MONEY

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Idling motor? Time to rent out those revs

Your car may spend most of its life out of action but new hire schemes can drive up your bank balance — if you let others use your wheels, writes *Eithne Dunne*

Owning a car is a seriously expensive business, no matter how much shopping around you do for finance deals or car insurance. The costs can rack up, particularly when you consider that the average car spends only 5% of time on the road, and the rest languishing in car parks and on driveways.

For some consumers this is an unacceptable waste of cash, so they ditch their car to rely instead on a combination of public transport, taxis and short-term car rental or car sharing when they need a set of wheels. For those who cannot or will not part with their motor, there is now also the option of letting it out to other people when not in use. Either option is preferable — from a financial perspective at least — to paying for something you use just a fraction of the time.

According to the AA's annual survey of motoring costs for 2017, the average cost of running a car in Ireland is not far off €11,000 a year. The calculations behind this sobering figure allow for tax, insurance, depreciation and miscellaneous expenses.

Maurice Sheehy, founder of peer-to-peer car rental platform Fleet, believes people are slowly becoming less attached to the notion of owning their own car.

"I think ownership of cars will change quite dramatically over the next 10-20 years as public infrastructure improves," he said. "Airbnb has broken down most of the barriers when it comes to educating people on the sharing economy."

Share and share alike

The car-sharing service GoCar is recording 2,500 new registrations each month and has 350 vehicles on the road.

"As with Spotify and Netflix, people just want to pay for what they consume," said managing director Colm Brady.

He says families that previously had two cars are now cutting back to one, and using a GoCar for one-off trips. Employers sometimes prefer to pay for a GoCar for their employees to attend meetings rather than opting for a taxi.

"People are happy to flit between taxis, shared bikes and public transport," said Brady.

GoCar's customers use the cars and vans for a variety of purposes, from visiting friends and family to doing a weekly shop, moving stuff or collecting someone from the airport. Among the more common destinations from the capital are Ikea, Howth and Glendalough in Co Wicklow. Fewer than 10% of GoCar members own a car, and almost half say that if GoCar did not exist, they would have to buy one.

There is no joining fee, and rental costs €8 an hour, though you can rent from half an hour upwards. You'll get your car for half the hourly rate if you drive it between midnight and 8am. There is also a daily rate, though if you need a car for a day or more it will usually work out cheaper to rent from a more traditional car rental service if there is one nearby. The first 40km of fuel is included, after which you'll pay 40c per km — you are given a fuel card to top up with if needed.

A typical customer uses the car for three hours and goes no further than 30km; this costs €24.

The service is also launching a feature called GoFar, which will mean certain vehicles cost 10c per km on bookings of six hours or longer. Available in 16 counties, cars can be booked up to six weeks in advance, or minutes before you need one.

In the classic 1980s film Ferris Bueller's Day Off, Ferris (Matthew Broderick) decides to make use of the Ferrari belonging to his best friend's father

> In some workplaces you'll have people renting to colleagues

Longer trips

If you need a car for a day or more — or need to travel a long distance — a GoCar probably will not be the cheapest option. Shop around for car hire deals, but you should be able to pick up a modest set of wheels for in the region of €40 a day, plus fuel. If there are no car hire outlets near you, or you want to hire something slightly fancier without paying through the nose, you may be able to hire from a private individual whose car is listed on Fleet (jointhefleet.com).

Just eight months old, Fleet — dubbed the "Airbnb of cars" — links consumers and businesses to private vehicle owners. For renters, it means you may be able to rent a car from a colleague, neighbour or local garage. The cost of renting a small car this way is comparable with what more traditional rental services charge, or in some cases is slightly more expensive. However, if you fancy a slightly more high-end vehicle, you would pay considerably less.

"Something like a BMW will cost about 60% less on Fleet," says Sheehy, a finalist in this year's Ireland's Best Young Entrepreneur Awards. "For example, you can rent an Audi A6 for €30 a day, and there are also Jaguars and BMW convertibles available."

