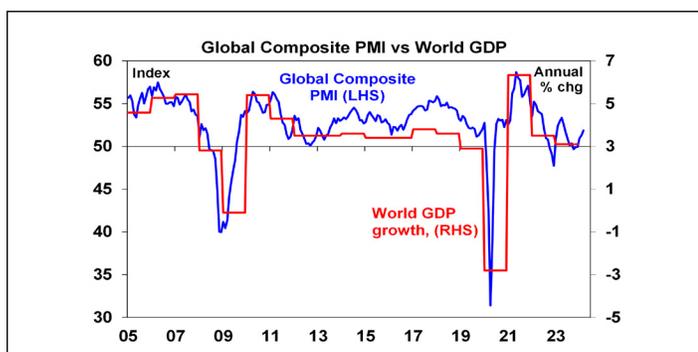
In short, the combination of stretched valuations, high levels of investor optimism and technically overbought conditions leave shares potentially vulnerable to a further pull back. Geopolitical risks including events in the Middle East, delays to rate cuts and recession risks could provide a trigger.

Five reasons for optimism

However, while shares may be vulnerable a pull back and a period of increased volatility, several considerations suggest that the bull market will remain intact and the trend in shares will remain up.

First, US, global shares and Australian shares are still tracing out a pattern of rising lows and highs from 2022, which is still consistent with a bull market. Similarly, we have yet to see the sort of churning and a declining trend in the proportion of stocks making new highs that normally comes at major share market tops. And while many worry about a new tech bubble (and have done for years) the tech and AI centric stocks of today make real profits so Nasdaq's PE is around 35 times, not the 100 times plus it was at the tech bubble high in 2000.

Second, while there are areas of weakness, global and Australian economic conditions generally continue to hold up far better than feared. In fact, business conditions according to purchasing manager surveys (PMIs) have improved recently. Consistent with this, profits have generally held up better than expected - while down slightly in Australia they have increased more than expected in the US and March quarter earnings results are likely to show a continuation of this.



Source: Bloomberg, AMP

Third, despite the relative resilience of economic activity inflation has fallen sharply globally (from highs around 8% to 11% to around 3%) and will likely keep falling allowing rate cuts. Although the US has proven a bit stickier in the last three months reflecting its stronger economy, inflation has continued to fall in other countries. And even in the US, cooling measures of labour market tightness are continuing to point to lower services inflation ahead. It's a similar picture in Australia. So, while rate cuts have been delayed, they are still likely.

Fourth, while Chinese economic growth is not as strong as it used to be it seems to be hanging in there around 5% despite its property slump. While the iron ore price has recently fallen it remains in the same range it's been in for the last two and a half years and well above many assumptions. Furthermore, the copper price appears to be breaking higher which is normally a sign of strength.

Finally, while geopolitical risks are high, they may not turn out to be as bad as feared - much as was the case last year:

- While the risk of an escalation between Israel and Iran is high - Iran's retaliation to the attack on its Syrian consulate was similar to its response when General Soleimani was killed by the US in 2020. It was well flagged, measured and there was minimal damage and designed not to provoke a bigger Israeli counter-retaliation. The US is also pressuring Israel to hold back and of course is motivated by trying to keep oil prices down in an election year. So far so good so markets have not gone into free fall and the oil price has not surged. Hopefully that remains the case, but there is a way to go yet.
- There is still a long way to go in the US election.
- It's worth bearing in mind the response of shares to past geopolitical events. An analysis by Ned Davis Research on a range of crisis events back to WW2 shows an initial average 6% fall in US shares, but with shares up an average 6%, 9% and 15% over the subsequent 3, 6 and 12 months. Of course, there is a huge range around that!

Implications for investors

We remain of the view that shares will do okay this year as central banks ease. But given the long worry list, global and Australian shares are vulnerable to a correction or at least a more volatile and constrained ride than seen so far this year. For most investors though the key is to recognise that share market pullbacks are healthy and normal, it is very hard to time market moves and the best way to grow wealth is to adopt an appropriate long term investment strategy and stick to it.

