The Australian Finance Podcast Episode Transcript

Episode: Q&A: Calculating your net worth, VDHG & ASX companies issuing shares
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Speakers: Kate Campbell & Owen Rask
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Please read this prior to using this transcript:

*Please note that there **may be human transcription errors** within this document, and we recommend referring back to the original episode for a true depiction of what was communicated in this conversation.*

Episode transcript:

Owen:
Kate, it is a delight to see you today. You look luminescent. Welcome to this episode of, The Australian Finance Podcast.

Kate:
Great to be back, Owen, on a beautiful sunny morning and lockdown.

Owen:
Yes, it is. We are recording this on September 1st. It's a Wednesday. Wednesdays are our days for podcasts, although we do tend to stray outside of those every now and again.

Kate:
I don't think we stick to most of the rules we set ourselves.

Owen:
Yes, we don't. Yes, that is correct. We have grand plans, or, "Ground," plans if you're from Adelaide, and we don't really tend to stick to them. So we've got a few questions

that have come through this month. You can ask your questions by jumping into the, Rask Australia Facebook community, which anyone can get to via the show notes, and we hope everyone gets to it via the show notes. The other thing that you can do, if you're so inclined, is send us an email, podcast, P-O-D-C-A-S-T at rask.com.au. That's Rask, R-A-S-K .com.au.

Owen:
Full disclosure from Kate and I, we love hearing from you, but we have a lot of questions that come via email, so it's probably easier if you do it via the Facebook community, because then others can help you out as well. And it also makes it, we can give you quick responses. You'll find that with this month, there was a question that came through the Facebook community, and Kate actually asked one of our analysts to answer the question via our internal Slack channel, which was then put into the group. So that is a great way to get some questions answered. Obviously, we have our websites as well, but that's how you do it.

Owen:
Kate, we've got to do the disclaimer before we get into these wonderful questions, and we've got some questions on net worth, we've got issuing shares, when companies issue shares crossing over with VDHG, share buybacks and tax, lots of good stuff. The disclaimer is, if Kate and I answer a question it's limited to general financial advice only. That's because we haven't taken into account anyone's needs, goals or objectives, which are the things that a financial planner would take into account when they give you advice. So, anything that we say is not specific to you, your needs, goals or objectives. So always seek the advice of a licenced and trusted financial professional if you are confused or before you act on the information. And if you're investing in an ETF, always read that thing called a PDS, which we've done a video on, product disclosure statement available on the issuer's website. We're going to be talking about Vanguard ETFs today. So go to Vanguard's website and read their PDS.

Owen:
Cool. Kate. That was a long intro.

Kate:
Yeah, it sounds like you've rehearsed that skill, Owen, it was just rolling off the tongue, there.

Owen:
Yes. Well, we do have a proclivity for long introductions, Kate. So now over to you, what is the first question? Bring it on.

Kate:
Yeah. So the first question was from Naomi, via podcast email, and it's about calculating your personal net worth. So Naomi wrote in to say that she's been listening to our podcast for a while now, "And they've really helped her learn and understand about the financial world. Thanks, guys. There's one topic. I would like you to both discuss and elaborate on, which is the topic of net worth. Could you talk about this concept, how to calculate it and the importance of it for personal finance? Thanks."

Owen:
Naomi, love the question. Thank you so much. Great question.

Kate:
Yeah, and it's not one we've had before, so I thought it was a really good one to start with today.

Owen:
Yeah, yeah. Nothing cryptic about it. It was just straight up wonderful question. So Naomi, kudos to you, and this is interesting, you know why, Kate, because for some reason when you're in finance and you do podcasts and you have, like we do, one of the most popular things that people tend to do when they get your name, is they then go, "Name, net worth." And I do this with celebrities, too. I'm like-

Kate:
"Matthew McConaughey, net worth." That's what I was typing in the other day.

Owen:
He just wrote a book, net worth. "Mark Zuckerberg from Facebook, net worth."

Kate:
And people have actually been searching Owen's net worth-

Owen:
Exactly.

Kate:
Because it's one of the most frequently searched thing on Google-

Owen:
It's the second thing, after my name. I'm like, "Ooh,"-

Kate:
And you've got a pretty unique name. So it is probably you.

Owen:
It's probably, well, I haven't met another one, another Owen Raszkiewicz, anywhere in the world. I've come across some Raszkiewicz that actually added me on LinkedIn, but that's a story for next time. So the key here is breaking this phrase, "Net worth," into two. The second thing makes sense, "Worth." So what's something worth? Typically when we talk about people, because we have property rights here in Australia, Kate studying a JD, thank you very much, property rights mean that you own something. So it might be a house, your shares, a business, whatever. So that's the worth part. You add up what the house is worth, what the shares are worth, what your business is worth, if you own it all, what your bar of gold is worth that you've buried in the backyard and probably forgotten about, and then the first word is, "Net."

