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> JAMES KIRBY

Lessons to be learnt on school fees

The good news is inflation looks to be slowing down

JAMES KIRBY
WEALTH EDITOR

How on earth will we pay the school fees next year? It's a question reverberating around many Australian homes this month as school years come to a close.

One sliver of good news for fee-paying parents is that the relentless pace of accelerating private school fees over the past decade may finally be slowing.

Figures released to *The Weekend Australian* by eduction finance company EdStart suggest fees over the past year grew by 3 per cent, a slowdown on average annual increases of between 4 and 6 per cent over the past decade, t chief executive Jack Stevens says.

Stevens suggests the moderation in fee increases is based on both supply and demand factors but one key reason has been the negligible lift in wage growth over the past year, the outstanding costs faced by most schools.

There is some evidence the significant flows of students into the private system in recent times may have cooled as fees swelled to unprecedented levels.

One measure of the expense and pressure exorbitant school fees have placed on families — and on the ability of families to invest more broadly — has emerged in the worrying trend towards using debt to fund school bills.

Recent media reports show that about 22 per cent of school fees were paid from credit cards, though a closer examination may reveal the credit card facility is used simply for efficiency or even for the modest offset provided by frequent flyer points.

The latest industry survey for EdStart shows 37 per cent of parents use some form of debt or financial assistance to pay for fees.

Here's the breakdown. Credit card payments where interest was paid on the cards (11 per cent), "loans" or assistance from the school (8 per cent), loans or gifts from family (7 per cent), loans from alternative financial providers (6 per cent) and loans from a bank (5 per cent).

Though there are signs that fee increases at schools have levelled off, the challenges of funding fees when there is little wage growth means the cumulative sums required for schools are very steep. Richard Atkinson of Austock Life, a provider of insurance bonds, suggests even where school fees are not at the so-called "elite" level, such financial requirements need serious strategic thought.

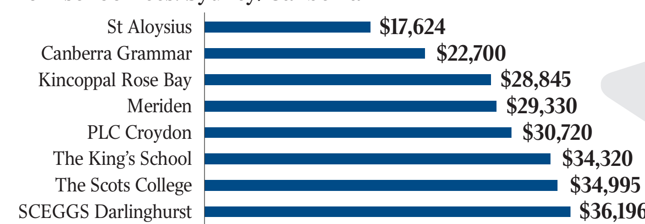
"Three children in private schools at, say, $20,000 each for 13 years (he's assuming primary and secondary) comes to $780,000 after tax. This requires a dedicated investment focus," Atkinson says.

Despite the enormous after-tax cost of paying school fees, there is surprisingly little attention paid to the issue, in contrast to mortgages or superannuation. However, with the advent of specialist finance services, a handful of useful ideas have filtered through the system: here are some of the best.

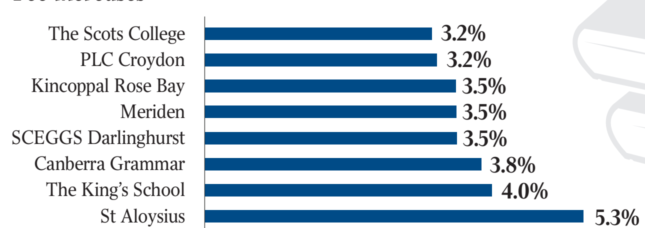
There are a number of ways of easing the pain of school costs and, as always, read the fine print

School fees growth slowing

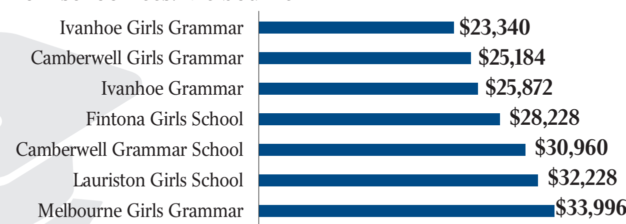
2017 school fees: Sydney/Canberra



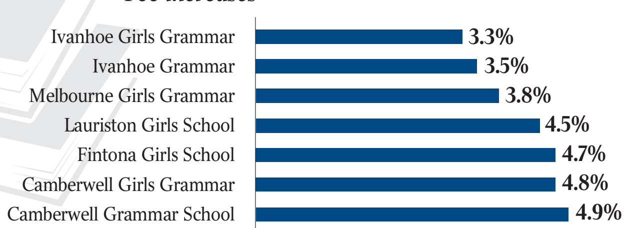
Fee increases



2017 school fees: Melbourne



Fee increases



Source: EdStart

Last minute discounts

Some schools don't know until near the start of term how many places have been filled. According to schoolplaces.com.au, a private school vacancy service, "For last-minute vacancies, a short-term discount is frequently applied ranging from 10 to 50 per cent."

