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THE MAGIC MULTIPLIER

HOW COMPOUNDING BUILDS WEALTH FOR EVERY AUSTRALIAN

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BY WEALTH ADVISER

Introduction: Why Compounding Is the One Investing Principle Everyone Must Know

"Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it." These words, often attributed to Einstein, echo across generations for a reason. More than any market "secret," compounding is the relentless engine that turns early and regular savings into long-term prosperity. And yet, research shows that a surprising number of Australians—especially young people—don't fully grasp just how powerful this force is. Compound interest is an investor's best friend but can be a borrower's worst nightmare. For those who understand and use it, compounding becomes the greatest ally on the road to wealth.

Understanding Compound Interest: The Math and the Magic

At its core, compounding is delightfully simple: it's the notion of earning returns not only on the money you invest, but also on the returns previously generated. It's interest on interest, growth on growth—a virtuous cycle where your wealth can accelerate over time,

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provided you reinvest your earnings. Each time you make a contribution or earn dividends or interest, your next return is calculated on a bigger base.

Let's break this down with some familiar numbers: Suppose you invest $500 per year at 3% per annum. After 20 years, you'll have accumulated nearly $13,838—well above your $10,000 of contributions. If the average return rises to 7%, the final sum climbs to nearly $21,933, with annual investment earnings in year 20 dwarfing those in year one. But introduce an upfront contribution—say, $2,000—to kick off that same investment at 7%, and after 20 years, you'll have nearly $29,672.

The upward curve becomes truly dramatic over long time frames. Given enough time, even modest regular investments can snowball into a sizable nest egg. As many advisers put it: the longer the period, the more it works. After 40 years, a strategy with regular contributions and a higher return compounds to an astonishing sum. This exponential acceleration is why prudent investors, regardless of starting income, can build meaningful wealth given time and discipline.

Growth Assets: Stronger Compounding

What you invest in matters almost as much as when and how much you invest. Over Australian financial history, growth assets—shares and property—consistently outperformed defensive assets like cash and bonds, especially when compounding works its magic over decades.

Growth assets like shares and property provide higher returns than defensive assets like cash and bonds over long periods, as their growth potential drives higher long run returns, compensating for their higher volatility. Since 1900, the $1 invested in Australian shares (with dividends reinvested) would be worth over $1,000,000 today, compared to just $994 for bonds and $272 for cash, simply because shares delivered higher, volatile returns that compounded over a longer timeframe.

Even over rolling 20-year periods, Australian equities have almost always outperformed cash and fixed income, despite periods of market turmoil. Historical Australian property returns are close to shares—about 10.8% annualised since the 1920s, compared to 11.2% for equities—again demonstrating compounding's results with long-term exposure to productive, growing assets.

The message is clear: higher-returning, growth-focused investments are essential to fully harness compounding. Volatility is the price of admission, but history leans heavily in favour of those who stay the course. This holds for superannuation as well: members who choose high growth investment options early in their careers tend to accumulate far larger balances than those who opt for overly conservative allocations.

Why Do So Many Miss Out? Behavioural Pitfalls and Common Mistakes

Despite compounding's power, many Australians fail to take full advantage—and the reasons are as much psychological as financial.

First, investors may be too conservative, sticking to cash or defensive assets that feel safer but offer lower returns and hence, less compounding potential. It's common, especially after volatile market episodes, to "go to cash" and miss out on the periods when markets recover and compound growth resumes.

Second, starting late or saving too little at the outset is a costly misstep. The magic of compounding relies on time; each year delayed is a year lost for growth on past growth. Even small sums, invested early, can outpace much larger ones started later in life.

Third, many attempt to "beat the market" by timing entries and exits, or frequently trading in search of the next big thing. These efforts more often destroy wealth, as buy-high, sell-low behaviour takes hold when emotions overrule discipline. The result is missing out on market rebounds—the very times when compounding has its greatest effect.