Owen:
So the net worth means once we add up what everything is worth, if you could sell it today, what is the debt or the liability with that? So if you have a house worth a million dollars and you have a loan of 500, a million minus 500 is 500 in equity, that's the net worth of that house. And that's all there is to it. But there's a common misconception that, and I think this is where a lot of these people, that come up with the calculations for the celebrities, get it wrong, is they often don't know if the celebrity's business, or personally, they have a lot of debt. So they don't know exactly, they just go off what they kind of pick up from interviews, or here and there, and they kind of come up with a best guess figure. So it's always important to check that.

Owen:
But Kate, the question from Naomi was about not only what is it, but does it matter and how to you do it? So maybe you've prepared something. So how do you do it? How do you think about it?

Kate:
Yeah. So I think net worth is helpful tool in tracking your progress towards your financial goals, but it's also a very personal thing as well. And there's a lot of discussions about whether you should include your primary residence in your net worth, or your superannuation, or your HECS. So everyone has different opinions, and at the end of the day, it's working out a system that works for you. And I think it's really important to remember that your net worth doesn't equal your self-worth, and your net worth could,

right now, be a negative number, and that's okay. But it's sort of understanding where you currently sit and where you want to go.

Kate:
Whether it's making, right now after this podcast, if you want to just get an idea of where you currently sit, writing out a list of all your assets, all of those, all of your shares, your super, maybe you own a property, just big, long list. Maybe your collectibles, whatever you think has a monetary value. And then writing out a list of your liabilities. Maybe you've got an Afterpay debt, you've got a mortgage, you've got a HECS debt. You may want to, some people would consider that as a liability in terms of calculating a net worth. And then you can, I use a spreadsheet each month, and that makes it really easy for me, but yeah, you can do it as simply as just writing down your assets, adding it up, writing down your liabilities, adding it up, and subtracting the liabilities from the assets, and you can work out what is your current net worth.

Owen:
Yeah. Can you repeat that line there? I think that was a bit of gold that may have got lost in that response. What was that thing that you said?

Kate:
Your net worth doesn't equal your self-worth, and I think it's really important not to let that number trap you-

Owen:
There it is, folks.

Kate:
In comparison, or not feeling like... you might be saying, "Oh, at the age of 30, I should have a net worth of," something. And so I think it's a good number to know, but it can also hold you back if you get fixated on it.

Owen:
Yeah. I think it's a really interesting exercise to go through, as you do, every now and again, if you want to. Go through, it's not a vanity project necessarily, it can actually just help you understand the levers of wealth. Like, "I've got too much debt. I don't have enough assets, I've got too many liabilities, I'm buying too many TVs and not spending enough on my share portfolio." All of these, "I bought this gold, which is actually wasting time in the backyard when I should have bought shares in Apple." You can actually think about it that way and you can critique yourself. I probably wouldn't do it every month. In fact, I don't actually do it at all, but if I was going to do it, I would do it probably once a

year. I think that'd be a happy medium for me, in terms of, once a year, sitting down, "Did my net wealth go up? Did it not?"

Owen:
I think it's actually a pretty interesting exercise, personally. I'm not the type of person that would post it on social media. I think some people do that. Totally, it depends what you're comfortable with. We get pretty intimate on this podcast, in terms of what talk about and the details. But yeah, each to their own there, I would say.

Owen:
The thing for me, if I do share some of my own experience, is that we have a house, it has some equity, we have a share portfolio, we have supers, but the big, big, big thing for us is in our business. And I would say that 90% of my net worth is in the business, the Rask business. So, and that can change, like last year we almost went broke because of some ridiculous things. And this year things seem to be going really well, so the value of the company's worth a lot more this year than it was last year, right.

Kate:
On paper.

Owen:
On paper. But it doesn't actually mean anything. It doesn't actually mean anything. So it hasn't made me any happier or less happy. It's just what it is. So it doesn't equal self-worth, as you said, Kate, I think that's right on. A spreadsheet would be cool. Maybe we can include that one of the courses that we do in the future, but-

Kate:
Yeah, and I think it's a good way to track your progress over many years. I've been using, I had a look at it the other day in preparation for this episode, but I've been using the same Google sheet since 2017, when I started getting my financial act together and I just have rows with a date on them, and then lots of columns for different assets and liabilities. And that's obviously gotten longer and longer over time as I've closed one account and opened another, so it keeps expanding this spreadsheet, but I used to do it, especially at the start, when I was on the first few thousand dollars, and just getting started with investing and saving and building my emergency fund, I'd check in my net worth almost monthly.