AMP Limited provides banking, super, retirement and advice services in Australia and New Zealand, supporting over one million customers and employing approximately 3,000 people.



The FAANG fallacy: A closer look at the risks of acronym investments

BY PATRICK POKE

Republished from betashares.com.au

In recent years, the financial world has been swept up in an acronym frenzy.

From the latest ‘Magnificent 7’, comprising powerhouses including Microsoft, Apple, Alphabet, Meta, Tesla, Amazon, and Nvidia, to variations like FAANG (the ‘N’ represents Netflix), MAGMA, and MAMAA, these acronyms represent market darlings in moments of time.

Even in Australia, we’ve had our own version with the ‘WAAAX’ - WiseTech, Altium, Afterpay, Appen, and Xero.

But the media’s love affair with their meteoric rise can mask a hidden risk: what goes up, doesn’t always stay up. Even within these seemingly invincible acronyms, companies can falter or simply fall out of favour due to factors such as disruption, mismanagement, or poor execution.

In this blog, we explore how today’s most buzzworthy investment choice can become tomorrow’s cautionary tale, and share some ETF ideas that can help investors navigate

market shifts without getting burned by a single stock’s stumble or an entire acronym’s downfall.

The trend trap

During a rising market, when everything seems to be trending up and certain companies are taking off due to a novel idea or theme, it’s tempting to believe that this time is different.

But it’s precisely during times of exuberance that the allure of quick gains can overshadow prudent investing.

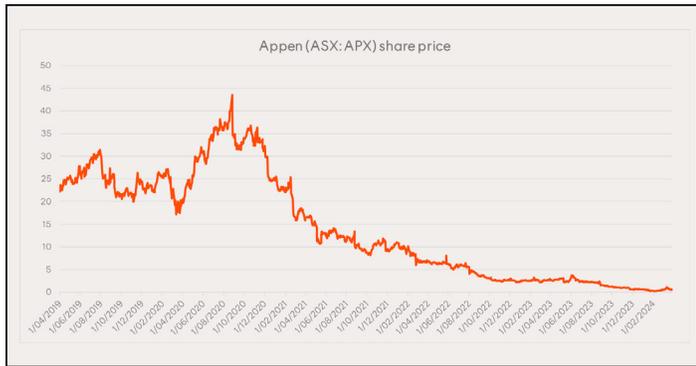
Lessons from the past: GE, Appen, BRIC

History is littered with the wreckage of once-unstoppable companies that were idolised by many investors at the time.

Consider General Electric, which fell victim to its own poorly timed acquisitions and unsustainable debt, forcing it to split. Its fall from grace as once the world’s largest conglomerate was marked by its expulsion in 2018 from the Dow Jones Industrial Average of America’s 30 most significant businesses¹.

Closer to home, Appen has lost nearly 99% of its value

as its over-reliance on a few large clients led to its fall from grace². The company was removed from the S&P/ASX 200 in 2022³.

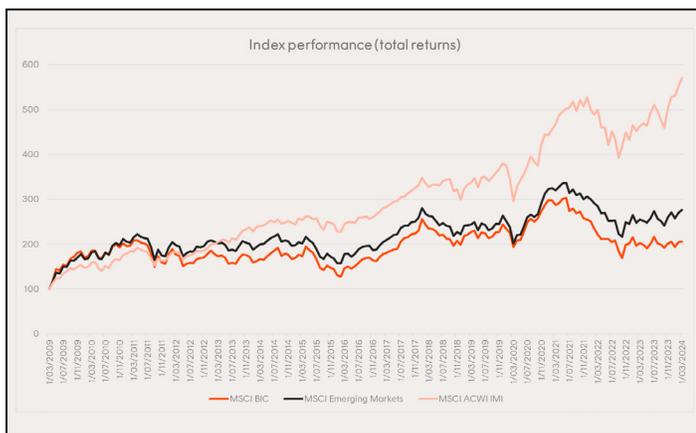


Source: Bloomberg, Betashares. As at 28 March 2024. Past performance is not indicative of future performance.