Lack of diversification is another common error. Concentrated portfolios, or "putting all the eggs in one basket," can reverse years of compounding progress with a single bad outcome. Cross-asset diversification—mixing shares, property, cash, and fixed income—provides a smoother, more resilient ride for the long run.

Finally, many get tempted by trendy investments promising a "free lunch," only to discover that outsized returns often come with risks that jeopardize both capital and compounding prospects. Simple, disciplined, long-term investing in proven vehicles remains the best approach.

The fundamental behavioural challenge is resisting the short-term noise of markets, headlines, and social media. Emanuel Derman likened compounding to "letting tiny, invisible steps accumulate into a journey of a thousand miles." Resilience—staying invested through ups and downs—is perhaps the most underappreciated investor skill.

Practical Steps for Every Investor: Harnessing the Magic Multiplier

Fortunately, the magic multiplier of compounding is available to every Australian, regardless of starting sum or market knowledge. Here's how to ensure it works for you:

- **Start Early and Invest Regularly:** The earlier you begin, even with small amounts, the greater the compounding effect. Make use of regular or automated investment plans, salary sacrifice into super, or direct debit into managed funds or ETFs.
- **Focus on Growth Assets for the Long Run:** Allocate a substantial portion of your portfolio to shares and prop-

erty, especially if you have many years until retirement. As AMP and Findex highlight, higher returns—even if volatile—are the engine behind outsized compounding over time.

- **Increase Contributions as You Can:** Any windfall, pay rise, or bonus is an opportunity to turbocharge your future with compounding. Even a single larger, early contribution multiplies wealth after years of returns on top of returns.
- **Diversify and Monitor Costs:** Don't bet everything on a single asset or sector. Balance shares, property, cash, and bonds to match your risk profile. Favour vehicles with low fees—compounding works best when less is lost to costs.
- **Stay the Course and Tune Out the Noise:** Market declines are uncomfortable, but panic-selling defeats compounding. Understand that volatility is a feature, not a bug, with the patient investor typically emerging ahead. As Dr Shane Oliver puts it, "Invest a bit of time in understanding that short term volatility is a normal part of investment markets and partly explains why growth assets have a higher return in the first place."
- **Learn and Review Regularly:** Make use of adviser guidance, review your super investment options, and regularly check in on your goals. Avoid the urge to chase "get rich quick" ideas—slow and steady nearly always wins the race.

The most important decision is often to "do nothing"—letting compounding work without unnecessary interference.

Conclusion: Compounding—the True Engine of Wealth

Of all the habits, tricks, and strategies in the investment universe, none rivals the long-term power of compounding. Like a snowball rolling downhill, it grows quietly and slowly at first, then with unstoppable momentum. The greatest wealth-builders—whether individuals, funds, or nations—have succeeded by harnessing this simple, patient, repeatable process.

For every Australian, the message is clear: Time and discipline—not luck or market wizardry—are the foundation of a secure financial future. Start early, think long, invest steadily in growth, and let compounding do what it does best. In the end, the true magic multiplier is not found in complexity, but in the everyday choice to let your money, step by step, work for you—year after year.

