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### BY WEALTH ADVISER

**“Common Stocks and Uncommon Profits” is a seminal work on investing by Philip A. Fisher, first published in 1958. This influential book outlines Fisher’s investment philosophy, which focuses on identifying and investing in high-quality growth companies for the long term.**

Fisher introduces his famous “scuttlebutt” method for researching companies, which involves gathering information from various sources beyond just financial statements. He presents fifteen points to look for in a common stock, emphasising factors such as a company’s growth potential, management quality, and innovative capacity.

The book challenges conventional wisdom on many fronts, including views on diversification and dividend policy. Fisher advocates for a concentrated portfolio of

#### BEFORE YOU GET STARTED

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well-researched stocks and often favours companies that reinvest profits for growth rather than paying dividends.

Throughout the book, Fisher draws on his decades of experience in the stock market, providing case studies and practical advice. He stresses the importance of patience, thorough research, and maintaining a long-term perspective in investing.

“Common Stocks and Uncommon Profits” remains a classic in investment literature, offering timeless insights for both novice and experienced investors seeking to achieve superior returns in the stock market.

### 1. What are the key principles of Philip A. Fisher's investment philosophy?

Fisher's investment philosophy centres on investing in high-quality growth companies for the long term. He emphasises thorough research, including talking to people connected to the company (the “scuttlebutt” method), and looking for companies with strong management, innovative products, and potential for sustained growth. Fisher advocates buying when a company is undervalued and holding for the long term, often years or decades, as long as the company's fundamentals remain strong.

### 2. How does Fisher define and identify growth stocks?

Fisher defines growth stocks as shares in companies that have the potential to increase their earnings at a rate significantly above the average for their industry or the overall market. He identifies these by looking for companies with strong research and development capabilities, effective marketing strategies, and the ability to develop new products or markets. Fisher also emphasises the importance of a company's competitive position and its ability to maintain high profit margins over time.

### 3. What is the “scuttlebutt” method and how is it used in researching companies?

The “scuttlebutt” method is Fisher's approach to gathering information about a company from a variety of sources beyond just financial statements. It involves talking to employees, competitors, suppliers, customers, and industry experts to gain a comprehensive understanding of a company's operations, reputation, and potential. This method aims to uncover insights that may not be apparent from public financial data alone, providing a more complete picture of a company's strengths and weaknesses.

### 4. What are the fifteen points Fisher recommends looking for in a common stock?

Fisher's fifteen points include factors such as a company's growth potential, profit margins, research and development efforts, sales organisation effectiveness, cost analysis

and accounting controls, management quality, and long-term outlook. He also considers factors like the company's ability to develop new products, its competitive position, and its labour and personnel relations. These points form a comprehensive framework for evaluating a company's potential as a long-term investment.

### 5. How does Fisher approach the timing of buying and selling stocks?

Fisher advocates buying stocks when they are undervalued relative to their long-term potential, regardless of short-term market conditions. He recommends holding stocks for the long term, often years or decades, as long as the company's fundamentals remain strong. Fisher discourages selling based on short-term market fluctuations or attempts to time the market. He suggests selling only when there's a fundamental change in the company's prospects or when a significantly better investment opportunity arises.

### 6. Why does Fisher emphasise the importance of management quality in investment decisions?

Fisher views management quality as crucial because it directly impacts a company's ability to innovate, adapt to changing market conditions, and maintain competitive advantages. He believes that superior management can steer a company through challenges and capitalise on opportunities, leading to sustained growth and profitability. Fisher looks for managers who are not only competent in day-to-day operations but also have a long-term vision for the company and the ability to develop future leadership.

### 7. What role do dividends play in Fisher's investment strategy?

Fisher generally de-emphasises the importance of dividends, particularly for growth companies. He believes that companies with significant growth potential are better off reinvesting their profits into the business rather than paying them out as dividends. Fisher argues that the long-term capital appreciation from a well-managed, growing company will typically far exceed the value of dividend payments. However, he does recognise that dividends can be appropriate for more mature companies with limited growth prospects.

### 8. How does Fisher's approach challenge the efficient market theory?

Fisher's approach challenges the efficient market theory by asserting that through diligent research and analysis, investors can identify undervalued companies and achieve superior returns. He argues that the market often misprices stocks in the short term due to emotional factors or lack of information. Fisher's “scuttlebutt” method, in particular,

suggests that investors can gain valuable insights not immediately reflected in market prices, contradicting the idea that all relevant information is always fully incorporated into stock prices.