It's not just individual companies that can fall victim to overhyped trends. Remember the BRICs (Brazil, Russia, India, China)? This catchy acronym once represented the hottest emerging markets, dazzling investors with their brief, initial outperformance (see chart below).

However, the allure of the story overshadowed key risks like political instability and challenging economic fundamentals in developing nations.

China's slowdown, Brazil's political turmoil, and the mass exodus from Russian assets due to Russia's illegal war in Ukraine exposed the dangers of overexposure to specific emerging economies. The once-mighty BRICs have now become the "BICs," delivering subpar returns compared to the broader global and emerging markets.



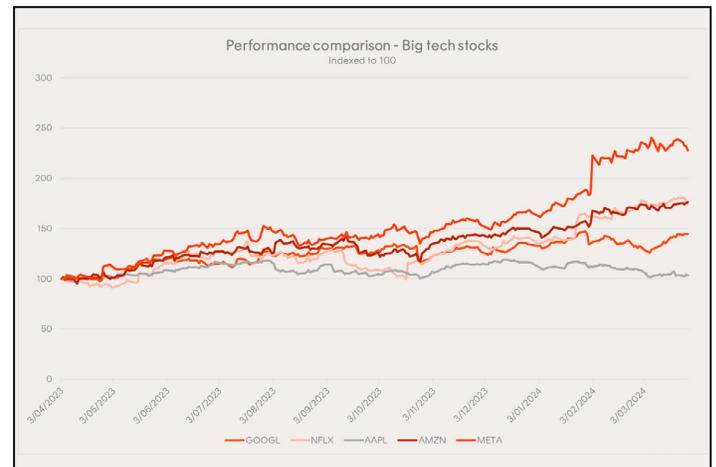
Source: Bloomberg, Betashares. As at 28 March 2024. Indexed to 100 as at 31 March 2009. Index performance measured in US Dollars. Past performance is not indicative of future performance. You cannot invest directly in an index.

Today's trending acronyms: Magnificent 7, FAANG, MAGMA, MAMAA

Facebook, Alphabet, Meta, Amazon, Microsoft, Nvidia, Netflix and Tesla have contributed to a significant portion of the growth in the Nasdaq 100 and S&P 500 indices over the last decade.

Bundling them together into a memorable acronym and focusing on past performance makes them seem like a sound investment thesis, but going all-in on the tech behemoths can expose investors to undue risk and volatility.

Just as BRIC obscured the differences in the economies in the constituent countries, FAANG and its variants can mask significant differences in the performance of individual stocks, as shown in the chart below.



Source: Bloomberg, Betashares. Performance timeframe: 1 April 2023 to 28 March 2024. Indexed to 100 as at 1 April 2023. Past performance is not indicative of future performance.

Although focusing on a short period of time, the performance of the FAANG companies for the last 12 months illustrates significant divergence between them, with Apple gaining just 3.2%, while Meta soared over 120%. Netflix, bumped out of the FAANG club in favour of Microsoft to form MAGMA or MAMAA, is experiencing a resurgence and outperforming Microsoft, Amazon, and Alphabet.

These unexpected outcomes illustrate that investing in one or a few of these equities exposes investors to volatility, unpredictability, and the potential to wipe out gains in dramatic twists and turns.

What can we learn?

While it's true that historically, these companies have made substantial contributions to index returns, it's equally undeniable that it's impossible to predict when companies are past their prime.

The data speaks volumes. Since 2015, nearly a third (around 180 companies) of the S&P 500 constituents have been replaced⁴, often due to economic shifts, disruption, poor management, or acquisitions by larger rivals.

Furthermore, the tables below show how radically different the list of the world's largest companies has become since 2000, compared to recent history.

