



FINANCIAL ONE



Autumn Newsletter 2020

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,
The team at Financial One

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Dividends explained

If you are a shareholder of a company, you may receive payments known as dividends. These payments represent your share of the company's profits and are your reward for investing.

Dividends may be a great way to boost your income and are often considered tax effective. Find out exactly how they work and how often you'll get paid.

Why and when companies pay dividends

When a publicly listed company makes a profit, its board of directors decides whether to:

- pay out the profit to shareholders in the form of dividends
- retain the profit to invest in the company's growth, or
- a mixture of both.

Australian companies tend to pay out a high proportion of earnings as dividends compared to companies listed in other countries. This currently sits around 65% compared to around 45% for global sharesⁱ, which could make Australian shares popular with income-seeking investors.

Some Australian listed companies choose to pay dividends twice a year, known as the interim and final dividends. However, dividends are not guaranteed, and some companies don't pay any dividends at all. In fact, a company that has previously paid dividends may decide not to, and vice versa. The size of the dividend can also vary, and often depends on how the company has performed.

Dr Shane Oliver – Head of Investment Strategy and Economics and Chief Economist, AMP Capital says companies like to manage dividend expectations smoothly.

"They rarely raise the level of dividends if they think it will be unsustainable. Sure, some companies do cut their dividends at times, but the key is to have a well-diversified portfolio of sustainable and decent dividend paying shares."ⁱ

Large, well-established companies with stable earnings and certain industries like banks tend to pay dividends consistently.

Other companies, such as those involved in developing new technology or medical research, often choose to reinvest all their earnings for research and development and pay no dividends at all. Investors in these types of companies are typically looking for long-term growth rather than income.

How are dividends paid?

Companies generally pay dividends in cash to the bank account that you nominate or send you a cheque.

In some cases, rather than receive a cash payment, investors may be able to take advantage of a dividend reinvestment plan. This involves the company offering investors the choice to use their dividends to purchase more shares in the company, instead of receiving the cash. Often, the shares are offered at a discount to the current market price.

It's important to consider your particular circumstances and goals before deciding what's right for you. For example, investors who want to increase their income may prefer to receive their dividends as cash payments. However, investors who are more focused on growing their wealth may consider a dividend reinvestment plan to help grow the number of shares they own over time. It's a good idea to seek financial advice to help determine a strategy that suits your needs.

How are dividends taxed?

Dividends are considered income for tax purposes. Just like the income you may earn from other sources, like rent from an investment property or interest from a bank account, dividends will be taxed at your marginal tax rate.

The current income tax rates are published on the Australian Taxation Office website.

It's important to keep records of your dividends so you or your accountant can complete your tax return accurately.

You'll receive a statement when dividends are paid. If you take advantage of a dividend reinvestment plan, you still need to include the dividend income in your tax return, even if you didn't actually receive the cash payment.

Details of a company's dividend are also published both on the company's website as well as the Australian Securities Exchange (ASX) website.

What are franked dividends?

Companies are required to pay tax on their profits, which means the money they distribute via dividends has already been taxed. To avoid double taxation of company earnings, (once in the hands of the company, and then again in the hands of the investor) these dividends come with a franking credit, also sometimes referred to as an imputation credit. The franking credit represents the amount of tax that has already been paid either partially or in full.

Full-franked dividend

30% tax has already been paid by the company before the investor receives the dividend.

Partially-franked dividend

30% tax has already been paid on part of the dividend only. The exact amount will be specified by the company as a percentage.

Unfranked dividend

No tax has been paid.

When you do your taxes for the year, you will receive a credit for any tax the company has already paid. If your top tax rate is less than the company's tax rate of 30%, you'll receive a refund from the Australian Taxation Office (ATO) for the difference. That's why franked dividends are considered tax effective.

We can help you make the most of dividends and create a strategy to help you reach your goals.

ⁱ <https://www.amp.com.au/personal/hub/grow-my-wealth/why-i-still-love-dividends-and-you-should-love-them-too>



Life after work

Retirees reveal the magic of having more time

Retirement is instilling a new level of confidence, with almost two thirds of Australians aged 50 and over saying they are living their best years.ⁱ

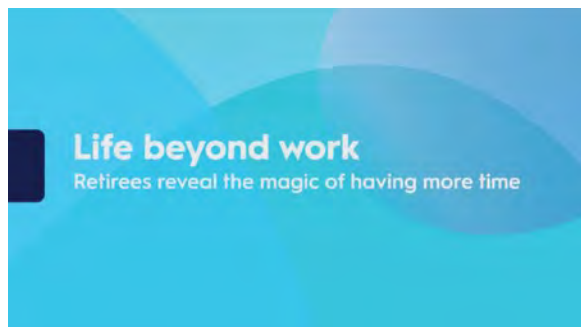
There's more time to devote to anything you can imagine, whether that means family, existing interests or developing something completely new.

