SUNDAY BUSINESS with ANTHONY KEANE

ALTERNATIVE INVESTMENTS: how weird is too weird?

Some investors say there are only three pure forms of assets – real estate, businesses and money – and every other investment is derived from them.

Try telling that to the promoters, and buyers, of alternative assets, who have given the world ostrich farming, timber plantations, crowd-funding platforms, hedge funds and, more recently, cryptocurrencies created from thin air.

The definition of an alternative asset can vary widely, and some reach astronomical heights. Bitcoin's market value hit more than $1.5 trillion in 2021, but has more than halved in value since.

Some people say alternative investments are artworks, stamps and coins, while the more financially nerdy focus on call options, convertible bonds, private credit and structured finance.

Whatever you believe, they are different from regular company shares, a house sitting on land, or cash in the bank, and money experts warn they usually come with greater risk. Bigger rewards are possible too, they say, but only for those who truly understand what they are doing.

PROBLEMS WITH COWS

Wealth for Life Financial Planning principal Rex Whitford said one of the reasons he became a financial planner after returning from the Gulf War in the early 1990s was "I got terrible advice on a Holstein breeding project".

It involved impregnating cows with valuable Holstein embryo, but there were lactating problems, feed problems, dead cow problems and Australian Taxation Office problems, he said.

"What is the purpose of an investment – is it to entertain or to create wealth?" Mr Whitford said.

"If you are so wealthy that you can afford to burn cash, knock yourself out," he said.

Most investors were better off with a "boring as bat sh*t" approach involving a diverse range of proven investments, Mr Whitford said.

He said people often focused too much on assets and not enough on important strategies.

"That's not to say you can't make money with these things, but more often than not you will need a specialist skill."

Mr Whitford said gold and bitcoin were "purely speculative", while stamps and rare coins were popular among some people but unless you knew a lot about them you might lose money.

"It's the people creating the alternative who make the money from suckers looking to corner the market on ostrich eggs," he said.

"Sometimes there are tax deductions behind them, but nobody got wealthy by tax deductions."

GET SMART

Author and CEO of alternative asset marketplace iPartners Travis Miller said investing in alternatives was about "being smart and knowing where to look".

"Wherever there's a scarcity of capital or knowledge, there's an opportunity," Mr Miller said in his new book, Grow Your Wealth Faster With Alternative Assets.

"The percentage of alternative assets that people generally have in their portfolios is currently quite low, perhaps around 5 per cent," he said.

"To really make your money work for you, I suggest allocating approximately 20 to 30 per cent in alternatives as a good starting point."

However, Mr Miller views property as an alternative asset – something 2.2 million residential real estate investors and millions more with property trusts in their portfolios and superannuation would probably disagree about.

He said investors should be wary of vague promises about returns when looking for alternative assets.

"Words such as 'expected', 'potentially' and 'targeted' are red flags because they are not definitive."

Also ask an alternative asset promoter how much they are investing themselves.

"If the answer is zero, that's another big red flag," Mr Miller said.

"Risks exist in every investment opportunity – which is why you get a return greater than 0 per cent – but this doesn't mean it's fine to take a cavalier approach."

Early-stage investments in businesses are another alternative strategy, and can be in the form of crowd-funding platforms, angel investors or seed-capital investors.

"I personally don't like direct investing at the angel and seed-capital stages," Mr Miller said.

"They are a bit like hope loans. The range of potential outcomes is simply too wide, the risk is too great and the required due diligence significant."

PASSION PURCHASES

Mr Miller said some people invested in "passion assets" – things they loved, such as prestige cars, art, stamps and furniture.

"They are a genuine asset class, but I don't like them from an investor perspective because there are large commissions payable on entry and exit, as well as being an insider's market," he said.

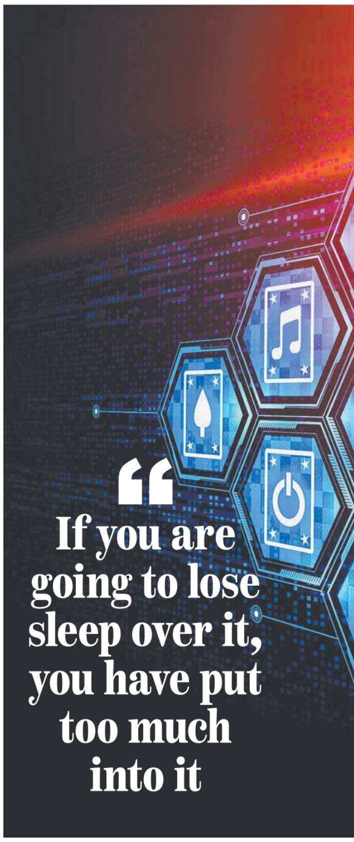
"This makes the valuation of the assets very cloudy. For example, the commission on art can be as high as 20 or 30 per cent for both buying and selling. From an economics perspective, it just doesn't strike me as a good trade.

