

# SMARTLIFE

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PRIVATE WEALTH

SUMMER  
**2024**

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ISSUE  
**15**



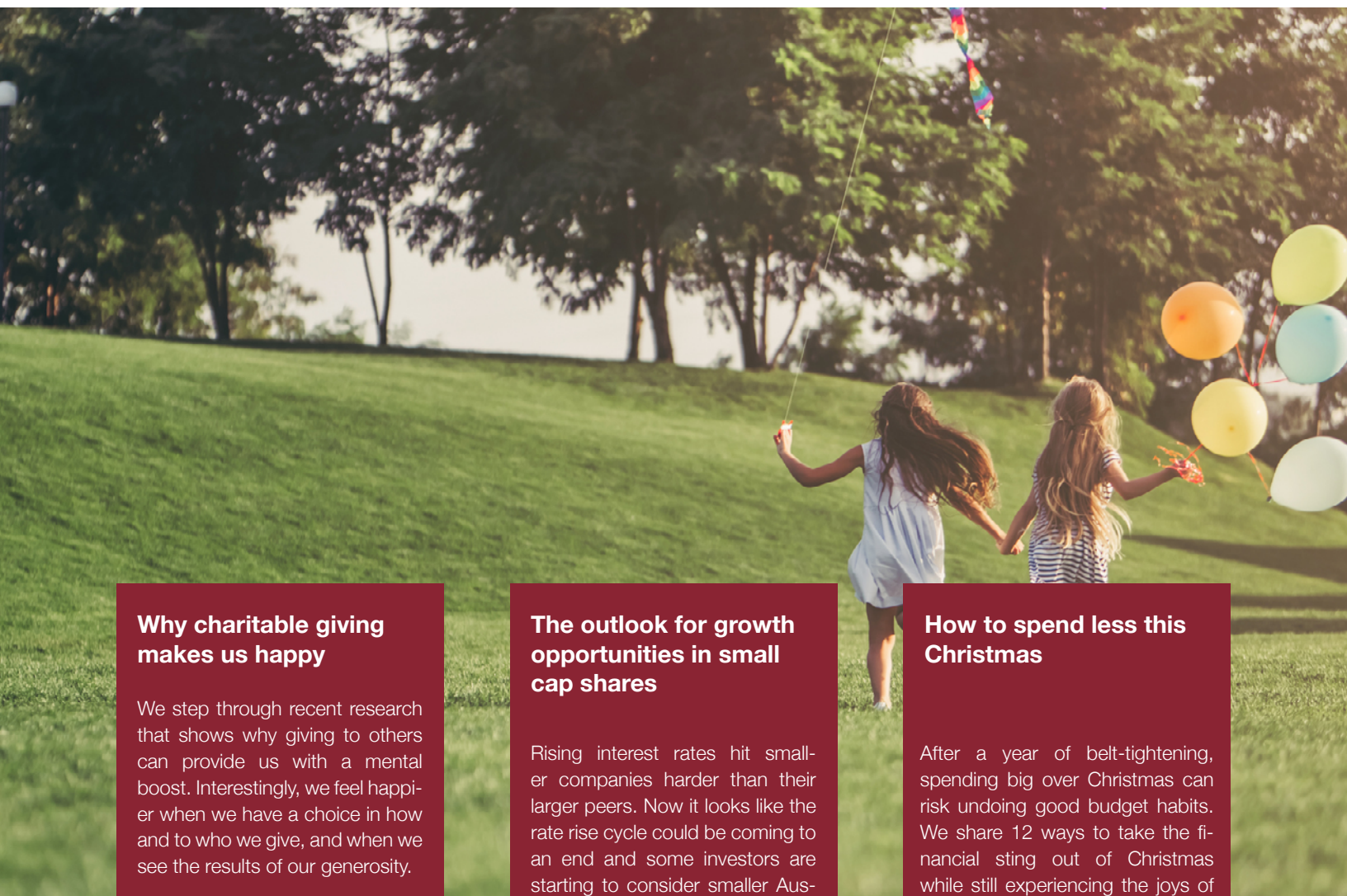
**Why charitable giving makes us happy**

**The outlook for growth opportunities in small cap shares**

**How to spend less this Christmas**



# Welcome to the Summer 2024 edition of SMART Life.



## Why charitable giving makes us happy

We step through recent research that shows why giving to others can provide us with a mental boost. Interestingly, we feel happier when we have a choice in how and to who we give, and when we see the results of our generosity.