### **9. What is Fisher's view on diversification in investing?**

Fisher advocates for a relatively concentrated portfolio, arguing that over-diversification can lead to mediocre returns. He believes that if an investor has done thorough research and found truly outstanding companies, they should concentrate their investments in these few high-quality stocks. Fisher suggests that for most individual investors, holding between 10 to 20 stocks is sufficient diversification. He argues that the benefits of diversification beyond this point are outweighed by the difficulty of finding many truly exceptional investment opportunities.

### **10. How does Fisher evaluate a company's research and development capabilities?**

Fisher places significant emphasis on a company's research and development (R&D) capabilities as a key indicator of future growth potential. He looks for companies that consistently invest in R&D and have a track record of successfully bringing new products to market. Fisher evaluates not just the amount spent on R&D, but also the efficiency and effectiveness of these efforts. He considers factors such as the company's ability to attract top talent, its patent portfolio, and its success rate in commercialising new technologies.

### **11. What importance does Fisher place on a company's sales and marketing abilities?**

Fisher considers a strong sales and marketing organisation crucial for a company's success. He believes that even the best products won't sell themselves, and that an effective sales force is necessary to maintain and expand market share. Fisher looks for companies with sales teams that understand their products deeply and can effectively communicate their value to customers. He also emphasises the importance of marketing in identifying and responding to changing customer needs, which is essential for long-term growth.

### **12. How does Fisher assess labour and personnel relations within a company?**

Fisher views positive labour and personnel relations as a key indicator of a well-managed company. He looks for companies that treat employees fairly, provide opportunities for advancement, and maintain good morale. Fisher believes that companies with satisfied employees are more likely to have higher productivity and lower turnover, which contributes to long-term success. He assesses this by looking

at factors such as employee turnover rates, the company's ability to attract top talent, and the general reputation of the company as an employer.

### **13. What is Fisher's perspective on corporate integrity and ethics?**

Fisher places a high value on corporate integrity and ethics, considering them essential for long-term investment success. He believes that companies with strong ethical standards are less likely to engage in practices that could lead to scandals or legal issues, which can devastate shareholder value. Fisher looks for management teams that demonstrate a strong sense of responsibility to shareholders, employees, and the community. He argues that ethical behaviour builds trust with customers, employees, and investors, contributing to sustainable long-term growth.

### **14. How does Fisher's investment approach account for business cycles and economic trends?**

While Fisher acknowledges the impact of business cycles and economic trends, he advises against trying to time the market based on these factors. Instead, he focuses on identifying companies with strong fundamentals that can weather economic downturns and emerge stronger. Fisher believes that truly great companies can grow even during challenging economic times. He advises investors to maintain a long-term perspective and not be swayed by short-term economic fluctuations, as long as the underlying strengths of their chosen companies remain intact.

### **15. What is Fisher's view on the use of price-earnings ratios in stock evaluation?**

Fisher cautions against relying too heavily on price-earnings (P/E) ratios in stock evaluation. While he acknowledges their usefulness as a quick reference, he argues that they can be misleading, especially for growth companies. Fisher believes that a high P/E ratio might be justified if a company has exceptional growth prospects. Conversely, a low P/E ratio doesn't necessarily indicate a bargain if the company's growth potential is limited. He advocates for a more comprehensive analysis that considers a company's growth prospects, competitive position, and management quality alongside traditional valuation metrics.

### **16. How does Fisher's investment philosophy address the impact of inflation?**

Fisher recognises inflation as a significant concern for investors and believes that well-selected growth stocks offer one of the best protections against it. He argues that companies with strong competitive positions and pricing power can often increase their prices to keep pace with inflation, maintaining their real earnings power. Additionally, Fisher



points out that as inflation erodes the value of money, the replacement cost of a company's assets often increases, potentially enhancing the real value of the business. This makes growth stocks particularly attractive in inflationary environments.

### 17. What can we learn from the case studies of specific companies that Fisher presents?

Fisher's case studies provide practical illustrations of his investment principles in action. They demonstrate how thorough research and patience can lead to substantial returns, even when a company faces temporary setbacks. These examples also highlight the importance of looking beyond financial statements to understand a company's true potential. The case studies often show how factors like management quality, research and development capabilities, and competitive positioning contribute to a company's long-term success. They also illustrate the potential pitfalls of short-term thinking or failing to recognise fundamental changes in a company's prospects.

