



FEBRUARY 2013

AIA 'Investor Update'

Welcome again to 'Investor Update'. Tom Scollon gives a technical view of the market possibilities; Elizabeth Moran discusses the returns from bonds and cash; and some regulatory snippets about SMSFs, and Alan Hull explains 'Active Investing'. Enjoy!

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Sydney One-Day Seminar – 8th March 2013

What do we do now?

Investing Successfully in 2013

A one-day seminar for **INTERMEDIATE** investors. Businesses in many sectors are struggling, and unemployment may be on the rise, but the market powers on regardless. Where are we in the current economic cycle, and where are we headed? How do we succeed as investors in this climate? Where should we be looking for the best and safest returns? What are the merits of equities, hybrids, bonds, cash, etc., in this climate? Come and hear from the experts about the factors affecting our current investment returns, and what will most likely affect these returns during 2013 and later.

[Download brochure](#)

Upcoming Events [\[view events schedule\]](#)

Canberra Discussion Group

4th March 2013 7.30pm
Southern Cross Club, Woden

Perth Information Evening

5th March 2013 6.30pm
Wembley Downs Tennis Club

Adelaide Information Meeting

Borrowing by SMSFs to finance assets
5th March 2013 7.30pm
The German Club, Flinders St Adelaide

South Sydney Discussion Group

5th March 2013 7.00pm
Miranda Community Centre

Geelong Discussion Group

5th March 2013, 7.00pm

Frankston South Discussion Group

6th February 2013 1.30pm

Sydney North Shore Information Meeting

Australia's Commercial Property Markets
13th March 2013, 7.30pm

Brisbane Information Meeting

13th March 2013, 1.30pm

Chermside Equities Discussion Group

18th March 2013 7.00pm

Sydney Hills District Discussion Group

19th March 2013, 7.00pm

Brisbane Managed Investments Discussion Group

19th March 2013, 7.00pm

Perth Equities Discussion Group

19th March 2013 6.30pm
Wembley Downs Tennis Club

Brisbane Share Investments Discussion Group

20th March 2013, 6.30pm

XIN NIAN KUAI LE

By Tom Scollon (Options Xpress – Hubb Financial Group)

In other words, **Happy New Year** to our Asian friends. I hope you are celebrating with your families and still eating!

As the Year of the Snake takes over from the year of the Dragon, we wonder what might be in store. To be more specific, it is the year of the black water snake and we will have to wait and see whether she has any major surprises in store for us. As if that is anything new – surprises are the norm for the financial markets.

Some Chinese base their future and fortunes on the Lunar Calendar and Feng Shui, traditions that date back thousands of years. That these fortunes have been documented through the annals of time suggest there could be more to it than mere mythology. The Snake is associated with the elements of water and fire, which are supposed to bring conflict between fear and joy. Time will tell!

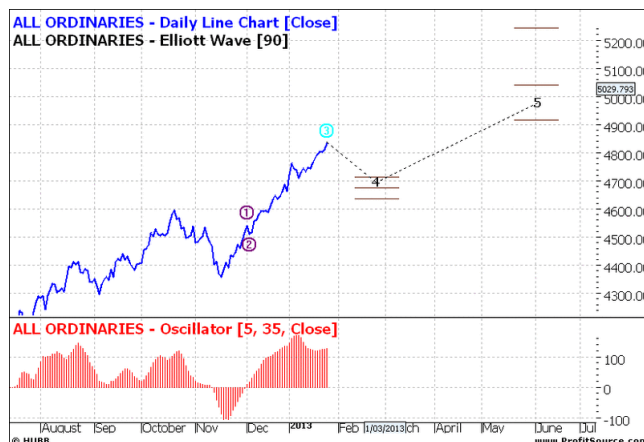
Previous Years of the Snake have been marked by some catastrophic events, including 9/11 (2001) and the 1929 stock market crash.

You should consult your own fortune teller but the general outlook is for a benign – even prosperous – first half in equity markets. However, it may be prudent to beware of the month of the Snake (5 May to 6 June). This could actually turn out to be a self-fulfilling prophesy as Asian markets may be affected by those who follow such things. Further, this period will coincide with the well-known northern hemisphere adage ‘sell in May and go away’, when Europeans and North Americans generally tidy up their books in preparation for the summer downtime.



This combination of Asian caution and a northern hemisphere spring clean out could mean a quiet time for equities and you may also want to clean up your book ahead of this.

You may recall the daily chart of two weeks ago:



This was suggesting a Wave Four easing about March, which could be deferred out to April, or even May, to line up with the month of the Snake.