Kate:
So back in 2017, 2018, I was doing a check-in every month and I'm like, "Oh my gosh, my portfolio has gone up by a couple of hundred dollars," that was super exciting. But

now I think, I don't know if that's being busy, and COVID, I've automated a lot. I put in a really good plan at the start of every year, and break it down monthly, so I'm more focused on my monthly investing and savings goals.

Kate:
At the moment, I realised I hadn't checked in this spreadsheet for quite a number of months now. So it's probably, for me, dropped back to more of a quarterly or half-yearly check-in and I guess that's probably, as I've gained a bit more experience, I understand a little bit more about what I'm doing than when I first started, that it's not really a huge factor anymore. It's like, "Am I reaching my savings and investing goals each month? Am I breaching my other goals?" I'm not too concerned about the net worth number because I know that will work itself out if I hit all my other goals, and it's much easier to manage on a month-by-month basis.

Kate:
Especially as your portfolio starts to grow, looking at your net worth can be a bit scary if the market drops back by 20%, that figure can go from a hundred thousand dollars to 80,000 or $70,000. And that can be a bit scary, like suddenly you're worth, on paper, 30,000 less than you were a month ago. So definitely, during March last year, I just did not calculate my net worth, and that was probably quite good, it meant I didn't touch things or muck around with my portfolio.

Owen:
Yeah, I think, yeah. It's easy to get fooled to think that having a higher net worth is going to bring you more happiness. I don't necessarily think that's true. A lot of the studies that have been shown about incomes and wealth actually show that there's definitely a ceiling, in terms of your net worth. So don't always necessarily live your life according to what the spreadsheet tells you, because that may not bring you the most happiness. So keep that in mind. It's a bit of sophistry of people, to tell you that it maybe isn't the case, that you need to focus on your net worth in order to be happier. It's definitely like, an example for me, is it hasn't made me any happier or, it has because I've still got a job, but it hasn't necessarily made me any happier knowing that our business is worth more, if we were to sell it. It hasn't impact on me.

Owen:
I think two great resources that are shout out to here is, Dividends Down Under, which is a blog run by Mr and Mrs. DDU, Dividends Down Under. And the other one is, Aussie Firebug. Matt, who has a podcast, talks about net worth. The things to keep in mind with net worth, one final caveat I'll have, is that a lot of the times, net worth is talked about in the realm of property, so people using property as a vehicle to create net wealth on

paper, or net worth. That's not always the best thing to think about, because you often use a lot of leverage, or debt, to buy a property, which can amplify the results.

Owen:
There's a thing in investing called a J curve, which looks like a J, and what it means to your point earlier on, Kate, is that at first you have to go down the J before you can come back up really steeply. So you invest money, and you invest in yourself and you, you go into debt, or you do all these things. And then all of a sudden you come out of it, it hits the bottom of the J and then it goes up, it's called a J curve. And in finance, what it means is, it's like a reflection of the commitment that it takes to grow over the long-term, is you have to go down the JJ and then come up the other side.

Owen:
Another analogy is a hockey stick, which is like a compound interest table. You see a hockey stick lying on its side. Then all of a sudden, it just flicks up at the end, and that's compound interest. You save, you save, you save, you save, you save, then all of a sudden it's growing and it takes off. So-

Kate:
And it's just like people say, the first a hundred K is the hardest.

Owen:
Yep. The first million.

Kate:
It takes a long time. Well, I'm not quite.

Owen:
First ten million, for Kate.

Kate:
Yeah. Let's just say the first hundred K, it takes a long time, many years of saving and investing, for most people to get to that point. But once you get to that point, you do start to see compounding really start to take effect, and your saving and investing starts to really be a lot more worth it. You get to see some more results, which is really nice.

Owen:
I'll give you a red hot tip, if you're still aiming for your first five or 10 or 50 K or a hundred K, make sure, this is a quote straight from Glen James who runs the, My Millennial Podcast, is get a bigger shovel. Making sure that you get a job that brings in more

money, because that's oftentimes the best thing you can do to get to that first milestone. So more money in your pocket, get a job that pays you more, do a side hustle, do all that sort of stuff.

Owen:
Okay. So let's go to the next question, which is really interesting. I'll read this one out. I think I can say it comes from Tim, it's in the Facebook community. Tim says, "Hi, all. My first post, and it's a question. Wonderful way to start. A company I invest in, (I am a very new investor and I'm still learning lots) has made "Announcement for quotation of securities." What is this of? What would you want to know or infer from this kind of news/announcement? A penny for your thoughts please."