### 18. How does Fisher's personal experience shape his investment strategies?

Fisher's investment strategies are deeply rooted in his personal experiences in the financial markets. His career, spanning several decades and multiple market cycles, informed his long-term, growth-oriented approach. Fisher's early experiences during the Great Depression and subsequent bull markets taught him the importance of focusing on company fundamentals rather than short-term market movements. His success with the "scuttlebutt" method came from years of practicing and refining this approach. Fisher's strategies also reflect lessons learned from both

his successes and mistakes, emphasising the importance of continuous learning and adaptation in investing.

### 19. What is Fisher's "three-year rule" for stock holding?

Fisher's "three-year rule" suggests that investors should be willing to hold a stock for at least three years after purchase, assuming the company's fundamentals remain strong. This rule is designed to give enough time for a company's long-term potential to be realised and to avoid selling prematurely due to short-term market fluctuations. Fisher argues that if an investor isn't willing to hold a stock for at least three years, they probably shouldn't buy it in the first place. However, he also emphasises that this rule doesn't mean automatically selling after three years; many of his most successful investments were held for much longer periods.

### 20. How does Fisher recommend analysing annual reports and other corporate communications?

Fisher advises investors to approach annual reports and corporate communications critically, looking beyond the glossy presentation to understand the underlying business realities. He recommends focusing on the substance of the report rather than being swayed by its tone or presentation. Fisher suggests paying particular attention to discussions of research and development efforts, new product pipelines, and management's plans for addressing challenges. He also advises comparing reports over several years to identify trends and assess management's track record in meeting stated goals. However, Fisher emphasises that annual reports should be just one part of a comprehensive research process, complemented by his "scuttlebutt" method and other forms of analysis.





# Ageing Populations and Investment Trends: A Deep Dive into Australia's Future

BY WEALTH ADVISER

## Introduction

Australia is undergoing a significant demographic shift, with a growing proportion of its population entering retirement age. These changes in the country's age structure will have substantial implications for the economy and investment landscape. According to one article, "Demographics are Destiny for the Stock Market," trends in population ageing affect consumer behaviour, market performance, and sectoral growth. Understanding these demographic changes is vital for investors and policymakers aiming to navigate the challenges and capitalise on emerging opportunities.

## Demographic Trends in Australia

Australia's demographic changes have been driven by two main factors: a declining fertility rate and increasing life expectancy. In "The Case for Demographics," it's highlighted that Australia's fertility rate has fallen to around 1.58 births per woman, significantly below the replacement level. Concurrently, advancements in healthcare and living standards have resulted in a rise in life expectancy, with many Australians now living well into their 80s.

Additionally, immigration has historically helped offset the effects of population ageing by introducing younger, working-age individuals into the economy. However, disruptions caused by the COVID-19 pandemic have slowed



migration rates, accelerating the impact of an ageing population. Projections indicate that by 2060, approximately 25% of Australia's population will be aged 65 and over, a significant increase from the current 17%.

Globally, similar trends are observed in countries such as Japan and Germany, where the economic and social impacts of an ageing populace offer valuable lessons for Australia. However, Australia's specific socio-economic context means that the implications for its economy and investment landscape will differ in several respects. As pointed out in "Demographics and the Growing Ageing Population in Australia," understanding these trends is key to predicting future developments in sectors like healthcare, real estate, and financial services.

### Impact of Ageing on the Economy

An ageing population has widespread effects on Australia's economy, influencing workforce dynamics, public spending, consumption patterns, and savings behaviour. Here's a breakdown of some of the key impacts:

**1. Workforce Participation:** An ageing population directly affects the workforce as more individuals retire, leading to a smaller pool of working-age individuals to support an increasing number of retirees. Currently, the working-age to retiree ratio in Australia stands at around 4:1, but it is projected to drop to 2.7:1 by 2060. This demographic change may lead to labour shortages and place upward pressure on wages, potentially reducing the country's economic growth rate.

**2. Public Spending:** With more people moving into retirement, government spending on healthcare, pensions, and aged care is set to rise. According to "Demographics and the Growing Ageing Population in Australia," the demand for public health services and age-related welfare will escalate, requiring a significant reallocation of public resources. This aligns with the Australian Government's Intergenerational Report, which projects that health and aged care spending will more than double as a percentage of GDP by 2060 if current trends persist.

**3. Consumption Patterns:** Older Australians exhibit different spending behaviours compared to younger populations, allocating more resources to healthcare, leisure, and personal services. This change in consumption patterns can affect various sectors of the economy. While demand for goods like housing and consumer electronics may decline, industries focused on healthcare, aged care, and wellness services are likely to grow.