We are seeing a number of other factors that point to a need for caution. It is also very likely that institutions will conduct some profit taking following the big run up of the last few weeks. Perhaps this could trigger further ‘self-fulfillment’.

It will be a brave soul who is out there buying in the coming weeks. This is a time to exercise risk management.

The Year of the Snake offers the prospect of a potentially wild ride in the second half if the spirits of May remain subdued.

Having said all that, stick to your tried and tested technical analysis!

Enjoy the ride
Tom Scollon

Tom Scollon writes a weekly article for ‘Trading Tutors’ – see <http://tradingtutors.com/>

The bonds balancing act

By Elizabeth Moran (FIIG Securities)

Reports in the media of the "great bond rotation" are not being translated across to the domestic market. While some investors have started to withdraw funds from cash and term deposits to invest in shares, many are reinvesting in bonds.

The great rotation makes sense if you've invested in US treasuries that are earning a paltry 0.86% for five years or 2% for 10 years, and then buy shares which show a yield of around 6% with the prospect of a growing share price. But in our domestic market there are still attractive corporate bonds paying over 6% yield to maturity without the risk and volatility of shares.

Term deposits

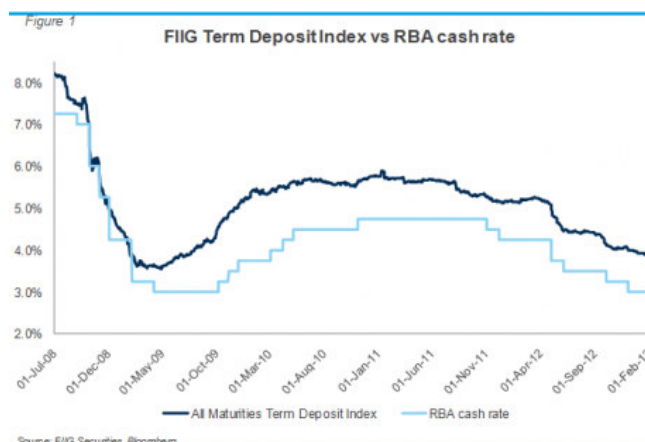
Not so long ago, cash seemed the "place to be". Investors were nervous about global markets, and government guaranteed term deposits offered good relative value returns where your capital and income were guaranteed. While it's still a safe place to park your funds, the returns on offer just aren't that attractive, especially if you need that income to pay the bills.

The average term deposit interest rate across all maturities is now at a low 3.85%, very close to the low term deposit rates in early 2009. Figure 1 shows that the lower Reserve Bank cash rate has been the primary cause, but another part of the reason is that the major banks have been able to access wholesale funds at very low rates.

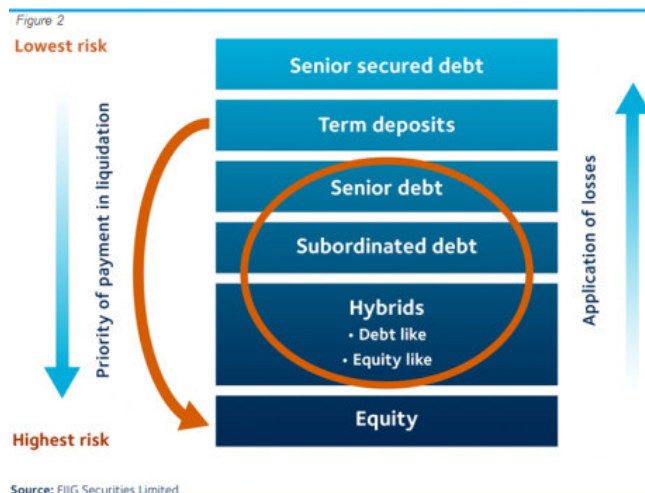
For example, this month ANZ raised \$US1.25 billion for three years, priced at 57 basis points (bps) over US Treasury securities. The funds reportedly swapped back at 65bps over \$A swap rates, providing ANZ with very cheap funds. The best term deposit rates are higher than the average across all maturities (see Table 1) but still low compared to bonds and shares.

Table 1

Best rates	Financial
13-Feb-13	Institution
3 month rate	Regional bank 4.50% Min \$150K
6 month rate	Regional bank 4.37% Min \$500K
1 year rate	Regional bank 4.27% Min \$500K



However, if you are withdrawing money from term deposits and reinvesting in equities you are taking on a lot more risk. See Figure 2 below, which shows a simplified bank capital structure. This shows the priority of payments should a bank go into liquidation. Term deposits are very low risk and sit near the top of the structure. As an investor, you'd expect to earn low returns because there is a very, very low risk that you'll lose any money. As you move down the structure you take on more risk and would expect better returns. The lowest rung on the chart, "equities", is where shareholders sit and they are in the highest risk, first loss position.