## The outlook for growth opportunities in small cap shares

Rising interest rates hit smaller companies harder than their larger peers. Now it looks like the rate rise cycle could be coming to an end and some investors are starting to consider smaller Australian company shares again. We explain what this means for your investment portfolio.

## How to spend less this Christmas

After a year of belt-tightening, spending big over Christmas can risk undoing good budget habits. We share 12 ways to take the financial sting out of Christmas while still experiencing the joys of the season.

# Why charitable giving makes us happy.

We step through recent research that shows why giving to others can provide us with a mental boost. Interestingly, we feel happier when we have a choice in how and to who we give, and when we see the results of our generosity.

Australians are generous people, even in difficult economic times – over the 2023 financial year, charitable giving by Australian households rose by 10%. What's more, many Australians associate Christmas with giving and goodwill and typically boost their giving to charity over the festive season. Children's charities, homelessness, medical research and animal welfare are among the causes favoured.

Yet it's not just the receiver who benefits. Research published in *Current Directions in Psychological Science* in 2022 shows that our happiness increases when we give to others. These emotional benefits are particularly likely when:

- **We have a choice** about whether to give, who we give to and how. If it's our decision whether to give (or not), we're more likely to feel that we've created positive change.
- **We understand how our generosity makes a difference**, helping us to feel connected to the people we've helped. We're happier when results are tangible, can be measured and we can see or learn about the difference our giving has made to others.

When we give, there can be a positive, cascading effect. The research showed that people who have felt good about giving in the past are more likely to give again and to seek out opportunities to give in the future.

In one experiment, participants learned that they had earned a small windfall of money that they could use to buy a bag full of treats, such as chocolates. Participants had the choice to keep the bag of treats for themselves, receive the cash equivalent of the treats or donate the treats to an anonymous sick child at a local hospital.

After participants decided whether to keep the treats for themselves or give them away to others, the researchers asked questions to gauge the participant's mood. They observed a small but reliable increase in positive mood among the people who gave the treats away. The giving was in private.

This finding is consistent with a 2021 study where 788 participants played and won money in a game, from which some of their earnings could be donated to charity. The results revealed that people who donated money were happier than the people who kept the money for themselves.

These findings are consistent with neuroscience research that suggests that helping others is personally rewarding. The same reward centres in the brain are activated when a person receives a personal reward as when a person acts to benefit others.

This is important to note – not everyone is able to give to charity so it's good news that science shows how kind gestures towards others can also bring happiness and life satisfaction benefits.

## How we can help.

If you'd like to learn more about how to structure your giving or about charitable donations in general, speak to us.

We can advise you on how to best plan your giving, taking into account your overall financial goals.





# The outlook for growth opportunities in small cap shares.

**Rising interest rates hit smaller companies harder than their larger peers. Now it looks like the rate rise cycle could be coming to an end and some investors are starting to consider smaller Australian company shares again. We explain what this means for your investment portfolio.**

## **What are small cap shares?**

When investors talk about Australian small cap shares, they're referring to the 200 companies that are listed on the Australian Stock Exchange (ASX) and tracked by the ASX Small Ordinaries index. These companies operate in diverse industries – health care, consumer discretionary, energy, communication services, financials, materials and real estate.

They're called small cap because their value, or market capitalisation, is smaller than many of the companies listed on the ASX. The average small cap company is valued at \$1.5 billion. In contrast, the companies in the ASX 100 (the ASX's largest 100 companies) are more than 13 times larger: with an average value of \$20.2 billion each.