Sheehy is hoping to introduce a few more high-powered cars in the next few months, alongside vans and campervans for the festival season.

Monetising your car

For car owners, letting their vehicles out to others when not in use could help claw back some of the expenses of owning their own wheels.

Sheehy says there is huge demand for cars via Fleet and, even though there are 400 listed, this is not enough to meet that demand. One of its more lucrative listings to date is an Audi A6 in Dublin which has generated €4,000 for its owner in the space of four months. The owner uses the car only at weekends.

"This has given that owner the opportunity to have a cost-neutral vehicle, and there are so many people who have cars that are just parked on their driveway five days a week."

You don't have to own an Audi A6 to make some money. A quick glance on fleet.ie shows a variety of cars; examples include a 2006 Seat Leon for €25 a day, a 2017 Toyota Yaris for €40 a day, and a 2009 convertible BMW 3-series for €40 a day.

Sheehy says some of the more successful listers are those who share the listing on social media and let everyone know it is available. "They'll put posters up if they live in an apartment block. And in some workplaces you'll have people renting to colleagues, so it depends how much you want to push it yourself."

Anyone who lets their car via Fleet will be covered by fully comprehensive insurance as soon as it leaves their driveway. Your car must be no older than 13 years, with an engine size no bigger than 2.5 litres and a value not exceeding €70,000. It must be taxed and up to date on its NCT.

Once you have listed your car and someone wants to rent it, you meet them in person. The owner and renter do a vehicle survey, taking photos of any scratches etc as well as the fuel gauge — and agree terms and conditions such as no pets or smoking. Once that is signed, the renter drives away.

Sheehy says, as a result of personal contact with the owner, a renter will likely have more respect for the vehicle than when hiring from a rental company.

There are penalties for late return of vehicles — unless agreed with the owner — and other breaches of the rental agreement. Fleet includes an Airbnb-style mutual review system.

Paying your dues

If you earn income from letting out your car, you will be liable for tax. Although private car hire is relatively uncharted waters for Revenue, it will likely be treated similarly to income from Airbnb.

MARKET MOVER
SHANE MURPHY

Shane Murphy is a fund manager with Irish Life Investment Managers (ILIM), which has a total of €69bn under management. He manages the put-write strategy, which sells put options each month and is therefore a de facto form of portfolio insurance. Launched in early 2017, the strategy aims to offer investors more predictable returns than equities, with less downside risk. It forms a substantial part of the equity allocation in ILIM's multi-asset portfolio solutions (Maps) funds.

Fund philosophy

The aim of the put-write strategy is cash plus 3%, with half or less of the volatility of equities as well as lower drawdowns (peak-to-trough losses) than the equity market over a rolling five-year period.

Murphy, *pictured*, says the impetus for the strategy was the fact that so many investors want equity protection, and pay over the odds for it. "There are more buyers than sellers out there, so most of the time protection is overpriced. We are trying to get in on the other side of that by selling the overpriced item. That is, the put options."

How it works

Each month the strategy sells put options and receives a premium. When the price of the index is up, flat or down by a small amount (less than 5%), the option expires and there is no payout. However, if the index value falls by more than 5% when the option is exercised, while the seller still collects the premium, it must pay the difference between the loss in the market and 5%. For example, if the market falls by 12%, the fund must pay 7%.

The strategy is systematic, so there is no discretion applied as to when to sell or at what strike price. "This is very much rules-based, and the put options have a finite life span in that they expire every month and we have to sell a new one," says Murphy. "If we tried to second-guess the market it would be a recipe for disaster, as we'd miss months when we'd collect a big premium. You have to stick to your guns even when the market is jumpy."

Performance

Returns since inception are at 2.6%, and the strategy is up 50 basis points year to date. The fact that last year was a remarkably quiet one for equities meant that portfolio protection was relatively cheap.

"The cost of protection relates to how risky the market is perceived to be," says Murphy. "If everyone thinks the market is risky, protection is expensive. If everyone thinks it's quiet, it's reasonably cheap."

