EQT RELEASE

27 April 2011

Time for wealth reality check

Mr Philip Galagher, head of wealth management for Equity Trustees Limited (EQT), warns that, since the financial crisis, Australia is no longer the same nation of investors it used to be, and at best is a nation of savers.

"Indeed, I suspect it is likely that more Australians have become neither – other than the compulsory superannuation guarantee contribution that is made on their behalf," he said.

Mr Galagher said that he recommends that anyone looking to grow their assets should undertake a reality check every 12 months when they receive their various statements at the end of the financial year.

"Most will find that if their wealth has grown at all during the financial year, it is only by any increase in value of the assets they owned at the beginning of the year and compulsory contributions to super."

He said that the end of the financial year is a good time for people to check whether they are a saver, an investor, or neither.

Mr Galagher said that it's only those who have re-invested their dividends or interest received, reduced their total debt, or purchased new assets out of their income during the year, who can regard themselves as taking steps to increase their wealth.

"It is easy to convince ourselves we're doing well growing our wealth when the reality is that we have actually done very little, and our extra worth comes out of market rises or general increased value of assets owned.

"This year rising asset values is likely to represent only minor growth for most of us."

Mr Galagher added that another trend brought about by the GFC is that many Australians who were investors are now only savers as they are keeping their assets in cash such as term deposits.

"Savers who are still concerned about the risk in growth assets such as equities and properties are not managing risk sensibly, to their long term cost. They may believe they are investors, and growing their wealth, but the reality is that they are, at best, savers.

"And even then, they may not be actually maintaining the value of their money because it is being eaten away by inflation or declining interest rates on term deposits.

"They are certainly not taking advantage of the many tax strategies available that will help them grow their wealth faster without adding to risk through approaches such as negative gearing or leveraging, or positioning themselves to take advantage of the rises in value we are already seeing in some asset classes," he said.

Mr Galagher said the way to check whether you are an investor, saver or neither is to measure real asset growth by keeping a record of all assets on an "at cost" basis, less any debt, including mortgage debt.

"Any growth in the value of your net assets (less debt) at the beginning of the financial year and at the end shows how much personal wealth has increased through savings during the financial year.

"If the figures are around the same, then wealth hasn't been increased through savings at all. All growth experienced in total wealth has come from investment returns. It also follows that any reduction in asset value at cost during the year means you've been living off your capital."

Mr Galagher says it is important that this check should include all debt, especially the home mortgage.

"If the outstanding mortgage is less at the end of the year than it was at the beginning, this represents a growth in wealth as part of the mortgage has been repaid, and equity in your home has been increased.

"For many people it can be a sobering experience to find that they haven't saved anything at all in a whole year except for the superannuation guarantee, despite an excellent salary. It means they have disposed of their total earned income with nothing put into investment assets at all," Mr Galagher said.

About Equity Trustees: *Equity Trustees is a publicly listed company that provides a range of financial services to corporate and private clients. Its businesses include funds management, private client wealth management, responsible entity appointments, and corporate and personal superannuation.*

The company manages in excess of $4 billion across its funds management, private client and superannuation businesses and has in excess of $14 billion under responsible entity administration.

Equity Trustees employs over 160 people across its Melbourne, Sydney and Brisbane offices.

For more information please contact:
Phil Galagher
Phone: 03 8623 5221
Email: pgalagher@eqt.com.au