If you own equity (are a shareholder), you'd expect high returns as you're taking on the highest risk.

Let's try and qualify the risks you are taking:

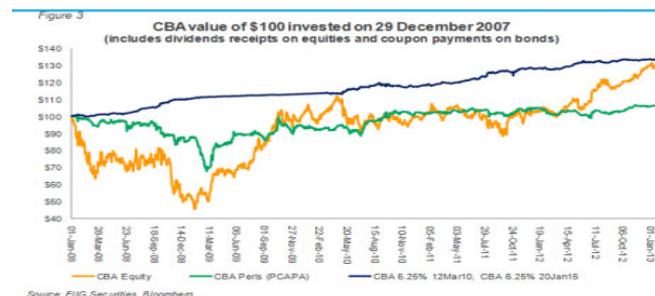
Australian Investors Association – Investors Update

1. A term deposit or senior debt (bond) has a defined maturity where investors can expect to have their capital returned to them. Equity has no maturity date and thus no certainty you will recoup your capital. Eventual return is unknown and the investor must make a conscious decision to sell.

2. A term deposit and senior bond have known interest payments and dates. However, equity investors can expect dividend payments on specific dates, but the board of the company must decide on a dividend rate and it can be cut or not paid at all, which may then lead to a decline in the share price. All four major banks cut their dividend payments during the GFC and the shares lost value.

3. There is no price volatility with a term deposit and little volatility in a senior bond. Share prices can fluctuate significantly. Figure 3 below compares the value of three Commonwealth Bank investments: senior bonds are shown as the dark blue line (it assumes funds from maturity of one bond are reinvested in another senior bond), the Perls 3 are in green and the shares are in yellow. The graph shows the value of \$100 invested at 31 December 2007, with coupon interest and dividends included in the returns. Dividend franking is not shown but would add roughly 1.4% to total returns if the investor can claim it. The point of the graph is to show the difference in risk and volatility or conversely certainty by investment.

The senior debt investment earns a steady, known return. As you move down that capital structure, volatility and risk increases and forced sellers of either the Perls 3 or the shares at the low points could sustain severe losses. On the other hand, if you can pick the low points for the equity and sell at their highs you stand to make substantial profits. I'd suggest sellers at the top of the last bull run were few and far between. Investors drawn by the high returns probably kept buying into the market all the way to the top in an effort to make more money, and ignored the signs of an over-heated market.



Are we near the top of the equity market?

I really don't know and I'd challenge anyone who thinks they do. The market could keep going and breach the 6,000 mark, but equally it could dip to under 4,000 points as well. The point I'm making is that there's no certainty of income or return, and that you won't know your return until you sell. Historic figures provide a guide but are not certain.

How to maximise return.

Maybe the question should be, how to minimise risk and maximise your return?

If you are looking for higher returns for your term deposit funds, there is a big asset class between term deposits and shares which offers higher returns with a high degree of certainty, without the much higher risk of shares (see Figure 2, and the orange circle in the capital structure). Diversity remains the key to protecting wealth over the longer term. So, consider senior debt bonds, subordinated debt bonds or hybrids for greater certainty, less risk and less volatility. Table 2 shows a current list of bonds with yields to maturity of over 6%.

Table 2

Issuer#	Sector	Call date/ Maturity date	Coupon	Capital structure	YTM**	Running yield***	Capital price	Face value*
Silver Chef Limited	Other corporate	14/09/2018	8.50%	Sr debt	7.19%	8.03%	105.900	\$50,000
DBCT Finance FRN	Infrastructure	09/06/2026	0.37%	Sr debt	7.07%	4.40%	79.150	\$50,000
Sydney Airport CIB	Infrastructure	20/11/2030	3.12%	Sr debt	6.95%	3.76%	99.449	\$59,375
Sydney Airport CIB	Infrastructure	20/11/2020	3.76%	Sr debt	6.45%	3.84%	124.988	\$63,296
Envestra CIB	Infrastructure	20/06/2025	3.04%	Sr debt	6.40%	3.35%	112.518	\$61,465
JEM (Southbank) Pty Ltd IAB	Finance	28/06/2035	Annuity	Sr debt	6.30%	4.26%	102.87	\$50,000
JEM NSW Schools II IAB	Education	28/11/2035	Annuity	Sr debt	6.22%	3.93%	96.65	\$50,000
DBCT Finance FRN	Infrastructure	09/06/2021	0.30%	Sr debt	6.14%	3.90%	87.400	\$50,000
Prasco Pty Ltd IAB	Infrastructure	15/06/2020	Annuity	Sr debt	6.13%	5.28%	69.39	\$50,000
CWC Nexus Finance Pty Ltd IAB	Finance	15/09/2032	Annuity	Sr debt	6.11%	4.66%	107.98	\$50,000
JEM NSW Schools II IAB	Education	28/02/2031	Annuity	Sr debt	6.02%	4.04%	93.69	\$50,000
AXA SA FRN	Insurance	26/10/2016c	1.40%	Tier 1	7.75%	4.86%	90.250	\$100,000
Swiss Re FRN	Insurance	25/05/2017c	1.17%	Tier 1	7.26%	4.94%	90.250	\$100,000
AXA SA	Insurance	26/10/2016c	7.50%	Tier 1	7.18%	7.43%	101.000	\$100,000
Swiss Re	Insurance	25/05/2017c	7.64%	Tier 1	7.01%	7.47%	102.250	\$100,000
NabCaps FRN	Major bank	30/09/2016c	0.95%	Tier 1	6.45%	4.34%	92.750	\$50,000