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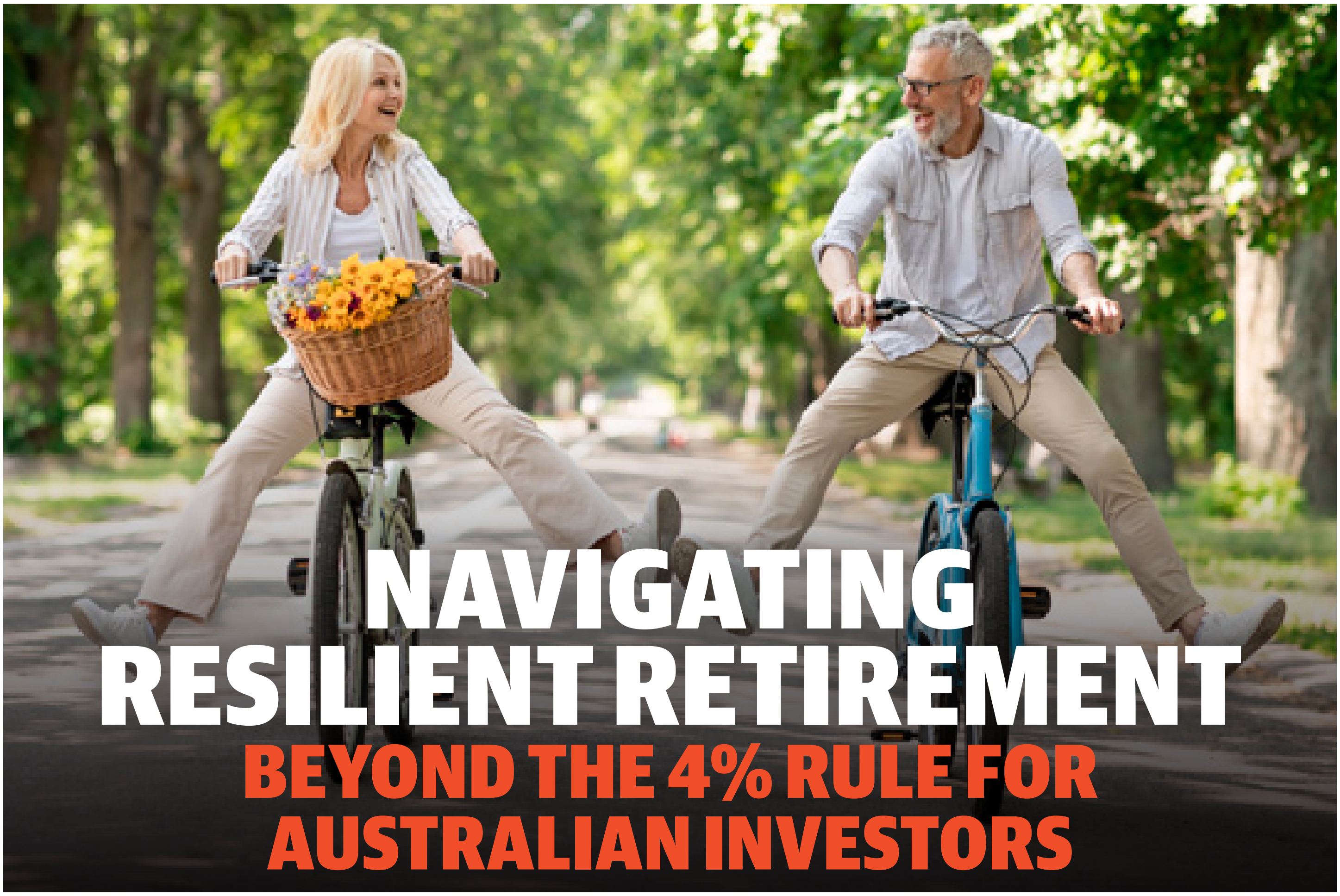

NAVIGATING RESILIENT RETIREMENT

BEYOND THE 4% RULE FOR AUSTRALIAN INVESTORS

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BY WEALTH ADVISER

Introduction: The Legacy and Limits of the 4% Rule

When Bill Bengen first delved into the mathematics of spending in retirement, his aim was to answer a deceptively simple question: how much can you safely draw from your investments each year and never run out of money? After studying a range of portfolios and market climates since the 1920s, Bengen's analysis led to the now-famous "4% rule," which transformed retirement planning for millions worldwide.

That 4.15% became the '4% rule', and it ended up revolutionizing retirement planning. It became a simple rule that advisers and their clients could use. The appeal was obvious: retirees could estimate the nest egg needed to support their chosen lifestyle, simply by dividing annual spending needs by 4%. Yet, even Bengen recognised this was a conservative benchmark, designed for the worst historical market conditions and relatively simple 50/50 portfolios.

