AUSTRALIAN INVESTORS ASSOCIATION

Investor Update

Monthly updates on investment issues for AIA members

SEPTEMBER 2014

Welcome

Welcome to the September AIA 'Investor Update'. Note the complimentary ASX seminar about diversification and the discount offer from the SMSF Owners Alliance to attend their SMSF strategy workshop. There is also an offer from FIIG for a free e-book on fixed interest.

In this issue

Learn a simple way to diversify your portfolio at a complimentary ASX seminar

Unlocking the value of diversification. A seminar for investors.

A diversified investment portfolio helps balance risk. Beyond Australian shares, property, and cash, investors are looking for ways to tap into new portfolio opportunities and growth from other asset classes and regions.

Until now, other asset classes haven't been easy to access. In our latest complimentary seminar, we'll cover the benefits of diversification – and how a new service from ASX is making it simpler to take advantage of these new opportunities without immersing yourself in paperwork.

Upcoming Events

South Sydney Discussion Group
1st October 2014 7.30pm

Sydney Hills District Discussion Group
1st October 2014 7.00pm

Blackburn Discussion Group
1st October 2014 7.15pm

Brisbane Information Meeting
An overview of Banks, Telcos and yield
1st October 2014 7.00pm

Perth Information Meeting
Opportunities in global markets
Wembley Downs, 7th October 2014 7.00pm

Melbourne Information Meeting
7th October 2014 6.30pm

Sydney North Shore Group
Ethical Financial Planners, an endangered species
Chatswood, 8th October 2014 7.30pm

Canberra Discussion Group
13th October 2014 7.30pm

Learn a simple way to diversify your portfolio at a complimentary ASX seminar (Cont'd)

Unlocking the value of diversification. Attend a seminar near you.
Events are being held in major capital cities in October. Register now to attend a seminar near you.
What you'll learn

- Why diversification is an important factor in managing risk
- Ways to invest in asset classes that have not been easy to access in the past and which may assist with portfolio diversification
- Growth and income opportunities that lie outside Australian domestic shares

We'll also take you through the new mFund Settlement Service, which makes it simpler, faster and more convenient to access unlisted managed funds. At the end of the session, ask questions of our panel of experts, including mFund managers and brokers.
Register now to attend a seminar near you.

Preserve your capital & secure your income. Learn how with a new e-book by FIIG.

Australian investors are steadily embracing corporate bonds and it's easy to see why. A portfolio of corporate bonds can help your SMSF preserve capital and provide a steady and reliable income stream.

Corporate bonds in a balanced portfolio can also reduce volatility so you get a good night's sleep instead of worrying about the market.

Sadly, many investors continue to miss out on the benefits of corporate bonds because they don't understand them. Other investors are heavily invested in structured hybrids which have unique risks that corporate bonds don't.

FIIG is the leading educator on corporate bond investment in Australia. Through its seminars, courses for financial planners, and its definitive work *The Australian Guide to Fixed Income*, FIIG has shown thousands of Australians how to benefit from corporate bonds.

Now FIIG is offering AIA Subscribers free access to its concise e-book "*Corporate Bonds Made Simple*" which will quickly teach you what you need to know to **preserve your capital, secure your income**, **and reduce the ups and downs** of your portfolio.

Corporate Bonds Made Simple contains six easy-to-read chapters, a range of useful **reference tables** and **charts**, and an **extensive glossary** covering fixed income terminology. You can read it on your desktop, tablet or smart phone wherever and whenever you want, or print it out as a handy reference.

Corporate Bonds Made Simple can help you avoid some of the **myths and misconceptions** which prevent investors from achieving a balanced portfolio with an appropriate weighting to corporate bonds. These include:

Myth: Bond returns are too low
Fact: This may be the case for some government bonds, but corporate bonds offered by FIIG offer returns of 5% pa - 7% pa* and some bonds have even higher returns.

Myth: Bonds have long terms until they mature
Fact: Bonds are tradeable investments and you don't have to hold until maturity. FIIG can help you access over 60 corporate bonds trading in the secondary market that mature in the next two years.

Myth: With interest rates low, now is not the right time to invest in bonds, because as soon as interest rates go up bond prices will fall
Fact: There are a range of Fixed, Floating and Inflation Linked bonds that suit various points in the economic cycle and FIIG can show you how to structure a portfolio that meets your specific needs.

Myth: Bonds are only available in parcels of $500,000
Fact: FIIG make corporate bonds available from $10,000, with a minimum total up-front investment of $50,000, providing direct access for individual investors to the wholesale over-the-counter market.

Download *Corporate Bonds Made Simple* now

Kind Regards
Elizabeth Moran - Director, Education and Research

** Rate current as at 25/09/14 and subject to change. FIIG provides general financial advice only. Visit FIIG.com.au/disclaimer for a copy of our disclaimer. A corporate bond is not a bank deposit. Corporate bonds have a greater risk of loss of some or all of an investor's capital compared to bank deposits. FIIG Securities Limited ABN 68 085 661632 AFS Licence No. 224659.*

Urgent Need to Take Action Now!!

The following note was supplied by Shane Ellis of SMSF LAW

From 1 January 2015, the normal deeming rules will be extended to superannuation account-based income streams. This will mean all financial assets are assessed under the same rules.

This change will start on 1 January 2015. Account-based income streams held by pensioners and allowees prior to 1 January 2015 will continue to be assessed under the existing rules unless they choose to change products or buy new products from 1 January 2015.