**Most of these smaller Australian companies are not household names and don't get a lot of attention from the media or market analysts. And because they're too small for many investors, they can be overlooked.**

Yet there can be good investment opportunities among Australian small cap shares. This is because investors may be able to buy undervalued companies before their growth potential becomes known by the broader investment community. What's more, smaller companies are often nimbler and more innovative than their larger peers, which can mean they grow faster. Most larger companies were small once, and as small companies grow, so does the equity invested in them.

### **How rising interest rates hurt small cap shares.**

While most businesses find rising interest rates difficult, Australian smaller companies have had to navigate a confluence of challenges since May 2022, when rates started rising again:

- **Rising interest rates restrict a small company's access to funding.** When a small company is early in its growth phase, it may not produce much revenue and so needs to borrow money to fund its operations and strategic plans. When interest rates are rising, this funding is both harder to get and more expensive.
- **Consumers spend less when interest rates are high.** The ASX Small Ordinaries index has a larger exposure to consumer discretionary companies. These are companies in industries such as travel, lifestyle retail, home electronics and education – representing 17.4% of the ASX Small Ordinaries index versus 5.8% of the ASX 100. When consumers are under pressure, investors usually sell down their investments in consumer discretionary companies.
- **Investors generally prefer larger companies when investment markets are uncertain.** Given the effect of high interest rates on smaller companies, larger companies can be relatively more attractive to investors. In turn, it can be harder to sell the shares of smaller companies because there are fewer investors wanting to buy them, depressing smaller company prices.



### **How a peaking interest rate cycle supports a growth outlook for small caps**

Looking to the future, some central banks are indicating that interest rates could be reaching their peak. This means that funding and other interest rate challenges could lessen for smaller companies. In turn, investors are starting to become interested in small cap growth opportunities again.

The August 2023 reporting season showed the resilience of corporate Australia. Dividends remained strong and concerns about the impact of inflation, labour costs, freight costs and interest rates are resolving.

So as the interest rate outlook improves, the profits of some small-cap companies could lift. And with less uncertainty, more investors could find smaller companies a hunting ground again for growth, taking advantage of the lower prices for smaller companies versus larger companies.

What's more, because there's a broader range of industries represented in the ASX Small Ordinaries versus the ASX100, investors seeking diversification are also more likely to consider smaller companies.



## Investment risks to consider

In addition to the risks of share market investing generally, some risks loom larger for smaller companies, such as:

- When inflation and interest rates increase, smaller companies are generally harder hit than larger companies.
- Weaker economic conditions can be more challenging for smaller companies as they often don't have the pricing power or brand strength of their larger competitors.
- While some smaller companies have robust operations that generate consistent profits, others carry quite a bit of capital and earnings risk for investors.

For example, mining companies in the exploration or mine development phase may not deliver the returns the company envisaged.

## Benefits of professional investment management and an active approach

Because the ASX Small Ordinaries Index includes a broad range of companies with very different risk profiles, a professional investment manager can sort the stronger companies from the weaker ones. They do this through deep research into each company. And because they understand the risks and opportunities that are unique to this sector, they can pick the best times to buy in and sell out of a company.

## How we can help

If you'd like to discuss how an increased exposure to Australian smaller companies could bring diversification and growth opportunities to your investment portfolio, speak to us. We can advise you on your options after taking into account your overall financial goals.