Importantly, the notion of the '4% rule' for drawing retirement income was devised in a much different economic environment than today. 'Safe' withdrawal rates may not be safe enough if certainty is required. As economic cycles, inflation patterns, and personal circumstances have evolved, so too have debates over the rule's relevance for today's retirees—especially Australians, where superannuation, franking credits, and property figure differently than in the US. Local analysis increasingly questions whether fixed "rules of thumb" truly reflect the nuances of real-world financial decisions.

Why the Rule Needs Revisiting: Inflation, Markets, and Longevity

Planning for retirement income is unavoidably a balancing act with no crystal ball. Among the most menacing threats is inflation. Inflation is the biggest enemy for retirees. In the 1970s, US inflation averaged 8-9% per annum. It destroyed many retiree portfolios. Bengen's original analysis paid special heed to such destructive episodes, where both the cost of living and the value of retirement assets came under siege.

Australians today face similar anxieties. Longevity risk—the chance that you outlive your savings—has become

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much more pronounced. Australians are living longer and retirement can now stretch 30 years or more. Outliving your savings is a growing risk. There is greater complexity, too; housing needs, aged health care, family support, and international volatility all add unpredictable strains to retirement cash flow.

Recent surveys from the 2025 State Street Global Advisors Australia Snapshot reinforce this changing mood: Australians express persistent concerns about rising health costs, the adequacy of superannuation, and the implications of inflation on fixed or semi-fixed retirement budgets, even as they express greater awareness of investment diversification.

External studies from the Australian Bureau of Statistics reveal that, as of 2025, both life expectancy and the probability of significant out-of-pocket health and aged care costs continue to increase, creating further uncertainty for retirees planning decades into the future.

New Strategies in Practice: Supercharging and Diversifying Withdrawals

Bill Bengen's latest research advocates for a more dynamic, diversified approach. Rather than sticking to a 50% equities, 50% bonds portfolio, he found that by expanding the mix to include micro, small and midcap stocks, as well as international shares, retirees could improve their safe withdrawal rate. Instead of using a 50% equities/50% bonds portfolio, he increased the number of assets and created a more diversified portfolio - adding micro, small and midcap stocks. The result? Bengen's revised "safe" rate is now 4.7%, and he suggests that 5.25-5.5% may be even more realistic for many retirees.

Australian-focused research echoes the value of diversification. For instance, Morningstar Australia's analysis on retirement withdrawal strategies notes that a lower starting withdrawal rate doesn't always mean living on less. The latest research on sustainable withdrawals offers flexibility. Retirees can blend portfolio withdrawals with access to the Age Pension, annuities, property downsizing, or systematic drawing on superannuation.

Findex's guidance for pre-retirement Australians recommends careful use of cash buckets and disciplined spending reviews. Local features, such as franking credits for Australian shares and property income, can further boost real returns and lower withdrawal risk.

The SuperGuide review of rules of thumb highlights the importance of strategic flexibility, rather than rigid adherence, especially when faced with severe market downturns or unexpected expenses.

Adviser Wisdom and Behavioural Realities: The Psychological Side of Spending

Even the best technical plan needs to be adapted to people's lived experiences and psychological responses. Bengen himself emphasised that everyone is different and your retirement portfolio and spending should be customised to suit you. This point resonates strongly in Australian practice, where advisers routinely tailor strategies for different risk appetites, retirement goals, and family circumstances.

Behavioural finance research in Australia and abroad has consistently found that retirees are often so concerned about running out of money that they underspend, settling for a lower lifestyle early in retirement while living with unnecessary anxiety. SuperGuide's reporting on the confidence gap demonstrates that rules of thumb can inadvertently encourage over-cautious withdrawal, contributing to a reluctance to draw down principal.

State Street's 2025 findings show that many Australians worry about both longevity and market shocks, creating a strong case for regular adviser conversations, scenario testing, and flexible withdrawal frameworks—rather than "set and forget" spending rules. As Morningstar's adviser research concludes, despite the perception that successful investors nimbly navigate each zig and zag in the market, the evidence suggests otherwise. Instead, methodical, rules-based adjustments outperform knee-jerk reactions or static strategies.