Pre-payments

Few private schools will reject the offer of prepayment. It is rarely prudent for a business to reject cash up front. For the few families that can afford this luxury, the advantage has been that with school fees running at multiples of inflation, you save over the course of a child's education. However, if fees continue to slow down as they have in the last year, and inflation picks up, this facility may be less attractive.

Specialist products

For all the effort by the finance industry to create the impression there are highly advantageous education products, most specialist bonds are primarily adaptations of existing insurance products. Though there are some tax advantages, there may also be additional expenses with any product. The key bonus should be that the specialist bond can match the timing of the education terms a lot more closely than standard loans.

Scholarships, bursaries

Read the details of school fees on private school websites carefully. Some are all-inclusive. The same goes for details of scholarships and bursaries: the essential question is whether the family is really so much better off taking up what may be, at worst, a limited discount on a school that is more expensive than might have been required. Scholarships are academic awards granted on exam results. Bursaries are less transparent. In theory, bursaries offered at the discretion of the school are for cultural imperatives, such as supporting poor families or families from the bush, or to develop a particular initiative, such as getting more girls into the IT industry.

A bigger mortgage

Financial adviser Will Hamilton suggests there are merits to increasing a mortgage, especially when coupled with an offset facility. He says with rates at rock bottom levels, it may a good idea to fix a portion of the mortgage.

Looking across this area, the only good news appears to be that the pace of private fee acceleration may be slowing. The bad news is that as a cost, it has to be taken as an after-tax expense. Many investors believe education is a cost like any other and you pay for the best you can afford.

With careful planning, those costs can at least be softened.

Wealth editor James Kirby hosts a live investment Q+A every Wednesday at 12.15pm at www.theaustralian.com.au

Why the markets love tweeter-in-chief Trump

WILLIAM PESEK

Markets in tiny, sleepy Singapore might never be the same, thanks to American tweeter-in-chief Donald Trump.

The city-state known more for perfectly manicured parks and a quirky lionfish fountain than frantic trading pits is suddenly awash in dealing. The catalyst: president-elect Trump's penchant for sharing controversial views, conspiracy theories and taunts, 140 characters at a time. And that's just fine by the folks who run Singapore's stock bourse.

Trump "tweets every day," Chew Sutat, head of equities and fixed income at Singapore Exchange, told Bloomberg.

"So things are going to happen. We don't know what's going to happen, but traders like that." With Trump, he adds, "what you see is greater uncertainty, and the opportunity to trade different sectors. We're really happy that some of the animal spirits are back." A Nikkei trader in Tokyo made a similar argument the other day.

John Maynard Keynes caught economists' imagination about such instincts and emotions in his 1936 book *The General Theory of Employment, Interest and Money*. And Trump's promise of massive doses of Keynesian fiscal pump-priming — including an infrastructure boom — has markets betting on reflation. That's boosting the US dollar, driving global stock exchanges higher and prompting investment banks to redo 2017 growth projections.

It could all be a big head fake, of course. If the chaos and dysfunction of the Trump transition is any guide, this presidency could be little more than symbolic gestures and gridlock. Trump's Twitter feed, though, will turn heads and drive markets from Singapore to New York. Since the Trump shock, average trading volumes in Singapore have surged 28 per cent compared to the first 10 months of 2016.

Trump's often erratic tweets are sure to drum up even greater volume at Asia's major bourses. And ruin many a vacation, too: really, how does a trader, fund manager, economist, currency strategist or financial journalist ever truly escape again with a president prone to sharing his every unfiltered thought?

No more quiet days

Imagine how life is about to change. The scene: you, your partner, nice bottle of wine, impossibly perfect ocean view and the phone rings. "Hey, did you see what Trump tweeted about the Chinese yuan?"

Minutes later, you get a text from work: "Wow, this new tweet about North Korea is really crushing the Nikkei", or "Damn, Trump just cozied up to Pakistan again — Indian markets are collapsing", or "Jeez, did you see what Trump said about Xi Jinping's wife?"

With any luck, Trump's advisers will wrestle the phone out of his hands. Or, at the least, have a staffer eyeball his 140-character "Blacks Swans".

Markets may fear Trump's bluster, geopolitical ignorance and thin skin, but he's going to be a blast for bourses around the globe and trading commissions.