Owen:
Wonderful question, Tim. This is a kind of niche topic. So when you're new to investing, what you'll find is that when you go into your self wealth, COMSEC, [inaudible 00:16:25] account, whatever you're using, and you'll go and there'll be a, "News," or an, "Announcements," tab. You'll click on that and you'll see, "Oh, there's this thing here. It says, "Announcement for quotation of securities," or it'll say, "Annual report," or, it'll say, "Media release," or, "Quarterly." And it will sometimes have numbers next to it. It'd be like 4C, 4E, and it'll have different numbers there. And maybe you can read [Catherine's 00:16:45] response, Kate, because that might be the best way to do it. What this actual announcement means. Some of them mean nothing. Some of them mean lots. This is one that's, for me, I don't read it that often. I only check it if I'm really curious, but here's Catherine's response, as spoken by the great Kate Campbell.

Kate:
Yeah. So Catherine, one of our analysts at Rask Invest, who you may have heard in our earlier Disney investment podcast, we did, she said that, "An announcement for quotation of securities basically means that a company is issuing more shares. So if you think about a company being a whole pizza and shares being slices, when more slices are issued, each... Sorry, when more shares issued, I've got pizza on the brain now, each slice of the pizza becomes smaller because the pizza has to be split into more slices. So companies can issue shares for various reasons. The biggest one to note is a capital raising, and there would be a separate announcement for this. So if you're on your brokerage site or you're on the ASX website, you can actually have a look in market announcements, and there might be an announcement called a capital raising or [crosstalk 00:17:54]-"

Owen:

And they're often in a trading halt, that means that the shares can't be traded at that time. So they do a capital raising at the time of a trading halt. So that you would know if that's happening, because you won't be able to trade your shares.

Kate:
"Another common reason is if the company acquires another business, using equity shares. Again, there would be a separate announcement about that acquisition." And she said, "The final common reason would be options being exercised, which is when management might meet performance hurdles, and they get rewarded with shares. And again, you can find information about this in the annual report, under the, "Remuneration," section, which you can, again, find through your brokerage account, the market announcements, or the ASX website."

Owen:
Mm-hmm (affirmative). Cool. So this one in particular is about, I don't know exactly which company Tim owns here, but I would imagine it's about what I often see, to be honest, at least lately, some of the time, is directors getting shares. So the options become shares, so then the shares have to be counted by the ASX, who says, "This is the number of shares that are outstanding. We have to adjust that." So that's what that means. This, I saw a few of these earlier this month, or last month, in August 2021. And what I found was that the company was just issuing shares to the management team, and it was issuing way too many. Normally you don't need to worry about it, particularly if it's a big company, but some of these small cap companies tend to be very generous with the shares that they give to their management teams, which is not always [crosstalk 00:19:23]-

Kate:
Yeah. So there's been a lot of capital raisings and acquisitions this year, and so-

Owen:
Yeah, there's been heaps of them, too. Yep.

Kate:
Yeah, I think it's just been the year for it. Everyone's had a bit of spare time to think about what their business is doing, and if they want to take over another business, or raise some capital.

Owen:

Yeah, yeah. It is a great year for that sort of behaviour, good or bad. Some people say it's the top of the market, others say that it's a sign of a thriving marketplace. So all good. All good. Great question from Tim.

Owen:
Next question is about the Vanguard diversified high growth ETF, VDHG, as it's commonly known, an ETF that I own. Kate, do you own this one yet?

Kate:
No, I don't.

Owen:
That's a shame.

Kate:
I have a diversified ETF portfolio, so I do it a bit more manually, I guess, than having the one ETF to rule them all.

Owen:
One ETF to rule them all sounds like a marketing pitch-

Kate:
I just love, The Lord of the Rings, but-

Owen:
So okay, here we go. But this isn't a good way, right? The one ring to rule them all was a bad thing. So here we go.

Kate:
Yeah. I guess this is the opposite of the situation in, Lord of the Rings.

Owen:
Yes. Just in case you don't know, that's a Lord of the Rings, reference. So, "Hi, Kate and Owen. I'm 24 and new to investing, that's less than two months. And after listening to your podcast, I decided to invest in my first ETF (VAS, which is the Vas ETF VAS from Vanguard) for around 900 smackaroos. It seemed like a great entry level ETF with low fees. I have now saved up another thousand, which I'm going to use to buy another ETF. After doing some research over the time saving, I saw, big surprise, VDHG seemed like a good option for me. VDHG is already 35% invested in VAS."

Owen:
So this is for those who don't know, the VDHG is a diversified ETF. So normally, in an ETF, you would invest in the ETF, and then an ETF would buy shares for you. The VDHG ETF actually buys other ETFs, which then buy the shares. So VDHG is 35% invested in VAS, which is invested in Australian shares.