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Conclusion: Future-Proofing Financial Security for Australians

The search for a resilient, adaptable retirement strategy is as relevant as ever for Australians. The lessons of the past—embodied in the original 4% rule—should inform, but not constrain, planning in the face of new realities. Each generation believes its economic challenges were uniquely tough - but what does the data say? A closer look reveals a more nuanced, complex story. Adaptability, lifelong learning, and partnership with a trusted adviser are crucial for navigating the decades ahead.

What remains certain is that no single formula can guarantee a comfortable retirement. Instead, successful strategies blend historical wisdom with new research, continually revisiting assumptions and adjusting for changes in health, markets, and policy as life unfolds.

Above all, the richest retirements are built not just on numbers, but on well-informed choices—supported, reviewed, and adapted in partnership with your adviser, so your financial security can weather any storm.

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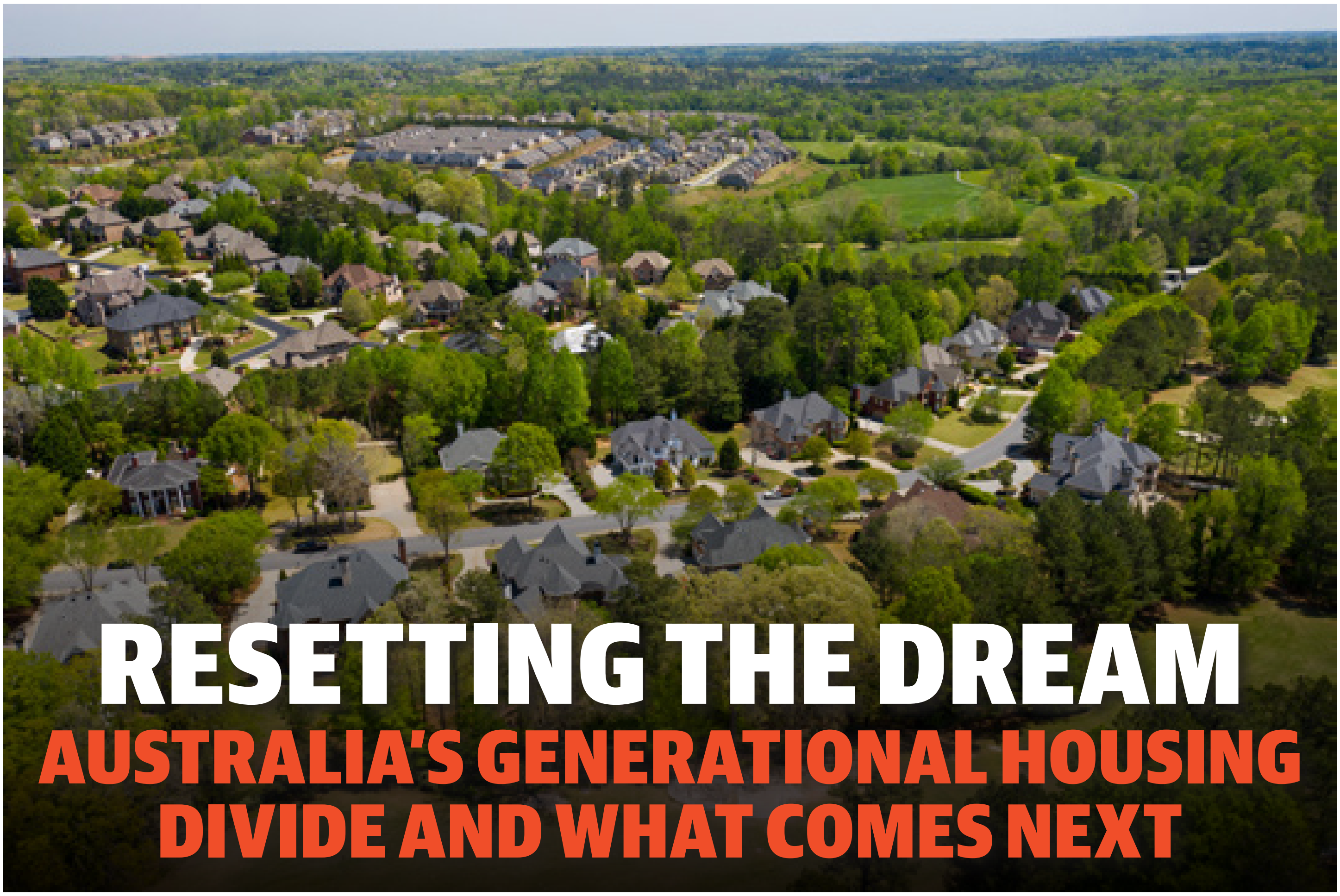