**4. Savings and Investment Behaviour:** Ageing populations influence investment behaviours as individuals shift their focus from wealth accumulation to capital preservation. According to the "Demographics are Destiny for the Stock Market" article, retirees tend to prefer low-risk, income-gen-

erating assets like bonds and annuities over growth-focused investments such as equities. This shift can have a substantial impact on the stock market, increasing demand for fixed-income securities and stable-dividend-paying stocks.

### Investment Trends Driven by Demographic Shifts

Australia's ageing population is reshaping the investment landscape, creating new opportunities while also presenting challenges. Here's a closer look at how different sectors are affected:

**1. Healthcare and Aged Care:** Increased demand for healthcare services, pharmaceuticals, and aged care facilities is inevitable as the population ages. "Demographics and the Growing Ageing Population in Australia" points out that companies involved in the production of medical devices, pharmaceuticals, and healthcare services are likely to benefit significantly. Investors should consider the aged care industry, including residential care, home care, and assisted living services, which are set to expand to meet the needs of the elderly.

**2. Real Estate:** The demographic shift towards an older population has implications for the real estate market. There will likely be increased demand for age-friendly housing options, such as retirement villages, downsized homes, and properties offering easy access to healthcare and community services. Additionally, healthcare real estate, including hospitals, clinics, and aged care facilities, will become an increasingly valuable investment category.

**3. Financial Services:** The financial services sector will need to adapt to the needs of retirees who are looking for secure, income-focused investments. Superannuation funds, in particular, will play a key role in this context as they adjust their strategies to accommodate the shift from wealth accumulation to capital preservation. There will be a growing market for financial products tailored to retirees, including annuities, retirement income funds, and wealth management services that focus on capital preservation and income generation.

**4. Consumer Goods and Services:** As older Australians' consumption preferences evolve, businesses catering to their needs—such as healthcare products, leisure activities, and personal services—stand to benefit. Companies that align their products and services with the lifestyle and preferences of the elderly demographic can thrive in this changing market environment.

**5. Sectors Facing Challenges:** Not all sectors will benefit from demographic changes. Industries heavily reliant on younger consumers, such as fast fashion and certain segments of traditional retail, may face a slowdown in growth. Additionally, labour-intensive industries like hospitality may encounter staffing challenges due to a shrinking working-age population.

## Adapting Investment Strategies for the Future

Given the sweeping impact of demographic changes, investors must adjust their strategies to align with the evolving economic landscape. Here are some key considerations for investors:

**1. Diversification:** As suggested in “Demographics are Destiny for the Stock Market,” diversification is crucial for mitigating risks and capitalising on growth in sectors like healthcare, aged care, and real estate. Including investments across different asset classes that benefit from an ageing population can help build a resilient portfolio.

**2. Focus on Income-Generating Assets:** With the growing preference for stable, income-generating assets among retirees, investors might consider incorporating more fixed-income securities, dividend-paying stocks, and real estate investment trusts (REITs) that offer steady cash flows into their portfolios. The shift towards these assets aligns with the expected increase in demand for income-generating investments as the population ages.

**3. Global Context and Opportunities:** While the focus is on Australia’s demographic changes, investors can also explore international opportunities in countries facing similar demographic trends. For example, Japan and parts of Europe offer insights and potential investments in healthcare technology, aged care services, and age-friendly consumer products, which can enhance portfolio diversification.

**4. Superannuation and Retirement Planning:** For individual investors, particularly those approaching retirement, adjusting superannuation portfolios to focus on income and capital preservation is increasingly important. Superannuation funds will need to reassess their investment strate-

gies to cater to the growing pool of retirees seeking stable income streams.

## Conclusion

Australia’s demographic landscape is undergoing a profound transformation, with an ageing population shaping the economy and investment trends for decades to come. The implications of this shift are broad, affecting workforce dynamics, government spending, consumption patterns, and market demand across various sectors. By focusing on diversification, income generation, and sectors aligned with demographic trends, investors can position themselves to navigate the challenges of an ageing society and capitalise on emerging opportunities.

Healthcare, aged care, real estate, and financial products tailored to an older population are likely to see increased demand, while some traditional industries may face challenges. By preparing for these shifts, investors can secure their financial futures in an economy shaped by Australia’s changing demographic destiny.