* FRN = Floating rate note, CIB = Capital indexed bond, IAB = Indexed annuity bond, all other bonds are fixed rate bonds
Issuers in black = retail and wholesale clients, Red = wholesale only
**Current Face Value on CIB bonds represents the Inflation Adjusted Face Value
***Current Face Value on IAB bonds represents the Notional Face Value
***Yield for Floating Rate Notes is the swap rate to Maturity/Call plus the trading margin
***Yield for CIB and IAB equals Real Yield plus a current inflation assumption of 2.5%
***CIB and IAB running yield quoted is a commencing value, given current indexation, but will accrete up with inflation

Suggestions for the current environment

It's easy to get carried away with the market but here are a few general suggestions:

1. Know your goals and keep to your considered portfolio allocation – find a balance.
2. Invest a little of your portfolio to get those high returns and not a lot.
3. Be protective. You are the only person that truly has your best interests at heart.

4. Spend the time looking at the fundamentals of any investment. What fundamentals have driven the price higher, can it go higher still, and is it fair value? Are you being properly rewarded for the risk involved?
5. Keep diversification within your portfolio.

Elizabeth Moran is director of education and fixed income research at FIIG Securities.

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Reminder – SMSF Off-Market Share Transfers

Members should be reminded that the ban on off-market share transfers, originally to commence on 1st July 2012, was delayed until 1st July 2013.

Assuming that this ban is actually implemented this year, then from 1 July 2013, where SMSFs sell or buy assets from a related party (typically a SMSF member/trustee), the sale/buy process needs to take place through an underlying market, and not by simply filling-in an off-market transfer form.

Note that there has been no confirmation of the exact requirements. If you are considering off-market transfers of personally held shares to your SMSF then seriously consider conducting those transfers before 30 June 2013.

New Rules for Trustees of Self-Managed Superannuation Funds

Just a reminder to members - New regulations apply to self-managed super funds (SMSFs) from the 2012-13 income year. They require trustees of SMSFs to:

- value the fund's assets at their market value for the purpose of preparing financial accounts and statements of the fund
- consider insurance for their members as part of the fund's investment strategy
- review the fund's investment strategy on a regular basis.

Trustees who fail to comply with these requirements may be subject to penalties.

Where to from here?



Life Planning
Financial Strategies
Asset Protection



Marriott Resort & Spa
Surfers Paradise

28th July – 31st July

www.investors.asn.au

AIA National Conference

Sunday 28th to Wednesday 31st July 2013

Bookings Open 15th March 2013

Preparations for this year's conference are nearing completion and we will be issuing full details really soon now.

We are receiving many mixed messages regarding the investment climate. Interest rates are trending lower, and we all have stories of businesses struggling to survive. And yet..... the stock-market continues its upward journey.

Writing in FNArena recently– Andrew Nelson says *“Unfortunately the turmoil of the last few years has left investors feeling a bit sceptical, not trusting the run and becoming increasingly concerned the recent re-rating of the market has happened despite continuing global challenges and a near stagnant domestic economy and little in the way of earnings growth in Australia”.*

What are we to make of this??

In fact – **Where to from here?**

The 2013 conference will attempt to answer these questions. Mark the dates in your diary now!

We have been able to negotiate an extremely attractive room rate this year of \$175 per night at the Marriott Resort. Of course, other accommodation options are available also.