Gold had its heaviest ever dealing day 24 hours after Trump's win, surpassing that of Brexit on June 24. CME Group in Chicago saw three of its busiest-ever trading days since November 8. Trump wants to abolish Dodd-Frank (an Obama reform and consumer protection act) and other legislative steps taken to ensure the subprime crisis of 2008 can't happen again. To punctuate the point, he's even hiring as Treasury secretary Goldman Sachs star Steven Mnuchin, who profited "bigly", as Trump might say, from that sordid moment in US history.

Trump's policies may spell trouble for middle class Americans and emerging economies the world over, but markets are loving their mere prospect. Even before taking office, writes Barron's columnist Kopin Tan, the Trump effect last week pulled off something not seen since December 31, 1999: sending the S&P 500, Dow Jones industrials, Nasdaq, and Russell 2000 to record highs on the same day. As Tan warns, it may be a matter of markets pulling 2017 gains forward. But there's no doubt the Twitter presidency will be a boon for volatility.

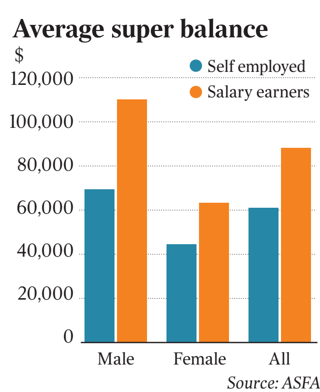
Bond investors aren't happy as rates rise and yield curves go haywire. Trump's election, though, has a decidedly 1980s deregulate-markets feel and reminds one of Sherman McCoy, the bond trader antihero in Tom Wolfe's period masterpiece *Bonfire of the Vanities*. In trying to tell his young daughter what he does for a living, McCoy talks of passing a piece of cake, while picking up the crumbs that come off and pocketing them. Trump's Twitter feed is sure to produce a bull market in crumbs.

I can't speak to the animal spirits on which SGX's Chew is counting. But for those hoping for a genuine escape in 2017, @realDonaldTrump has other plans. If there's anything Trump will make great again, it's prospects for markets staying open 24/7.

This article first appeared in Barrons.com

Contractor may be eligible for the employer's contribution

Average super balance



I am a self-employed IT contractor with my own ABN. I contract to one company and the current contract has been in force for more than 12 months. As a self-employed person am I able to claim a tax deduction for contributions I make to superannuation? I receive no superannuation from the company I contract to.

You may have seen quite a lot of coverage this week on the subject of unpaid super.

The broader question is whether you should be receiving the 9.5 per cent super guarantee contributions from the company you contract to. It is a common misconception that SG contributions are not payable to contractors registered with an ABN.

However, where a contract is predominately labour related, an employer-employee relationship is deemed to exist for the purposes of SG contributions.

Determining whether an individual contractor is an employee for SG purposes can be complex and subject to intense debate.

The Australian Taxation Office provides an employee/contractor decision tool to assist both parties in determining whether an individual under contract qualifies to receive SG contributions.

The tool can be found at www.ato.gov.au in the superannuation section and contractors.

While the result may come as a shock to one or both of the parties, the outcome is definitive and should not be ignored. If a liability to make SG payments is determined, the liability exists for the entire period that the contributions should have been made. In addition, the employer will be liable to penalties on unpaid or overdue SG payments.

In relation to your specific inquiry, to be eligible to claim a tax deduction for superannuation as a self-employed person, you need to satisfy several conditions. For example, if you are considered to be engaged in an employment activity during the year you will need to meet a maximum earnings test.

This maximum earnings test means a deduction can be claimed only where the sum of your assessable income, reportable fringe benefits total and reportable employer superannuation contributions attributable to the employment activities is less than 10 per cent of the total of your assessable income, reportable fringe benefits total and reportable employer super contributions in the income year that the contribution is made. This is referred to as the "less than 10 per cent" test.

Even though you describe yourself as a self-employed contractor, when it comes to working out your eligibility to claim a personal tax deduction for super contributions, you will be considered to be engaged in an employment activity if you are engaged in an activity that results in you being treated as an employee for superannuation guarantee purposes — and this includes a person who is engaged under a contract that is wholly or principally for labour.

As such, depending on the exact nature of your arrangement and other personal circumstances, it may be that you will not satisfy this "less than 10 per cent" test, meaning you may be ineligible to claim a tax deduction for personal contributions to superannuation.

Please note that in the recent changes to superannuation legislation that passed parliament on November 23, this 10 per cent test has been removed from July 1 next year. So from then you should be eligible to claim a tax deduction for personal contributions made to superannuation provided you satisfy all other conditions.

Visit the Wealth section at www.theaustralian.com.au to send your questions to Andrew Heaven, an AMP financial planner at WealthPartners Financial Solutions.