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# Stocks vs. Bonds: Why Bonds May Outperform in Certain Markets

BY WEALTH ADVISER

## Stocks vs. Bonds: Why Bonds May Outperform in Certain Markets

For decades, investors have often regarded stocks as the superior option for long-term growth, citing historical data that usually shows higher returns over time compared to bonds. However, while it's true that stocks have generally outperformed bonds in many markets, this is not always the case. There are times when bonds shine, providing a more attractive risk-adjusted return than their equity counterparts. This article explores why bonds, especially in certain market conditions, can outperform stocks and the factors driving this phenomenon.

### Introduction: Setting the Stage for Stocks vs. Bonds

When building an investment portfolio, one of the most common pieces of advice is to include a mix of stocks and bonds. Stocks are traditionally viewed as higher risk but potentially high-reward investments, while bonds are often seen as safer but with limited upside. Most investors are

conditioned to believe that, over the long haul, stocks will always outperform bonds. However, this isn't an absolute rule. There are various market environments, economic cycles, and periods in history when bonds have not only provided more stable returns but have also outpaced stock performance.

### Historical Performance: Debunking the 'Stocks Always Beat Bonds' Myth

While stocks have historically provided superior returns, there have been notable exceptions. According to an article on Firstlinks titled "Stocks Don't Always Beat Bonds," even the most optimistic investors are aware of periods when stocks have underperformed bonds. The article points out, "Since 1980, Australian bonds have actually outperformed the sharemarket in about 30% of the rolling 12-month periods." This reveals that bonds can be competitive, especially during periods of stock market volatility.

A key example of this occurred during the "Lost Decade" (2000-2009) when global equity markets delivered negligible returns. Conversely, bonds, particularly government



bonds, provided steady, positive returns during this period. This trend is not isolated. The article further explains that bonds have often served as a safe haven during economic downturns, providing investors with reliable income streams.

## Current Market Conditions Favoring Bonds

### 1. Interest Rates and Inflation

One of the primary factors influencing bond performance is the prevailing interest rate environment. The article “Are Rates Peaking? Time for Bonds to Come Back?” provides insight into the current market conditions. It notes that central banks worldwide have been raising interest rates to combat inflation, with rates possibly reaching their peak. This peak in interest rates creates an opportune moment for bond investors. The article states, “When rates peak, the only way for bonds to go is up in price.” This is because if interest rates begin to decline, the value of existing bonds with higher fixed rates rises. For investors who lock in bonds during this peak period, the potential for capital appreciation combined with a steady income stream is an attractive prospect.

Adding to this perspective, AMP’s “Oliver’s Insights - Inflation in Retreat: Five Reasons Why Inflation Will Continue to Fall” discusses the current inflationary trends and why inflation is likely to continue retreating. The article outlines several reasons for this decline, including easing supply constraints, peaking commodity prices, falling goods price inflation, slowing wage growth, and tightening monetary policies. Shane Oliver, the Chief Economist at AMP, asserts, “The shift towards lower inflation reduces the pressure on central banks to keep raising interest rates.”

This expected retreat in inflation has direct implications for bonds. As inflation pressures ease and central banks begin to stabilize or reduce interest rates, the prices of existing bonds will rise, enhancing their appeal to investors. Therefore, the current environment suggests that bonds might outperform stocks, particularly when interest rates begin to fall.

### 2. Market Volatility and Economic Uncertainty

During periods of economic uncertainty, bonds are often seen as a safer alternative to the unpredictable nature of stocks. The Firstlinks article, “Do Government Bonds Still Have a Role to Play for Australian Investors?” highlights the stabilizing role that government bonds play during volatile market conditions. It notes that “bonds help diversify portfolios and reduce risk” by providing consistent income even when stock markets fluctuate.

Recent market volatility has reminded investors of the importance of having bonds in their portfolios. Stocks are subject to sharp declines during economic downturns, as

they depend heavily on factors like corporate earnings, consumer sentiment, and economic growth. In contrast, government bonds, backed by the creditworthiness of the issuing country, offer a fixed interest payment and return the principal at maturity, making them an anchor of stability.

## The Unique Role of Government Bonds in Investment Portfolios

Government bonds are considered one of the safest investments because they are backed by a country’s ability to tax and control its currency. The article “Do Government Bonds Still Have a Role to Play for Australian Investors?” argues that government bonds continue to provide benefits in a diversified portfolio. It states, “Government bonds can act as a hedge against downturns in riskier asset classes, such as equities.”

### 1. Safety and Predictability

Government bonds offer a predictable return, which becomes especially valuable during economic turmoil. The article also mentions how “interest rates and bond yields move inversely, so when central banks lower rates to support economies, bond prices rise.” This inverse relationship with interest rates helps bonds serve as a counterbalance in a portfolio, especially when stock markets are under pressure.