LARGEST COMPANIES BY MARKET CAPITALISATION (1 JANUARY 2000)		
Rank	Company	Market cap (1 January 2000)
1	Microsoft	US\$606 billion
2	General Electric	US\$508 billion
3	NTT Docomo	US\$365 billion
4	Cisco	US\$352 billion
5	Walmart	US\$302 billion
6	Intel	US\$280 billion
7	Nippon Telegraph	US\$271 billion
8	Nokia	US\$219 billion
9	Pfizer	US\$206 billion
10	Deutsche Telekom	US\$197 billion

LARGEST COMPANIES BY MARKET CAPITALISATION (1 JULY 2022)		
Rank	Company	Market cap (1 July 2022)
1	Saudi Aramco	US\$2.27 trillion
2	Apple	US\$2.25 trillion
3	Microsoft	US\$1.94 trillion
4	Alphabet	US\$1.43 trillion
5	Amazon	US\$1.11 trillion
6	Tesla	US\$707 billion
7	Berkshire Hathaway	US\$612 billion
8	United Health Group	US\$485 billion
9	Johnson & Johnson	US\$472 billion
10	Tencent	US\$435 billion

Source: Visual Capitalist, Betashares.

This is where considering ETFs that track entire markets and sectors, or invest in securities with defined criteria, makes sense:

- **Built-in diversification:** No need to stress over choosing individual winners. Index-tracking ETFs spread your investment across a range of companies, making diversification easier and reducing your exposure to any single company’s setbacks.
- **Automatic rebalancing:** Indexes aren’t static. As companies fluctuate within the index, underperformers are regularly swapped out for stronger contenders. This ensures your portfolio remains aligned with the economy’s evolution.
- **Long-term focus:** Index funds aren’t swayed by short-lived trends. They aim to track the overall market or companies (before fees and expenses) that meet defined criteria, capturing growth across various industries and sectors. This approach helps you weather the inevitable ups and downs of the market.

ETFs for a well-diversified portfolio, with growth potential

Now that we’ve explored the potential pitfalls of falling for trendy acronyms, let’s delve into ETF ideas that offer both diversification and growth potential:

QUS

S&P 500 Equal Weight ETF

QUS offers investors exposure to 500 leading listed US companies, including the Magnificent 7 stocks, with equal weighting across all holdings, rebalanced quarterly.

This means that each stock within the portfolio receives an equal investment allocation, whether it’s a tech giant like Microsoft or NVIDIA, or a consumer goods company like Lululemon or Procter & Gamble⁵.

As a result of this equal weighting approach, QUS provides a diversified portfolio of US stocks while avoiding over-reliance on a few narrative-dominating companies or the technology sector.

AQLT

Australian Quality ETF

Rather than investing in companies based on size, AQLT screens for Australian stocks based on ‘quality’ metrics of high return on equity, low leverage, and relative earnings stability. As at 3 March 2024, its top holdings include BHP, CSL and Commonwealth Bank⁶.

As a result, investors gain access to a portfolio of quality Australian companies, offering potential portfolio diversification benefits.

JNDQ

Nasdaq Next Gen 100 ETF

Some growth investors aim to identify and access tomorrow’s potential FAANG and MAGMA equivalents, without shouldering the individual stock risk or the complexities of pinpointing which small company might evolve into the next NVIDIA.

JNDQ aims to track the Nasdaq Next Generation 100 Index (before fees and expenses), comprising companies in the relatively early stages of their development that have the potential to emerge as future leaders across various sectors, including technology, industrials and healthcare.

ASIA

Asia Technology Tigers ETF

While the focus of the technology narrative often centres on the American-centric Magnificent 7, it’s crucial to recognise the significant role played by Asian firms such as chipmakers Samsung and Taiwan Semiconductor, in shaping the global AI landscape.