"I think the value of these assets is the pleasure side of it ... I'm sure the specialists in the field can make money, but for the rest of us I suspect it will always be tough."

A new report by Knight Frank examining luxury assets shows that, over the past 10 years, the best performing luxury investment asset has been rare whisky, up 322 per cent, although its value fell 4 per cent in 2022-23.

This was followed by wine (up 149 per cent), watches (147 per cent), classic cars (118 per cent) and art (109 per cent).

Knight Frank head of residential research Michelle Ciesielski said people were still willing to spend on personal luxury investments despite economic uncertainty and interest rate rises.



Ms Ciesielski said in the past year wine and classic car markets had slowed down from their previous years' double-digit rises.

"Despite the investible car market being up 5 per cent on an annual basis, it has fallen 7 per cent so far this year off the back of the mixed performance of classic cars," she said.

"We may experience a similar trajectory with the performance of art collections over the coming year given slower auction results in 2023."

CRYPTO CONTROVERSY

Bitcoin and other cryptocurrencies continue to attract both criticism and support. Despite heavy falls in the last two years, they are still worth hundreds of billions of dollars combined.

Crypto spawned a boom of non-fungible tokens (NFTs) that give people digital ownership of artworks,

Are Gen-Xers the new 'greedy' Baby Boomers?

Anthony Keane

The revelation hit me hard at a comedy show a couple of weeks ago.

The comedian, a purple puppet fond of foul language, declared to the audience: "anyone who is over fifty and owns more than one house is a ..." Well, I can't print the next word.

Baby Boomers have copped criticism for many years over their free educations and huge asset collections – especially investment properties – while Generation Y, or Millennials, have been attacked for their perceived impatience, work ethic and smashed avocado on toast. But Generation X has largely been unscathed.

Gen-Xers, my generation, were born between the early 1960s and early 1980s – putting us in the crosshairs of the purple puppet comedian's property investor attacks, which drew loud applause from the younger audience.

I know how unfairly treated both Millennials and Boomers have felt in recent years.

Is Gen X the new target in the politics of generational greed and angst, or simply part of a pattern of Australians gradually getting older?

For example, the maligned Millennials are now roughly between 40 and 50, and the first Baby Boomers are nearly 80 and often in no shape or mind to spend their kids' inheritance on travel.

There is always a strong contrast between the haves and have-nots, and Australia's wealth gap is widening.

Gen-Xers already hold two or three times as much wealth as Gen-Ys, but half as much as Baby Boomers. Until, of course, they inherit their Boomer parents' assets.

Will today's Generation Alpha – currently aged under 15 – be complaining about the wealth and greed of their Generation Y elders down the track? More than likely.

Greed is an easy accusation to throw around, usually at people who have planned for a better financial future and taken more risks with their money and their career.

Attacks on older property investors are nastier than those on share market investors, largely because landlords are the ones who push up the rents paid by younger generations.

Share market-related attacks aren't aimed at individuals but at corporate Australia and companies' mega-profits – never mind that those mega profits go to older, wealthier Aussies.

What is the alternative to trying to build a property portfolio or pile of other investments? Live off an age pension in retirement worth $532 a week?

Centrelink pensions are paid by all taxpayers. Rental incomes received by investors are taxed – adding money to the public purse that is used to pay the pensions.

I don't believe the famous 1987 line of fictional stockbroker Gordon Gekko that "greed is good".