Owen:
"So I'm wondering if it is worth having both of these ETFs in my portfolio, or should I just choose one? I'm leaning towards VDHG, but I wouldn't want to sell what I have in VAS, as I haven't held it for more than one year. To summarise, is it poor diversification to have multiple ETFs with this much crossover? Regards, Jack."

Owen:
So, Jack, we can't answer your question to tell you what's right for your situation, I want to just make that clear. We're not answering, you've given us a lot of info about your situation and your goals and all that sort of stuff, which is delightful. We love that in the Facebook community, but Kate and I can't answer this question with regard to what you should do. So we're going to answer it just in general terms about what happens when you have ETFs that do the same thing, basically. And these diversified ETFs are introducing that question for a lot of people. So, Kate, any ideas?

Kate:
Yeah. The first thing I want to say, it's fantastic that you're getting started early and actually doing the research. This is what we preach, so it's fantastic to see. The first thing that I would look at is actually going into VDHG and looking at the makeup of that ETF, because it has a lot of things that you might not have normally put in a diversified portfolio. So VDHG actually has just over a 6% exposure to small companies at ETF. And so maybe not everyone would put that into a diversified portfolio, it really depends on your approach. So I think, firstly, if you are interested in VDHG, or any of those other ETFs, like BetaShares have a few that are pre-mixed, actually looking at, what is it holding inside, and does that suit your own risk profile and your investment strategy?

Kate:
Because maybe you don't want emerging markets, or small companies, or bonds, or hedging, and VDHG, has a bit of all of that. It's a definitely like a fruit salad going on there.

Owen:
Fruit salad, yes. Indeed.

Kate:
Yeah. So looking at what's inside it and, is that the way you want to approach it? Otherwise, some people would build their diversified ETF portfolio with individual ETFs, like VAS and a couple of others, to make up portfolios-

Owen:
Ethical ETFs.

Kate:
Yeah. Yeah. And it's just, I think you have a little bit more flexibility if you're buying the one Australian shares ETF, one international shares ETF, maybe a bit of emerging markets or small companies, and you can adjust the percentages depending on your risk profile, your view of the world, what different providers you want. So it really depends, firstly, on, do you want just one easy solution, and are you happy with what's inside of it, or do you want to have a bit more control over the weightings?

Owen:
So I think this is like when you order, Hello Fresh, and if you're a meat eater, Hello Fresh, comes with a few lamb chops in your meal. You've got salad, you've got some potatoes and you got lamb chops. If you want to put more lamb chops on your plate, go ahead and do that. But just if you order, Hello Fresh, it's already in the box. So it's up to you if you want more of that. And so when I look at this, what I think about, personally, there are two things. One is, I think about the complexity of it. Would it just be easier on me if I had one of them? The second thing is, is the allocation right for me? So maybe I don't, I don't eat meat, but maybe two lamb chops is not right for me. So I do want to add some more lamb chops on it, but I don't want all the other stuff that comes with it. I don't want extra salad. I just want more lamb chops. So I'm just going to add more VAS to my portfolio.

Owen:
So then, if I took the whole thing overall and actually looked what I was invested in, if I looked through the VDHG ETF, and I saw that, "Oh, VAS is already 35%." So if I had 10,000 in VDHG, I would have, in effect, indirectly, three and a half thousand dollars of VAS already. If I then go and add another $2,000 of VAS in my brokerage account, that's five and a half thousand dollars invested in VAS, figuratively, or indirectly.

Kate:
So you're over weighting.

Owen:

So you might be over-weighting for what you ideally want, so you have to weigh up your allocations. So it all comes back to that. Do I feel comfortable with this, and is it the right allocation for me? And that's totally up to each individual person to answer. Obviously, if you add more shares, you're going to get more risk than if you add more bonds. That's the academic approach, anyway.

Owen:
Yeah, I would say, my personal approach is, I own the A200 ETF, which is the BetaShares A200 ETF. I've owned that for a few years, it's a super low cost ETF, but I also own VDHG, but that's just what I've done. I don't want to sell VDHG, or sell A200, because I'll pay tax. I'm just happy to keep owning it. Nothing's changed, it's just, happy to keep with it. So, yeah, we can't answer your question specifically, Jack, but what I have to say is that it's about taking that whole mix into account.

Owen:
We've talked in the past about having what we call a core portfolio. So maybe you want to build a core portfolio yourself, like Kate does, with individual ETFs, or maybe you want to build it with VDHG and put all the other things around that. Totally up to you.

Owen:
One of the big questions that we got from our ETF members when we held a live session the other night, was, why did we go with VDHG over one of the ethical ETFs? That's a really good question, too. If you're interested in ethical investing, you probably wouldn't be inclined to own VDHG, just as an aside. So, great question, Jack. I wonder if there was some [crosstalk 00:27:02] -

Kate:
Yeah, the only thing I wanted to add is just, it's a good idea to sort this out earlier on, because-

Owen:
Yeah, it is.