ASIA offers investors exposure to this vital backbone by investing in the region’s 50 largest technology and online retails stocks. As such, this ETF can serve as a compelling complement to US technology stocks, providing a well-rounded approach that includes exposure to AI, digital commerce and consulting services.

Conclusion

By embracing index investing through ETFs, you can gain exposure to narrative-dominating securities like ‘FAANG’ and ‘WAAAX’ within the context of a well-diversified portfolio. This means you can enjoy the benefits of these market leaders without the stress of individual stock risk.

Moreover, should an acronym lose its appeal, a large company encounters mismanagement, or economic changes spark new innovations, indexes will automatically rebalance. This ensures that your portfolio stays aligned with the evolving market landscape, as new market leaders are added, and underperforming companies are removed.

Disclaimer

There are risks associated with an investment in the Funds, including market risk, international investment risk, country risk, index methodology risk and currency risk, as well as concentration risk (for ASIA), medium sized companies risk (for JNDQ), information technology risk and emerging market risk (for ASIA) and non-traditional index risk (for AQLT). An investment in the Funds should only be considered as part of a broader portfolio, taking into account your particular circumstances, including your tolerance for risk. For more information on risks and other features of each Fund, please see the relevant Product Disclosure Statement and Target Market Determination, both available on this website.

1. Source: CNN
2. Source: AFR
3. Source: ASX, S&P Dow Jones Indices. Retrieved via Market Index.
4. Source: Investor’s Business Daily
5. As at 28 March 2024, no assurance is given that these companies will remain in QUS’s portfolio or will be profitable investments.
6. As at 28 March 2024, no assurance is given that these companies will remain in AQLT’s portfolio or will be profitable investments.

Q&A = Ask a Question

Question 1

I am considering getting Trauma cover for myself however I am unsure on what is the difference between standalone and linked trauma cover. What is the difference?

Standalone trauma cover operates independently, offering a comprehensive insurance policy that provides a lump-sum payment when you are diagnosed with a specified critical illness or medical condition covered by the policy. This type of policy is not linked to any other insurance products and ensures that the policyholder receives the full benefit amount without any deductions from other policies.

In contrast, trauma linked cover is a policy that is tied to another insurance product, such as life insurance and/or total and permanent disability (TPD) insurance. While it also offers a lump-sum payment for critical illness diagnosis, the benefit amount is linked to the benefits provided by the primary insurance policy. For example, if trauma linked cover is linked to your life insurance policy, any payouts for critical illness would typically be deducted from the total benefit amount payable under your life insurance policy. It is important that you see a financial adviser to determine which of the two is most appropriate to your current circumstances.

Question 2

I've been told that if I sell my shares, I might have to pay capital gains tax (CGT) if I incur a capital gain from the sale. What is a capital gain?

A capital gain refers to the profit earned from the sale or disposal of certain capital assets, such as real estate, shares, managed funds, collectibles, and other investments. When

you sell or dispose of an asset for more than its cost base (or adjusted cost base), you realise a capital gain.

The calculation of a capital gain involves subtracting the asset's cost base (or adjusted cost base) from the proceeds of the sale or disposal. The cost base typically includes the original purchase price of the asset, as well as certain acquisition and disposal costs, such as stamp duty, legal fees, and brokerage fees.

Before you sell any investments, you should seek advice from your financial adviser so that you can consider the tax and other transaction costs involved.

Question 3

A lot of people online say that I should invest in index funds. What is an index and what does it have to do with index funds?

An index refers to a specific benchmark or reference point of a particular market, sector, asset class or investment strategy. Index funds are investment funds designed to mirror the performance of a particular index by holding a portfolio of securities that closely mirrors the composition of that index.

Indexes used by index funds can represent various segments of the financial markets, such as broad market indexes, sector indexes, regional indexes, or specific asset class indexes. These indexes serve as the foundation for constructing the investment portfolio of the index fund, guiding the selection and weighting of the securities held within the fund.

It is important that you meet with your financial adviser to determine what investments are appropriate to your specific needs and circumstances.

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