**So as the interest rate outlook improves, the profits of some small-cap companies could lift.**





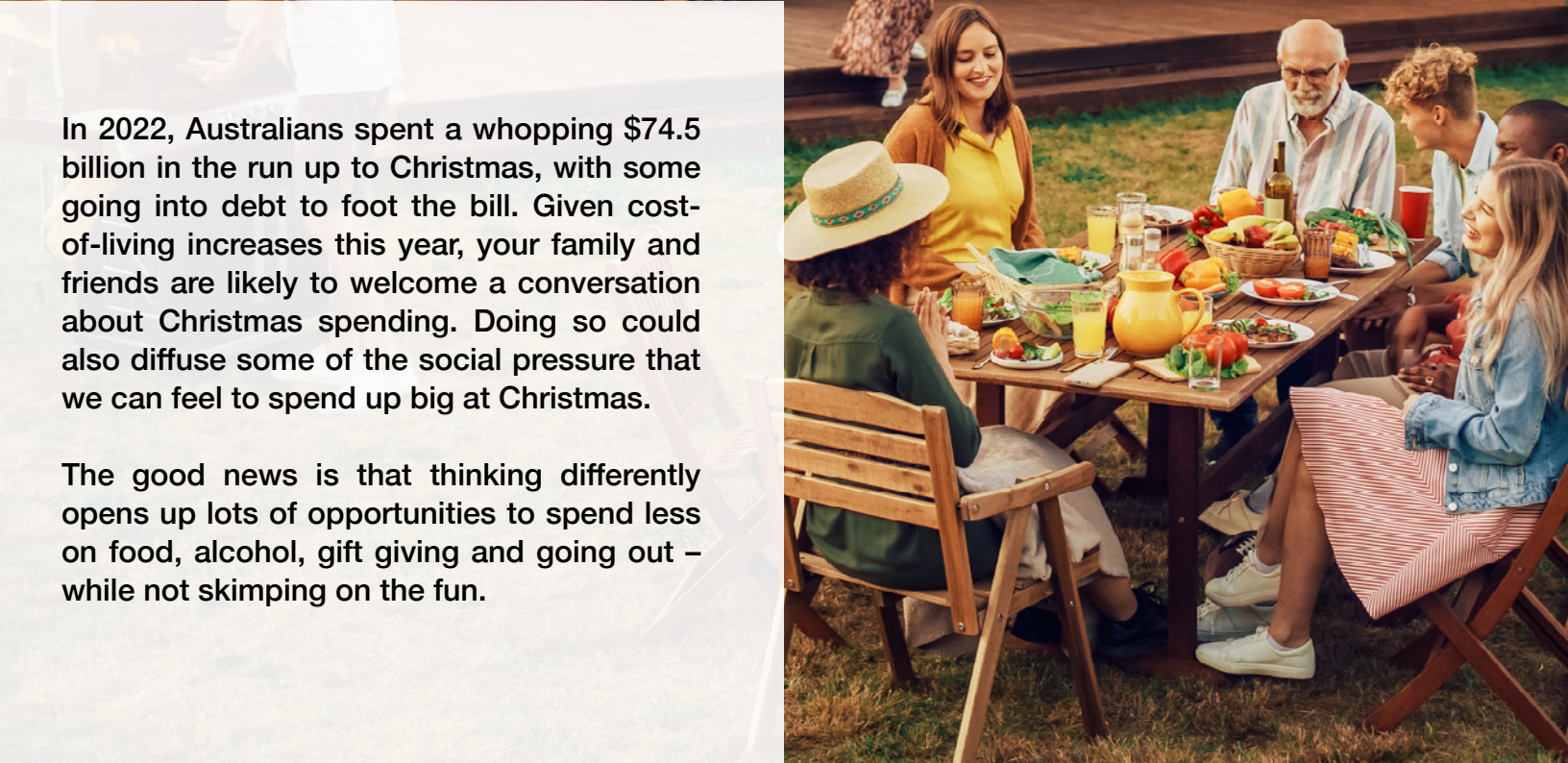
# How to spend less this Christmas.

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In 2022, Australians spent a whopping \$74.5 billion in the run up to Christmas, with some going into debt to foot the bill. Given cost-of-living increases this year, your family and friends are likely to welcome a conversation about Christmas spending. Doing so could also diffuse some of the social pressure that we can feel to spend up big at Christmas.

The good news is that thinking differently opens up lots of opportunities to spend less on food, alcohol, gift giving and going out – while not skimping on the fun.



## Food

Christmas is a season usually associated with over-flowing food so it's not surprising that in 2022, Australians estimated they'd spend an average of \$248 each on Christmas food.