The AMP article also touches on this, emphasizing that as inflation retreats and central banks take a more cautious approach, the risk of drastic market fluctuations diminishes. This environment further boosts the predictability and safety of bonds, making them an attractive option for those looking for steady returns.

### 2. Diversification and Risk Management

Bonds serve as a crucial component of diversification. According to “Are Rates Peaking? Time for Bonds to Come Back?” bonds are particularly attractive now due to their ability to provide both an income stream and potential for capital growth in a period where interest rates have peaked. Including bonds in a portfolio can reduce overall risk by smoothing out returns during market downturns.

The AMP article adds another layer to this by indicating that the easing inflationary pressures reduce the risk of sharp interest rate hikes, thereby improving the outlook for bond prices. With reduced interest rate risk, bonds can continue to serve as a reliable tool for diversification and risk management.

## Conclusion: A Balanced Perspective for Investors

Bonds are often undervalued by investors who focus on the historical outperformance of stocks. However, the idea that stocks will always outperform bonds is not set in stone.



Factors like interest rate peaks, economic uncertainty, and inflation can tip the scales in favor of bonds. As “Stocks Don’t Always Beat Bonds” points out, bonds have outperformed stocks in various 12-month rolling periods over the last few decades, offering investors both safety and an opportunity for steady returns.

The recent trends in global markets suggest that bonds, especially government bonds, deserve a closer look. They offer reliable income, help hedge against market volatility, and can even provide capital growth when interest rates peak and begin to fall. The insights from AMP’s article on the retreat of inflation provide further support for this perspective, indicating that bonds might soon benefit from a more favorable interest rate environment.

Ultimately, the key to successful investing is not choosing one asset class over another but understanding how to allocate assets based on market conditions. In the current environment, bonds may indeed offer an attractive combination of safety, income, and growth potential, potentially outperforming stocks in the process.

#### References

1. “Are Rates Peaking? Time for Bonds to Come Back?”
2. “Do Government Bonds Still Have a Role to Play for Australian Investors?”
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# Q&A: Ask a Question

## Question 1

**I recently noticed that my super statement mentions nominations. What are they, and what types of nominations can I make?**

Superannuation nominations allow you to specify who will receive your superannuation and any related life insurance benefits upon your death. There are different types of nominations, each offering varying levels of control.

A **binding nomination** is a legally binding instruction to your super fund, ensuring that your benefits are paid to the nominated beneficiaries. This provides certainty but needs to be updated regularly, as most binding nominations expire after three years unless you opt for a non-lapsing nomination.

A **non-binding nomination** is more of a guideline, giving the trustee of your super fund discretion to consider your wishes, but they can decide based on other factors, such as your dependents or current circumstances.

There is also the option of a **reversionary beneficiary**, used for super pensions, which ensures that the pension continues to be paid to a specific person, such as a spouse, after your death.

Reviewing your nominations periodically with your financial adviser is important to ensure they still align with your current wishes and life situation.

## Question 2

**My friend told me I could contribute extra to my super via salary sacrifice. How does salary sacrificing into super work?**

Salary sacrificing into super allows you to direct a portion of your pre-tax income into your superannuation account,

reducing your taxable income. This can be a tax-effective way to boost your retirement savings, as super contributions are taxed at 15% (rather than your marginal tax rate, which could be higher). These contributions are in addition to the compulsory employer contributions.

However, it's important to keep track of the annual concessional contributions cap, which includes both your employer's super guarantee contributions and any salary sacrifice contributions. Exceeding this cap can result in additional tax. Salary sacrifice is particularly beneficial for individuals looking to grow their super balance while taking advantage of tax savings.

You should speak to your financial adviser who can help you determine whether salary sacrifice is suitable to your specific circumstances.

## Question 3

**I've heard people talk about balancing risk when investing. How do I do this to manage my investment decisions?**

Balancing your investment risk is generally tailored to your risk tolerance. Your risk tolerance is determined by your emotional ability to handle fluctuations in the value of your investments. It's about how comfortable you are with the potential for market volatility and losses. Some people are more comfortable seeing their investments fluctuate, while others may feel stressed during downturns.

A discussion with your adviser can help you better understand your risk tolerance, help you develop a risk profile and review your investment strategy to align it with both your comfort level and your financial objectives, ensuring you take the right amount of risk for your unique situation.

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

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