The way we see retirement is changing. It's not just about tending the rose garden or sitting in a rocking chair in front of the television. People are living longer and there are more choices than ever before.

Whether you want to know about how much you'll need, when you can retire or a checklist to help you plan, we can help you to prepare for a life after work.

Check out this video for some real-life stories.

<https://www.amp.com.au/insights/plan-my-future/life-after-work>



In this film, three wise men and women talk about what being retired is *really* like. The blessings of more time to do what they want, as well as their hopes, fears and dreams for the future.

“

Retirement is nothing like what I dreamt it'd be like – it's so much better.

I sing in a big choir and put on concerts three times a year.

I volunteer two afternoons a week.

I would like to be part of my children's and my grandchildren's dreams. To see what universities they are going to, what job are they going to achieve. We live in a country of terrific opportunity; anyone can do anything.

”

ⁱ Source: WPP Secrets & Lies, Ageless & Booming, 2019. National Seniors Australia and GCMA

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5 tips for green investing

How to build environmental, social and governance factors into your investments.

The climate change debate has made it to the top of the news agenda, with many Australians now considering what they can do to help the environment. For some, this will include making changes to their finances in line with their environmental values.

Whether it's through super, investments or savings, more and more people are reviewing their financial arrangements to ensure their funds are put to work in a way that does no harm, and ideally leaves the world in a better place.

Responsible investment is a process that takes into account environmental, social and governance (ESG) factors into the investment process of research, analysis, selection and monitoring of investments.

It has become a major part of the investment landscape across Australia. Nearly half of all investments in Australia are now being invested responsibly and ethically according to the Responsible Investment Association of Australia (RIAA)ⁱ.

Here are some tips to help Australians who want their finances to be environmentally friendly.

Understand what matters to you

Everyone's values are different so you need to first work out what's most important to you. Do you feel strongly about not investing in fossil fuels? Are you interested in discovering cutting-edge solutions for climate change or is improving energy efficiency a greater priority for you? How will these preferences affect your investment performance? From here you can identify

the areas where you don't want to invest or, conversely, where you'd rather put your money to make a positive impact.

Do your research and get to know the ESG principles

Each investment manager has its own investment policy when it comes to ESG investing. For instance, some may apply a 'negative screening' or 'exclusion' policy, meaning that they steer clear of certain sectors like fossil fuels. Be mindful of exclusion policies as they may lead to increased volatility in your portfolio. Climate change investing tends to be a form of 'positive screening'—in other words, actively choosing to invest in companies that are making a difference in areas such as renewable energy. RIAA is a good resource to use when you're starting on this journey as it details the investment strategies of ethical and sustainable funds. Many super funds or investment managers also now have information about sustainability and ESG on their websites. Look to see if they have signed the United Nations backed Principles of Responsible Investing and whether they have published their scorecard.

Start with super

Do you know where your super is invested? Does it offer a socially responsible investment (SRI) option? Make sure you read all the information provided by your super fund about the particular sectors, businesses and investment activities considered for investment. It's worthwhile knowing that some people believe many SRI options don't

go far enough. Again, it pays to know what matters most to you and then you can find an option that aligns with your values.

Don't forget the eggs rule

One of the key principles of good investing is diversification—not putting all your eggs in one basket. It spreads risks and ensures you're not exposed to any single investment or asset class. So consider the risks of crafting a portfolio that's too narrow and concentrated. Climate-themed funds also haven't been around for a long time, with many having only launched several years ago. This makes their performance hard to assess.

Ask for help

Being a more responsible investor involves a lot of research and working out exactly how far you want your investment decisions to reflect your sustainable and ethical concerns and can be a minefield (pun intended). For example, you might not want to invest in coal companies, metallurgical coal miners and mining companies, but what about transport companies that freight coal, coal seam gas, oil and conventional gas, electricity generators, or diversified energy generators that may have large investments in renewables as well as coal?

We are here to help if you need more information about what you're invested in or how to access more responsible investment options.

ⁱ 'From values to riches: charting consumer attitudes and demand for responsible investing in Australia', Responsible Investment Association Australasia, Nov 2017