Yet sadly, much of this food is wasted – food waste increases by 30% at Christmas versus other times of the year. What's more, food waste is bad for the environment; accounting for about 3% of Australia's greenhouse gas emissions. Here are some tips for spending less on food and reducing food waste at the same time:

- **Don't over-buy.** Get a clear idea of the number of people you're catering for. Estimate how much food you need, write a shopping list and stick to it.
- **Serve buffet-style.** This means your guests can choose what they want to eat and how much, minimising the uneaten food left on people's plates.
- **Change-up your menu.** The prices of certain foods, such as seafood and turkey, spike at Christmas. Try a different menu using cheaper ingredients in creative ways, such as a menu drawn from old-fashioned favourites or foods inspired by a country that you enjoyed visiting. When planning your menu, choose food that when leftover can be easily eaten later or frozen. And make sure you free up some freezer space in the weeks leading up to Christmas.

## Alcohol

Last year, Australians estimated they'd spend an average of \$104 each on Christmas alcohol. If you're organising a get-together, here are some ways that everyone can have fun without spending up big:

- **Provide appealing non-alcoholic drink options** such as flavoured sparkling waters, homemade cordials, punches or mocktails. Not only will you save money, you'll also be providing more choice for your guests who want to limit their alcohol intake.
- **Plan activities** such as yard games, karaoke, trivia, charades or other games that give your guests something to focus on rather than drinking.
- **Consider the time of your gathering** as people tend to drink more in the evening than during the day. A breakfast or brunch gathering can mean you skip the cost of alcohol entirely.

## Gifts

Presents are a way that people often show love to each other, so it's not surprising that the average Australian spent \$716 on Christmas gifts in 2022. If your Christmas traditions centre around lavish gift-giving, then consider mixing things up this year:

- **Think outside the box.** Consider the secret Santa stealing game where everyone brings a gift and makes sure they go home with something they like.
- **Give meaningful experiences and personal time gifts.** Create homemade coupons for experiences such as teaching a family member how to cook a favourite recipe or a massage or foot rub for a partner. And if your friends or family members have young children, perhaps gift an evening of babysitting.
- **Shop around and look for specials.** You may be able to find a cheaper option.
- **Convert reward and loyalty points** from your credit cards, store rewards or frequent flyer programs into gifts or money to spend in-store.

## Eating & Drinking Out

In 2022 the average Australian planned to spend \$140 each on eating and drinking out. And while it's fun to gather with friends and family at a restaurant or bar, there are other low-cost options:

- Enjoy an experience together such as a walk through a neighbourhood Christmas light display, a free Christmas event such as a carols concert, a picnic or a walk at a park or through the bush.
- Dine or enjoy drinks at home where everyone contributes something. Linking the gathering to a theme can also add to the fun. For example, if your group of friends met in the 1990s, you could play the music that was popular at the time.
- For many, Christmas is a time to appreciate family and friends. And so, simplifying our spending can make Christmas much more enjoyable for everyone and a lot less stressful.



In September 2023, the monthly hours worked in all jobs decreased by

**2.2m hours<sup>1</sup>**

In the building and construction sector, total dwellings approved fell

**4.6%**

in comparison to 13,144 during September 2023.<sup>3</sup>

In August of 2023, the tourism sector saw a departure total of

**\$1,516,500**

and an arrival total of

**\$1,544,700<sup>2</sup>**

Retail trade in September 2023 rises

**2.0%** in comparison to September 2022.<sup>5</sup>

The Consumer Price Index (CPI) rises

**1.2%**

in the September quarter.<sup>4</sup>

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1 Australian Bureau of Statistics

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**Smart Private Wealth Pty Ltd**  
**Corporate Authorised Representative of Count Financial Limited**

ASIC ID 001275904

ABN 15631281822

Level 1, 328 Main Street Mornington VIC 3931

P (03) 5911 7000

[www.smartprivatewealth.com.au](http://www.smartprivatewealth.com.au)