Kate:
... because the tax issues with a thousand dollars look quite different to a hundred thousand dollars.

Owen:
50 to a hundred thousand dollars.

Kate:
Yeah. And so your capital gains tax implications are going to be quite different. So sorting this out in your twenties, and trying different structures and figuring out what works for you, it's a great time to do it, while you're playing with fairly small amounts of money. I never purely will make a decision because of tax reasons, if I want to sell a company, I'm not going to hold on for an extra two months just to have a reduction in capital gains tax. If it's the right time to sell, I'll sell. But yeah, there are implications, if you have been holding for a long period of time, and I know there's quite a few discussions in the Fire community at the moment, where people have built their ETF portfolio over 10 years, it might be quite substantial now. And now they're weighing up, what is the capital gains tax going to look like versus VDHG, where I could have a simplified solution? So it gets a lot more complex, that discussion, and there's a few different, more pros and cons to weigh up.

Owen:
It's only first five years, though. That's really important, but don't overthink it too much. Sometimes it's just better to get comfortable with what you have. And sure, in 10 or 20 years, your $5,000 investment in whatever ETF that you own could be $20,000. But if it's grown that much, chances are the rest of your portfolio has grown as well, and you've managed it along the way, and you think, "Oh, okay, I've still got it."

Owen:
I think the big thing that most ETF investors aren't thinking about enough, and this is something that we had to think about when we designed the model portfolios for our ETF service, was that you've got to be mindful that, at the moment, fees on ETFs are going down generally. So some ETF providers are dropping fees, I think all of the big ones have done it. Vanguard. I know ETF Securities did it. A few others have dropped their fees across the board, but there might be a time when you don't see that happening. So what the fees are today is really important, but as Kate said, if you go forward 10 years, which ETF provider is more likely to have lowered its fees between now and then, as well? Because in 10 years, you're going to be paying less fees on a bigger balance. So that's also important, too. I don't think enough people think about that.

Owen:
I think the Fire community is catching onto that now, because they've got bigger balances. They're like, "Oh, Vanguard's dropped their fees. That's really good. But I have this BetaShares one, which hasn't dropped its fees. At the time, BetaShares was cheaper, but now it looks like this one is cheaper." I'm just using that as an example, but you get the idea.

Kate:
As the industry, the ETF industry just grows, there's so much money just pouring, the companies will be able to start dropping their fees. So it's really important to stay on top of what the comparable products are to your current ETF, and what the fees are, and whether it's worth changing based on that.

Owen:
Yeah. And where they're going. Yeah, exactly. Cool.

Owen:
Okay. We've got a question from Mark.

Kate:
Yeah. I might read this one to you, because I'm sure it's something that you've come across many times throughout your last few years. All right. So this is from Mark, over email, and it's all about share buybacks. And he said, "Hi team, with the recent announcement from CBA regarding a share buyback, I thought it would be a good opportunity to talk specifically about share buybacks in detail, and would be curious to see what the implications would be on someone participating in a share buyback on a lower income versus a higher income?" because he believes it's beneficial for low income earners, and anyone in the higher tax brackets wouldn't benefit so much from participating in a share buyback. Thoughts?

Owen:
Yeah. CBA has announced a big, big buyback. I think it was like $6 billion, it announced. So I know you went into the weeds on this one. So what is a buyback? A buyback is when a company decides that, instead of paying a dividend, or as well as paying a dividend, in this case, management and the board of directors have decided, "We've got, let's say, $6 billion and we don't know what to do with it. What we're going to do is we're going to offer to buy back everyone's shares." So this is the reverse of what Catherine's response was before, where a company was issuing shares. This company is buying back shares, and by buying them back, what they do is they buy them back. They give you money for your shares, or some of your shares, and they cancel those shares, which then brings the number of slices in the pizza back down.

Kate:
So the company now owns more of itself.

Owen:

Yeah. Or you, as shareholders, now own more. It might only be a tiny little bit in your actual scenario, but Apple has been doing this for the last five years, this is a company owning shares, and they've been buying back heaps. I think it's like hundreds of billions of dollars, now, they've bought back. And what that does is that forces the share price up, because this comes back to the pizza analogy. If you have a $20 pizza and you cut it 10 ways, that's $2 a slice. But if you have a $20 pizza and you cut it five ways, it's a $4 slice. So what they're effectively doing is they're saying, "No, no, no, no, no, no. We're not going to cut it that many ways anymore. We're going to cut it fewer ways. And then that's going to push up the value of everyone's share."