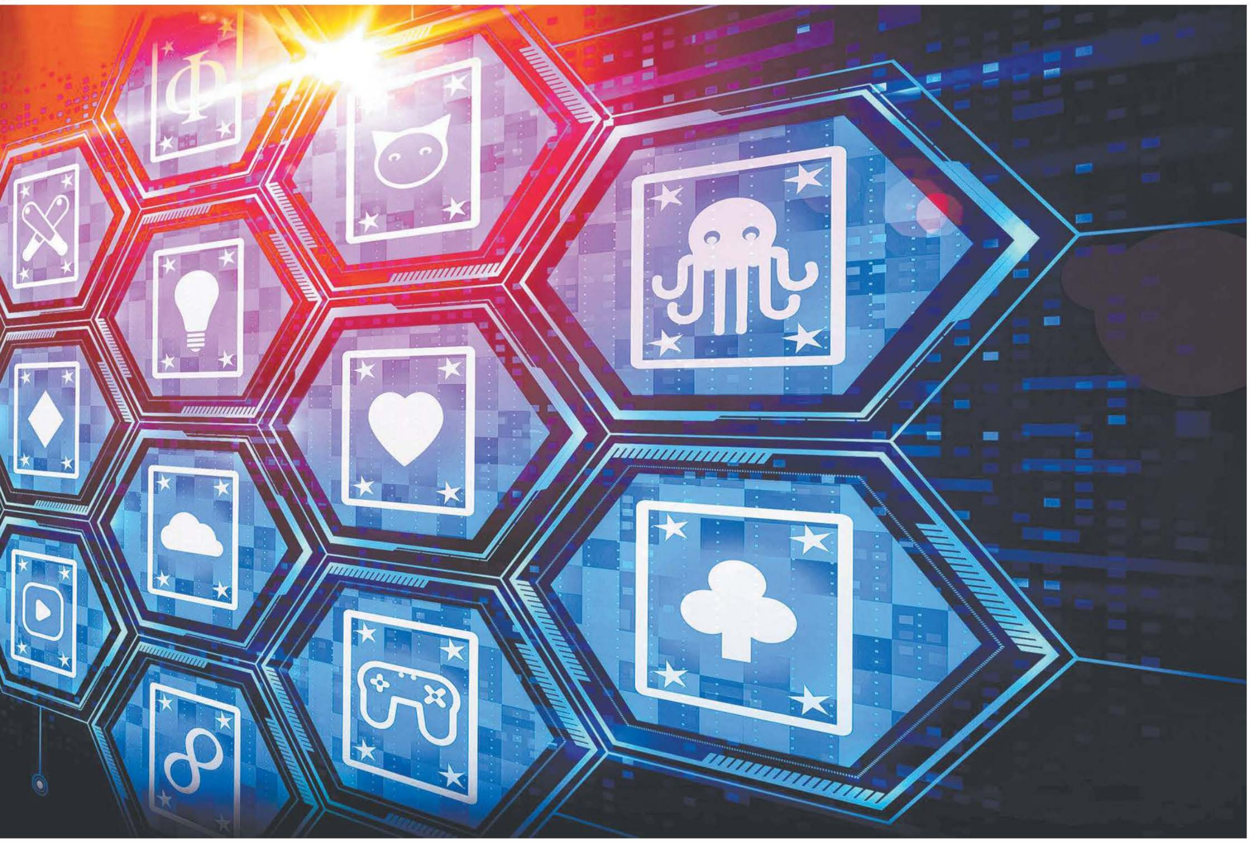
But I also don't believe that older Australians should be labelled as greedy simply for trying to build themselves a better life using opportunities and strategies that are available to all.

The solution is less aggro and more sharing of wealth. Early inheritances will be important and changes to the tax system will be necessary, including taxing people more on consumption and less on income as a smaller proportion of workers will be available to fund the age pensions of people who did not invest to become self-funded retirees.

Wealthier members of my generation, and Boomers before us – should not expect that tax-free super after age 60 will continue forever. That only started in 2007 during the long resources boom.

In the future, older Australians with money will have to use it, whether they're Boomers, Generations X, Y or Z, or even the Alphas.

Scott Pape is on leave



collectibles and other assets, but NFTs fared worse than crypto in 2022, with their trading values sinking by almost 90 per cent.

Knight Frank's report says crypto, NFTs and blockchain will ultimately become part of people's everyday lives.

"The fashion world is recognising that blockchain technology provides an opportunity to connect with the digitally native luxury consumer of the future," it says.

CreationWealth senior financial adviser Andrew Zbik said that he saw value in the blockchain technology underpinning cryptocurrencies and NFTs, "however, paying $600,000 for a flying pig that everyone talks about … I can't see value in that".

Gold was another speculative alternative asset, Mr Zbik said.

"It doesn't produce an income – people say it's fundamentals, but it's speculative," he said.

"It's a rock that we value a lot. What's the logic behind it? It's shiny."

Mr Zbik said higher-risk investors tended to own more alternative assets, of which "a lot can be highly illiquid".

The weirdest alternative investment he had seen was a bookmakers' fund that placed bets on horse races based on a set formula. That's an "investment" that gambles on gambling, so it seems nothing is too weird to be an alternative investment. But will it be profitable?

"The key test is, do you truly understand what it is, and who would you be selling it to in the future," Mr Zbik said.

DON'T LOSE SLEEP

Financial Strategist Theo Marinis said many people bought into alternatives because they were trying to get higher returns, but it was usually speculation.

"If you really want a punt, put it on red or black at the casino and you will know pretty quickly," he said.

"If you don't understand it, don't buy it.

"If you are going to do it, do it with a small portion of your portfolio – an amount you are prepared to lose if it goes bad.

"If you are going to lose sleep over it, you have put too much into it. That may be $100 for somebody, it might be $10,000 or $100,000 for others."