RESETTING THE DREAM
AUSTRALIA'S GENERATIONAL HOUSING DIVIDE AND WHAT COMES NEXT

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BY WEALTH ADVISER

Introduction: From Dream to Divide

For generations, owning a home was central to the "Great Australian Dream"—a symbol of security, belonging, and prosperity, achievable through steady wages and prudent savings. Yet the landscape of the 2020s is sharply different. Housing prices have surged far beyond wage growth, while stagnant policy, high immigration, and a preference for asset inflation have left many young Australians feeling locked out. The system is now stacked against young people who increasingly feel home ownership is out of reach. Australia's growing intergenerational housing wealth divide is one of the biggest issues facing our society.

How Did We Get Here? Asset Inflation, Policy Choices, and Missed Opportunities

Much of the housing crisis has been decades in the making. In the wake of the Global Financial Crisis, both Labor and Liberal governments were unwilling to address the main drivers for the economic slowdown—instead, they sought to support asset prices to give the appearance of increasing wealth. Policies such as negative gearing, capital gains tax concessions, and frequent first home buyer schemes fuelled ongoing house price growth, even as incomes stalled.

Housing affordability today ranks among the worst in the developed world. Data from the State of the Housing System 2025 confirms that the price-to-income multiple—once a manageable 3 to 4—now pushes 8 to 10 in major cities. This shift has diverted capital away from productive investments into housing, reducing living standards and making home purchases ever more distant for many young families. Historical housing undersupply, tight planning rules, and tax settings have compounded the divide.

The New Reality: Generational Impacts, Division, and the 'Rent Trap'

For Millennials and Gen Z Australians, the "bank of mum and dad" has become an unofficial institution: parental support is increasingly necessary for home ownership, further entrenching inequality. Young people have been the big losers in all this—belatedly, they've realised the system is stacked against them and they may never be able to buy a house of their own. The situation is deeply emotional, as well as economic, fuelling protests, political backlash, and a loss of trust in leaders.

This generation of renters faces greater insecurity and fewer pathways to building wealth. According to CEDA, transfers between generations are now a major determinant of housing access—a marked departure from earlier decades. The National Housing Supply and Affordability Council's 2025 report highlights that, for low- and middle-income earners under 40, rental stress is persistent, mortgage-free ownership is falling, and delays to household formation and family planning are rising.

What Can Be Done? Policy, Protest, and Personal Choices

Facing this daunting divide, young Australians have two broad paths: demand reform or adapt to new realities. If the young want the system to change, they need to drive the change. Protests, advocacy, and voting choices are becoming more focused on housing policy. Yet, as recent election cycles have shown, governments tend to avoid reforms that would lower prices or disrupt existing homeowners. Many policies aim to boost supply or subsidise borrowing, but often fall short of shifting the fundamentals.

Other countries show it's possible to do things differently. European countries show how public housing and tenant protections can deliver security and dignity without the pressure of ownership. In Germany, Sweden, and the Netherlands, robust social housing and tenant rights make renting a respected option rather than a fallback, and public policy actively works to keep prices in line with incomes. The Grattan Institute and the National Housing Supply and Affordability Council have both recommended a mix of planning reforms, targeted tax changes, and support for alternative pathways—such as cooperative ownership and large-scale "build-to-rent" projects.