Owen:
So, what happens when this actually takes place? Well, the company announces it. And then there are two different types of buybacks, there are off-market and there are on-market, and the question here was more around the tax implications. So it really depends. A lot of this is actually interesting, I hadn't thought about this in preparation for today's episode, but a lot of people may own Commonwealth Bank shares from before the current capital gains tax system came into place. So they might actually own-

Kate:
Especially your grandparent's generation.

Owen:
Your grandparents, your parents may have got shares in Commonwealth Bank in the nineties, which may change the way you calculate your capital gains tax. So keep that in mind. The second thing is that the amount of capital gains tax that you pay will depend on the price that the ATO says is the fair price for the sale. I know you did some digging into this, and I've got the actual ATO website here, and basically in the case of an off-market buyback, there's a beautiful worked example on the ATO website, which we might refer you to. Basically, you may have to take the market value of the shares, not the actual price that you received. So if you sell your shares, in the ATO example, so you sell your shares for $9.60, but the actual market price of those shares is $10.20, the ATO would actually take it as $10.20, so the market price.

Owen:
Then you've also got to factor in, a lot of these companies distribute franking credits when they do it. Franking credits are those wonderful things that we talked about at the last election. Wonderful, if you're on one side of politics, and dreadful if you're on the other side. Can't believe that was an election debate, that was just... Anyway. Yeah. So you might get franking credits, which encourages you to sell your shares, because the franking credits reduce your tax. So if you're a high income earner, the franking credits

may be of great value to you, because you might see this as an opportunity to sell some.

Owen:
But what I would encourage anyone to do, that's in this situation, is go read the ATO example and just use their example with your numbers. That's basically it. There's a formula there, you can just use their numbers with your example, because end of the day, Kate and I, we're not tax accountants, so, yeah. We have a tendency to lollygag and just have a bit of fun on the show when it comes to tax, but really you should go and speak to someone who, as Kate would say, has a proclivity for these types of things.

Kate:
Yeah. And also there's another link that I'll put in the show notes, but the ATO often has special tax rulings for share buybacks. So they've got a whole page of just a long list of different ASX listed companies that have had special rulings for share buybacks. So you actually have to look at that document when calculating it, and anyone, I guess most people, would use their accountant to work that out, but that's something to keep in mind as well. It's not always exactly the same process.

Owen:
It might seem a bit cryptic, though. Just go on there, have a read of that document. It's actually really helpful that they did do some examples, because things do change, right? So the examples allow you to adopt your situation into that, and then give it to your tax agent that way.

Kate:
Question for you. Do you think share buybacks are, this is just off topic-

Owen:
Whoa, off script, Kate's just coming out here.

Kate:
Off script, I know, I'm creating my own question in the Q&A, but as an investor, do you like when companies have share buybacks, especially companies that you invest in, or do you think it's a waste of capital that they could be using for research and development or something else?

Owen:

Oh, Kate [crosstalk 00:35:55] very political question. I guess the idea here is just to try and just, I guess, think about this through a few different lenses. So the first is, Commonwealth Bank's buying back $6 billion of shares, right? They're also paying a dividend, fully franked, thank you very much. Now, the thing is, that you want the company to do with its money the thing that maximises shareholder value. So if the company is sitting on $6 billion, earning 0.5% interest, why don't they just give that back to the shareholders? If they can't invest $6 billion and get a good return, give it back to you, and you'll go and invest in something. That's fine, and I think that's a good, reasonable way to think about it.

Owen:
In the USA, the mighty USA, they don't have franking credits. So that's why, almost always, companies in the USA have lower dividend yields, because it's not as effective to give that money back, because all of the shareholders pay tax on the dividends, even though the company's already paid tax on the profits. Whereas here in Australia, the ATO deducts the tax that the company's already paid, which is why we have franking credits. So in the USA, they tend to opt for more buybacks. But over there, there's a massive hoo-ha about this, because the big companies like Apple are buying back like a hundred billion dollars of stock, right? This is not a joke, a hundred billion dollars.

Owen:
So what's happening is that the people are saying, "Well, you should be investing that in your community, where you make money, reinvest for jobs, and all that sort of stuff." Well, Apple's like, "We are doing that, but we've still got money. So we're going to buy back stocks." And as an Apple shareholder myself, I actually like it, because I don't want them to pay me a dividend that's going to be taxed to the hilt, I'd rather than just buy back shares. And that keeps the price of the shares on the market reasonable, and it pushes the share price up over the longterm.