He says that while the strategy earned low premiums last year, it was at no point in danger of having to pay out.

"This year is different. Premiums are higher, the market is jumpy and there have been a couple of instances where we have had to pay out."

Outlook

Murphy expects 2018 to continue to be quite volatile — not necessarily a bad environment for this strategy.

"When the market is choppy and nervous, we start to collect much bigger premiums, yet it has to fall by more than 5% to pay out. So if it's up and down, we should collect quite large premiums and possibly outperform the equities market. The strategy would have a reasonable chance of delivering 4%-6% under those circumstances."

Gary Connolly

Value in equities beyond measure — go figure!

There's a quote from sociologist William Bruce Cameron that has been associated with Albert Einstein: "Not everything that counts can be counted, and not everything that can be counted counts".

I've often used this observation to highlight the spurious use of quantitative modelling techniques in the financial services industry. In hard sciences such as physics one is able to use models to predict to several decimal places of accuracy. In financial services, decimal places are mostly used to show a sense of humour.

Some things we can measure; some things we can't. Just because we can measure something doesn't make it more significant.

I was reminded of the "uncountable" observation at a conference in London I attended a few weeks ago. Several speakers bamboozled us with charts and tables on the most effective income drawdown strategy for clients in retirement.

There were numerous spreadsheets, copious data and plenty of citations. The presentations were technically skilled and as engagingly presented as is possible on such a dull topic.

Yet in the space of five minutes, without a single chart or presentation slide, the keynote speaker swept aside each of these arguments. His message was brutally simple. It matters not whether you use a ratchet, guardrails or Bengen approach to income drawdown (trust me you don't want to know what these are); what matters is that your income outlives you, and not vice versa. The only asset that has historically come close to assuring retirees of this, is equities. His advice was simply to invest in the stock market, the risk of which he argued is widely misinterpreted.

We tend to think about money in nominal terms — euros and cents in our bank account. In the long run, the only rational definition of money is purchasing power.

If my living costs double, and my capital and interest on that capital remain the same, I have effectively lost half my money. If money is purchasing power, risk is that which threatens it; safety, that which preserves or enhances it.

And what has protected purchasing power best over the average retirement time horizon? The stock market, he argued. Hence, low risk in this context. And what has threatened purchasing power most over the average retirement time horizon? Cash and bonds. High risk in this context.

If this seems terribly straightforward, it's because it is. But that doesn't make it easy counsel to follow nor indeed provide.

I should concede at this point, that as an adviser to financial advisers, I have spent most of my career advocating the benefits of diversification — spreading your investments across multiple asset classes. Notwithstanding the long-term evidence that equities have often delivered the best returns, this approach seemed sensible in recognising that investors do not react well to dramatic price swings and capital losses.

However, I see that it's possible that following a diversified approach is less a hedge against investor loss aversion, and more a hedge against the inability (or unwillingness) of financial advisers to educate investors properly. This may be a little harsh. I have worked in financial markets for more than 20 years and still find stock market gyrations to be incredibly unnerving. So it's expecting a lot for those with little experience to remain steadfast during inevitable fears and fads. This is where I think advisers earn their corn.

I didn't learn anything at the conference I didn't already know. But I now accept a responsibility, as should the investment advisory community, to deliver the unvarnished truth about long-term returns.

Arguably the most important aspect of what it means to invest successfully is getting investors to stay the course through the inevitable ups and downs. In the main, investors do not like volatility and are averse in the extreme to multiple periods of negative returns.

By betting against the powerful force of human fallibility the all-equity approach to investing may be setting investors up for expensive failure. But maybe the failure should be registered as one for the adviser and not the client.

Guaranteed, absolute or target returns are offered to you as a solution to your behavioural shortcomings. Know that there is a price to pay for this, though it may not be that obvious.

It's hard to put a value on good advice. There again, not everything that counts can be counted.

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