However, political inertia, lobbying, and cultural attachment to ownership all conspire to slow meaningful change at home.

A New Definition of Success? Rethinking Values and Goals

For those unable or unwilling to wait for system reform, a second path is to reconsider what constitutes a successful, secure adult life. If the goal of most people is to have a happy life, then they should prioritise family, friends, health, spirituality, and contentedness over home ownership if doing so offers a better quality of life. A realignment of values may be needed, encouraging young people to embrace flexibility and resilience.

Countries in Europe, and others further afield, treat public renting and social housing as respected, secure, and often desirable options rather than fallback solutions. The stigma against long-term renting is a recent phenomenon in Australia; prior generations looked to public housing and rentals without shame or anxiety. Adapting to new realities may require embracing these alternatives and advocating for policies that ensure good rental experiences, stable tenancies, and financial mobility, even without a home of one's own.

Conclusion: The Path Forward - Choice, Advocacy and Adaptation

Generational divides, discontent, and the limitations of politics have made it clear: the route young people take will shape our country in coming decades. While systemic policy reform is necessary—a new and fairer housing system is both possible and necessary—the journey may be uneven, and patience will be required. In the meantime, reassessing life goals and embracing a wider definition of security and prosperity can help reset the dream.

Australia faces a pivotal moment. Reform, advocacy, and personal adaptation are not mutually exclusive; rather, they are all essential components as the country reimagines what a "successful" adulthood can look like. Whether as homeowners, secure renters, or advocates for bold change, younger Australians have the power—and responsibility—to shape a future where the dream is both inclusive and attainable once more.

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Q&A: Ask a Question

Question 1:

I noticed my income protection policy has something called a waiting period. How does this affect my cover and premiums?

The waiting period on an income protection policy is the length of time you must be unable to work due to illness or injury before your benefits start being paid. Common waiting periods range from 14 days up to two years. A shorter waiting period means you'll receive payments sooner, which can be helpful if you don't have much in savings or sick leave to fall back on. However, policies with shorter waiting periods usually have higher premiums.

On the other hand, choosing a longer waiting period can significantly reduce the cost of cover but requires you to rely on savings, sick leave, or other resources to get through the gap. The right choice often depends on your cash reserves, employment entitlements, and household financial commitments.

Your adviser can help you strike the right balance between affordability and protection, so your policy works effectively when you need it most.

Question 2:

What happens to my super when I pass away?

Superannuation doesn't automatically become part of your estate. Instead, it's paid out as a death benefit to eligible beneficiaries. How this is handled depends on the type of nomination you've made.

With a binding nomination, your super fund must pay your balance (and any insurance proceeds) to the nominated person(s), such as your spouse or estate. A non-binding nomination only guides the trustee, who will then decide who receives the funds. Binding nominations can also be lapsing (expiring every three years unless renewed) or non-lapsing (remaining in place until changed or revoked), depending on the rules of your fund.

Tax is also important. Death benefits paid to dependants like a spouse or young children are generally tax-free. Benefits paid to non-dependants, such as adult children, may be taxed.

To ensure your super is distributed according to your wishes, it's important to review your nominations regularly and coordinate them with your estate plan. A financial adviser can help structure this in the most effective way

Question 3:

Can I access my super early if I'm facing financial hardship?

Super is usually preserved until retirement, but in certain cases you may be able to access it early. Under severe financial hardship, you must show you've received eligible government income support for at least 26 consecutive weeks and cannot meet essential living costs. Withdrawals are subject to limits and conditions.

Another option is access on compassionate grounds, which may be approved for expenses such as medical treatment, funeral costs, or preventing mortgage foreclosure. Applications are made through the ATO or your fund, and strict eligibility rules apply.

It's important to remember that withdrawing super early reduces your retirement savings and may trigger tax implications. A financial adviser can explain the rules, help assess whether early access is the best option, and discuss alternatives that may ease financial pressure.