Owen:
Now that's the capitalist side of me. Sure, I'd want them investing in R&D but only if the R&D is actually going to make something happen. Apple has so much money that for them to create a new Apple watch, yeah, it's a billion dollars, maybe, in R&D, but they've got $120 billion. So they can't just create 120 different versions of watch, they're not going to do that. So, as a capitalist, I think they should be investing, they should be innovating, and they should be employing people. But at the same time, I think it's unnecessarily political. That's my view. I just try and act with equanimity. Whenever I get thrown into a situation like this, and where it becomes really political, just focus on the actual sense of it, rather than just get up into hysterics. But I think overall, yeah, I like companies doing buybacks. I've never sold into a buyback. I've never, ever once sold

my shares into a buyback. I've never agreed to sell my shares. I just prefer to keep holding them. What a crap answer.

Kate:
I don't know. This seems like, a company like CBA, that money could do a lot in terms of improving their technology, and their products, and their offerings [crosstalk 00:39:12]-

Owen:
This is the thing-

Kate:
... and services.

Owen:
The thing is that a few years ago, CBA and all the big banks were basically told, "No more acquisitions." So, following the GFC, "You're not allowed to buy anyone else. You're already too powerful in Australia. You can't buy anyone else." So there was rules put in place. So now that CBA's selling a lot of its crappy businesses off to other companies that can take them, they've actually selling those businesses that they once bought to try and monopolise the market, and now they've got nothing else to invest in. So they really only have two choices, buy another company, which they can't do, so give it back as dividends, or give it back as share purchases.

Owen:
One of the things that you mentioned is technology, right? Again, this comes back to CBA, I don't have the financials in front of me, but CBA is probably already investing half a million dollars a year in itself. So, to create an app, you don't need half a billion dollars. You could do it with half a million. And so that actually isn't, in terms of moving the needle, they don't need that much money to do that. The only thing that they could really do is expand overseas, which, if you look at NAB or ANZ [crosstalk 00:40:28]-

Kate:
Yeah. We've had a pretty atrocious track record trying to expand banks overseas in Australia.

Owen:
Yeah. So you look at, in fairness to CBA, in CBA's defence, the apps actually are pretty good. Compared to the other banks, they're actually pretty good. I think things like [UPmoney 00:40:48] are probably better, and ING and all that, but CBA is still investing, it just doesn't need to invest that much more. Anyway. That's-

Kate:
No, sorry, Mark. I hijacked your question, but-

Owen:
Yeah, Kate, next time send it to the podcast inbox, and then we'll drop it in the Facebook community. Actually, that's a really interesting topic. If you think the share buybacks are good, or bad, you can let us know in the Facebook community, or just hit us up on Instagram or Twitter, and let us know what you actually think of them. Because I don't think they're a big deal, but some people do, so there is a counterpoint to he made about these companies being so profitable, particularly in the USA. But yeah, let us know what you think, and, importantly, you'll find the show notes there, which have the link to the ATO's website. Great example on the ATO's website.

Owen:
By the way, one more thing I'll throw in. The other day, I went on the ATO website and I didn't know this was a thing, but it's been going on for like five or six years, I think. The ATO, every year, publishes a personal investor tax booklet, and actually takes you through all of the tax scenarios that you might come across, and it explains how you pay tax on dividends, what franking credits are. It explains how you pay tax on ETFs, how to do things, it's got all these examples, pages and pages of examples. If you have a tax question, Google, "ATO personal," I think it's, "Personal investor tax booklet." It's a PDF, and it's really easy to understand. And it's great. I was like, "Whoa, where has this been, my whole life? I've been answering tax questions left right and centre, and it's right here." Yeah, so check it out.

Kate:
Well, definitely, I'll find the link to that and put that in the show notes. They're going to be a pretty chunky today, but hopefully they give people a starting point if they want to do their own research into these areas, which I would always recommend.

Owen:
Yeah. That's it, it is really good. So, yes, Kate, I think that's it for today. If people want to get in contact and send a question in, again, how can they do that?

Kate:
Yes. We're checking the emails a little bit more regularly, now that we've got a producer on board. Podcast@Rask R-A-S-K .com.au, or if you want more immediate responses to your question, the Facebook community, which will be linked in the show notes because the Q&As only happen once a month. So you're much more likely to get a

quicker response and some resources to guide you in the meantime, if you post the question in the Facebook community. And if it's a popular question that we haven't answered before, then we'll definitely put it into a future Q&A episode.

Owen:
There are heaps of really, really smart people in our Facebook community. So it's actually, we kind of have a, "No idiots," rule in the Facebook group. So it's actually a really good environment to just ask beginner questions, and ask intermediate and advanced questions, too. So it's all above the waist, really good, foolhardy thinking about finance and getting better as a community. So jump in there, say, "G'day," ask your questions, and if you're happy for us to take a few of them for the podcast and share them with the big audience, please, we'd love that.

Owen:
So, Kate, as always, thanks for joining me on this episode of, The Australian Finance Podcast.

Kate:
Thanks for listening, guys.