Mr Marinis said cryptocurrency was "not really an asset".

"There's nothing underlying it – it's driven by people pushing the price up and it's just a big speculative hedge," he said.

"Human beings want instant gratification, and the alternative stuff offers the opportunity and instant payback, but it doesn't in the long term. Then you are chasing losses and throwing more money at a bad idea."

Build wealth, don't rely on the age pension

Money Man
Brenton Miegel

Q: Do we qualify for an age pension? My husband and I are Australian citizens who have worked all our lives and paid taxes. We are now aged 70 and 65 respectively. My husband has qualified for the Commonwealth Health Care Card but we wonder whether we might be eligible for an age pension. We own our own home, have no debts and we own no investment properties. We have superannuation (that we live on) totalling about $900,000. Surely, we're deserving of a reward for our hard work.

A: The social security system was never designed to reward. It was designed to supplement what has been accumulated over our working lives. In saying that, I acknowledge many in the community rely solely on their fortnightly Centrelink payment to live. The Superannuation Guarantee has resulted in working Australians accumulating some fairly sizeable superannuation portfolios. Further, the intergenerational transfer of wealth from Baby Boomers (in particular) is seeing subsequent generations become better off financially. As a financial planning professional, I encourage people to accumulate wealth and be comfortable rather than relying on the age pension to meet living costs. Given your portfolio balances, and on the basis that you have "normal" assets (motor vehicle(s), contents, bank accounts and the like) I anticipate you would be eligible for some age pension and the benefits that go with that. As a couple, the asset test upper threshold has just indexed to $986,500. I would put in a call to Centrelink and investigate your potential entitlement.

Q: My wife (62), myself (61) and our son (28) are in a self managed super fund (SMSF) with assets of about $330,000. My wife also has about $85,000 in a retail super fund which she could move to our SMSF. Would it be possible to buy an investment property through our SMSF given these balances and ages and the sole-purpose test?

A: You can buy an investment property within a SMSF if you comply with some very strict rules. These include you must meet the sole-purpose test of solely providing retirement benefit for members, it must not be acquired from a related party of a member, and must not be lived in or rented by a fund member or their related parties. The SMSF can buy a commercial premises and this can be leased to a fund member for their business. This lease must be at market rate and follow specific rules. You must also have written into your SMSF investment policy the ability for the purchase to occur. I would recommend you first speak with your accountant, an SMSF auditor and a financial planner who specialises in SMSFs.

EMAIL YOUR QUESTIONS TO SUNDAYMONEYMAN@NEWS.COM.AU

Brenton is a director and an authorised representative of Goldsborough Financial Services Limited. His advice should be considered as an opinion. Readers should consider engaging their own personal financial adviser. Questions and answers may have been edited for length.

SHARE tips

Toby Grimm
Baker Young

BUY

Mineral Resources (MIN)
Its recent lithium business restructuring reduces development risk and strengthens its balance sheet while it delivers iron ore expansion.

APA Group (APA)
Price weakness in the wake of APA's $1.7bn acquisition of gas and renewable energy generation and transmission assets from Alinta in WA presents an attractive buying opportunity.

HOLD

Telstra (TLS)
Telstra reported a solid 2023 result underpinned by strong mobile performance, and with an attractive yield and long-term growth potential we are comfortable holding.

National Australia Bank (NAB)
The bank delivered a slightly better-than-expected $1.9bn quarterly profit, sufficient to support a $1.5bn share buyback and attractive dividend yield.

SELL

Super Retail Group (SUL)
The diversified retailer delivered resilient performance in 2023 but sales growth deteriorated during the second half.

Cochlear (COH)
The company's impressive 2023 results have driven outperformance relative to peers and its share price to record highs where we would consider taking part profits.

Tony Paterno
Ord Minnett

BUY

Westpac Banking Corporation (WBC)
Westpac's third-quarter 2023 update was a little better than we expected, and it trades on an undemanding valuation and fully franked dividend yield near 7 per cent.

Brickworks (BKW)
We expect its underlying property earnings to continue to grow, supported by rental growth and a strong development pipeline - a key area of upside.

HOLD

Transurban Group (TCL)
Traffic volumes are recovering strongly from Covid-19 lockdowns, and distributions per security are close to returning to pre-pandemic levels.

Treasury Wine Estates (TWE)
A strategic focus on high-end wines and increased geographic diversification should grow long-term revenue and profitability.

SELL

Bega Cheese (BGA)
Bega is facing significant cost pressures with farmgate milk prices about 30 per cent higher. Falling global commodity prices will likely lead to significant cost pressure.

Nanosonics (NAN)
We think the market is too optimistic about future growth and the shares are overvalued.

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