As growth declines, opportunities shine among mid-caps

ROGER MONTGOMERY

Investors are notoriously bad at picking turning points: we tend to believe the future will look like the recent past and so many of us make decisions about the future by looking in the rear-view mirror.

If the rear-view mirror were a useful tool to make investment decisions then you would concentrate your share portfolio in high-dividend-yielding large-cap stocks and you would leverage your savings to buy an apartment.

But the next few years will look very different from the recent past and it may be the case that selling those high-yield shares and selling any apartments you own, and buying the high-quality, high-growth stocks that have fallen by more than 25 per cent during the past few weeks, will prove to be a wise decision.

Around the country the apartment oversupply (which I have been writing about regularly) has started to hit the market and it is already affecting developers and investors.

In Brisbane, for example, in the first three quarters of this year, 5200 apartments have been completed within 5km of the CBD. The impact is already being felt by owners of apartments in the band 5km to 15km from the CBD where vacancies have more than doubled from 2.3 per cent to 4.7 per cent as renters migrate closer to the city attracted by lower rents. Now an owner of a new apartment close to the city is receiving a lower yield and the owners of the apartments without a tenant have a yield of zero.

Those numbers will only get worse as more than 13,000 additional apartments are due to be completed in the next 18 months.

When income on a leveraged asset falls, that's when financial stress is experienced.

And anecdotes of mounting pressure abound.

Real estate agents in Melbourne are demanding developers pay 100 per cent of their selling commissions into trust accounts upfront rather than the usual practice of 50 per cent upfront and 50 per cent when settled.

Developers already are discounting, offering frequent-flyer points, holidays to Asia and 10-year rental guarantees to lure buyers. Banks are restricting lending to certain borrowers and blacklisting entire suburbs.

Meanwhile property doyens including John Gandel (Chadstone), John Symonds (Aussie Home Loans) and Harry Triguboff (Meriton) have all sold or are trying to sell significant properties or their property businesses.

At the same time that we have record property prices, we also have record mortgage debt, record credit card debt and record property supply. The scenario cannot coexist for long.

Remember economist Herb Stein, who said: "If something cannot go on forever, it will stop."

As for passive apartment investors — those not in the business of developing, subdividing, restoring or renovating — I do not expect them to make great returns in the next few years.

Rear-view mirrors aren't a particularly useful tool for investment decisions

What to do next?

The simple rule of investing is the higher the price you pay, the lower your return.

I also fear for investors who have share portfolios filled with large-cap companies such as the banks, BHP Billiton and Rio Tinto, Telstra, Woolworths and Wesfarmers. Things may look good so far but things also look good for the man who has jumped from the roof of a building and is passing the 20th floor.

You see all these companies have limited growth potential — no Woolies, I don't think you'll get margins back to 5 per cent, ever. In fact I am not sure I believe entirely the margins being reported today.

Telstra hasn't increased its profit for a decade and resources companies are cyclical, which is why even though shareholders and lenders have given BHP two times as much equity and 3½ times the debt, respectively, since 2007, the company's profit next year is expected to be less than half that of 2007.

If my thesis on property is right, the banks will struggle to grow at impressive rates for a while.

Many of the so-called "blue-chip" large caps have something in common; their payout ratios are very high. Very high dividend payout ratios mean retained earnings for growth are very low.

At the same time investors have pushed up prices, in pursuit of their yields, while the growth is declining. And if growth is declining or non-existent, dividends won't grow.

If dividends don't grow, your income won't grow, and if your income doesn't grow your purchasing power will be eroded.

Many investors believe that blue-chips are safe. But what could be riskier than being virtually certain to have less purchasing power in the future?

Now to where I expect future returns to be highest.

In the past 60 to 90 days the prices for some of highest quality mid-cap and small-cap growth companies have been pummelled as large institutional investors were forced to sell down their holdings to fund additions to underweight positions in the banks, BHP and Rio amid a perceived improvement to their fortunes.

iSentia has declined more than 30 per cent in the past month, as has APN Outdoor and Vita Group. Healthscope has fallen 32 per cent from a high of $3.14 to a low of $2.15, REA Group and Carsales are down 27 per cent and 28 per cent, respectively, from their highs.

Now, you can see these sell-offs as risk or you can see it the way I do — as opportunity. I am often told that I will never get the opportunity to buy quality at cheap prices because the market is efficient. But when the market treats that which could be temporary as permanent, an opportunity is presented.

I'd rather be buying high-quality, high-growth companies at beaten-down prices than leverage to buy an overpriced and soon-to-be oversupplied apartment or a large-cap, low-or-no-growth so-called blue chip.

Roger Montgomery is founder and chief investment officer at www.montinvest.com.