Market Opinion

In their private client research newsletter of 12th February, Ord Minnett made the following comments:-

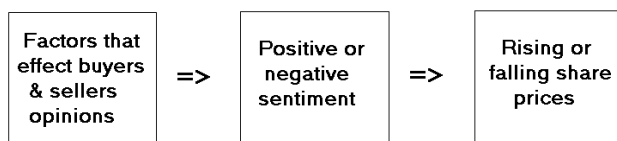
- they believe that the market is running into more challenging territory, with weak economic data and a lack of earnings momentum,
- they expect that foreign buyers' appetite for Australia to be blunted by full valuations and a faltering economy, and
- they expect the banking sectors yield appeal to be undercut by concerns over loan quality.

Introduction to Active Investing

By Alan Hull

Active investing is a market approach that fills the gap between day to day trading and passive investing. Whilst many 'mum and dad' investors are loathed to commit 1 to 2 hours per day to managing a portfolio of short term trading positions, they are also frustrated by the ineffectiveness of fundamental analysis as a stand alone market tactic. Active investing extends the conventional investment approach of buying and holding 'quality' blue chip companies by employing testing and measuring procedures which facilitate 'hands on' portfolio management.

Hence, Active Investing, is a combination of fundamental and technical analysis. The simple block diagram illustrates the basic dynamic that drives share prices either up or down. Factors that affect opinion generate positive or negative sentiment which leads to rising or falling share prices.



Normally investors come at the market dynamic from the left hand side of the diagram by employing fundamental analysis to find listed companies that are financially sound, have solid management and good future prospects. This market approach, although reliable, carries the caveat of time and requires patience.

Traders, on the other hand, use technical analysis to observe price activity and buy shares that are rising in price and sell shares that are falling in price. Traders approach the market dynamic from the right hand side, largely ignoring factors that affect opinion, but are prepared to monitor price activity on a regular basis.

However, Active Investors test and measure the entire market dynamic by combining both fundamental and technical analysis. By doing this we can seek out fundamentally sound shares that are currently rising in price, thus eliminating the need to have to wait for share prices to go up. Hence, by testing and measuring the 'flow on' affect of good fundamentals we can turbocharge our portfolio's performance.

The sorts of shares that Active Investors would own include;

- CSL which rose from \$5 to \$40 in 5 years, from 2003 to 2008
- Toll Holdings which rose from \$1 to nearly \$5 in 2 years, from 2000 to 2002
- Cochlear which rose from \$5 to \$50 in 4 years, from 1997 to 2001
- BHP which rose from \$10 to \$45 in 4 years, from 2003 to 2007
- Boral which rose from \$2 to \$6 in 4 years, from 2000 to 2004

On the other hand Active Investors would never get caught owning shares like;

- HIH when it fell from \$3.50 to 25 cents before delisting
- ABC Learning when it fell from \$8.50 to 60 cents before delisting
- Babcock & Brown when it fell from \$30 to 33 cents before delisting
- Centro Property Group when it fell from nearly \$10 to 16.5 cents

Active Investors wouldn't own these shares because they only buy shares with a rising share price and they sell any shares when the price begins to fall. Hence, active investing flies in the face of the common advice, 'Buy low...sell high'. This concept causes the majority of market participants to own shares which are not rising in price.

Stockbrokers will often recommend buying shares when prices fall. But the folly in this was driven home for me many years ago when I received a call from my then Broker when the price of Lend Lease collapsed in early 2001. My broker suggested that Lend Lease shares had been unfairly oversold by the market and I should buy now.

The share price had dropped from just over \$22 to \$17 on the back of bad news. But will the share price fall any lower than \$17? Well guess what... 3 months on and the price dropped to \$15. Well surely \$15 is the low and I should buy now. My Broker exclaimed, '*Lend Lease is a super bargain at just \$15!!!*'.

But there is no such thing as a bargain priced share. The price of a share is always the precise value that market participants collectively place on it at any particular moment in time. What the broker is really saying, is that market sentiment is abnormally low and should improve. The problem with this approach is that there is no telling when sentiment is likely to improve.

As it turned out the price of Lend Lease shares fell below \$10 before they started to recover, years later. If a share price is rising then market sentiment is positive and if the share price is falling then market sentiment is negative. Hence...buy a rising share and sell a falling share. And if you want to find out how to do this then please come along to my presentation and workshop on Active Investing at the Sydney Trading and Investing Expo.

Alan is a leading expert on blue chip shares and the best-selling author of 'Invest My Way', by Wrightbooks. He has successfully managed millions of dollars of other people's funds, consistently beating all the major ASX market averages. He is an internationally recognised educator and technical analyst who regularly conducts seminars & workshops on trading and investing in Australian shares.

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Australian Investors Association Ltd
PO Box 7439
Gold Coast MC QLD 9726
Tel 1300 555 061
Fax 07 5538 8376
Email aia@investors.asn.au