What this means for members in plain English

Any AIA member who wishes to make use of these grandfathering provisions MUST have auto-reversionary pensions in place prior to 1 January 2015! The consequences if they don't are that upon the death of the first spouse in a SMSF after 1 January, 2015 if the deceased spouse's pensions are not auto-reversionary, an election by the surviving spouse to take the deceased's spouses death benefits as a pension will be caught by the deeming rules . . . .simply because it is a new pension.

You need to take action now!

SMSF Law is happy to assist with the building of auto-reversionary pensions for our members to take advantage of the grandfathering provisions.

Please contact SMSF Law asap if you require assistance with this.
Phone: (07) 5534 3900 | Fax: (07) 5534 6341
ABN: 45 812 691 981
76 Robina Town Centre Drive, Robina, QLD 4226
PO Box 3366 Robina Town Centre, Q 4230

Offer from the SMSF Owners Alliance

The SMSF Owners Alliance (SMSFOA) is a non-profit organisation advocating on behalf of Australia's SMSFs to influence government policy. The SMSFOA will be holding a workshop on ***Practical and Innovative Strategies for SMSF***s in Sydney on 9th October. AIA members receive a discounted registration of $45. See right hand column >>>>:

SMSFOA Technical Workshop

Practical and Innovative Strategies for SMSFs

Thursday 9 October 2014 1.30pm - 5.30pm
ASX Auditorium, 20 Bridge Street, Sydney NSW 2000

SMSF's are used to enhance control of investments and retirement planning - and ultimately, as a key part of estate planning. You'll hear about sound investment strategies to produce a secure retirement income stream while avoiding risky and imprudent investments on poor advice.

SMSFOA is pleased to host this important event which includes presentations from some of Australia's most highly credentialed SMSF advisers - leaders in their field, with proven capacity to provide clear and workable advice while remaining fully compliant with SMSF law and regulations

• Overview of the economic and market settings for the next 12 months - **David Bassanese**, AFR/Chief Economist, BetaShares

• What I'm worried about with investments - Portfolio Construction for SMSFs - **Graham Hand**, Editor, Cuffelinks

• The new way to access unlisted managed funds and diversify your portfolio - the ASX mFund settlement service - **Ian Irvine**, Head of Customer and Business Development, Managed Investments, ASX

• Optimising the SMSF within the overall family and small business structure (inc CGT concessions for SME) - **Andrew Frith**, Senior Partner**, Leenane Templeton** Founder, SMSF Advice Solutions

• Share Investing Prospects for SMSF Investors – What are the Risks and Opportunities? – **Karl Siegling**, Managing Director & Portfolio Manager, Cadence Capital

• Estate Planning and Your SMSF - bulletproofing your estate planning using Binding Death Nominations - **Andrew Frankland,** Principal, Bartier Perry

Tickets: $55 per person (incl. GST)
Click here to buy tickets
or go to the website: www.smsfoa.org.au
For your AIA member discount, quote code 070914
Enquiries: info@smsfoa.org.au

AUD Exchange Rate and what It means for Business

Michael Kodari, Managing Director Kodari Securities, www.kosec.com.au

The Australian Dollar is always a topic that stimulates great interest within the investment community. Forecasting macro themes, let alone exchange rate movements can be a very difficult task to do with any reliability. Nevertheless, there are occasions when themes and structural shifts drive sound and informed investment decisions. After spending a record period of time above parity, the AUD has since fallen back to sit at around the $0.93 US cents, still comfortably above the long term average. The persistently high dollar has not only surprised investors with its strength over the past couple of years, but has remained a significant headwind for a number of Australian businesses as well. If the tide were to turn, and the AU dollar began to track towards the $0.80 US cent mark, those headwinds would quickly turn to into tailwinds for some Australian businesses, particularly benefiting exporters and those companies with offshore earnings.

Over the past decade the AU Dollar has appreciated by approximately 50%, as a result of the unprecedented rise in the price of commodities brought on by the boom in resources demand globally. In recent years resource prices have pulled back somewhat, yet the Australian dollar has remained resilient given shifting dynamics in the global economy, more precisely the economic and interest rate cycles of comparable developed economies. There has been a shift in global dynamics, leading to a persistently wide interest differential compared with the rest of the world. Elevated house prices and an inflation rate at the upper end of the RBA target band, have forced the RBA to resist any urge to lower rates and subsequently narrow the interest rate spread with the likes of the US and Europe.

The RBA states the exchange rate depends on the global demand for all things denominated in AU dollars, relative to the demand for all things denominated in foreign currencies. The demand for Australian goods and services will depend on Australian price levels, but is also driven by the expectations about future returns on both physical and financial assets. The general decoupling of the interest rate cycle globally has been one key driver, however there are numerous other factors at play:

- Unconventional monetary policy in places like the US, UK, Japan and Europe has sustained a healthy foreign ownership of Australian government bonds. Ownership sits at approximately 70%, well above the long term average of 48%. The level of ownership is lower than the peak but nevertheless it still remains at elevated levels. It's important to note that the unconventional monetary policies of foreign central banks has left the AU dollar the only AAA rated currency inside the world's top 5 traded currencies. The closest AAA rated competitor is the relatively illiquid 13th ranked Norway, which has a comparable rate of 1.50%. Naturally this makes the AU dollar an attractive prospect for foreign central banks, sovereign wealth funds and institutional investors alike.

- Of the top 5 most-traded currencies, US, Europe, GBP, Japanese Yen and Australia, Australia has by far the most sustainable level of public debt, when compared to the others. With such elevated levels of public debt many of the foreign central banks are almost obliged to keep interest rates "lower for longer" in order to ensure the servicing costs remain at viable levels.

- A somewhat basic, but equally important factor making the AU dollar attractive, is knowing that the Australian economy is piloted by a prudent, inflation-vigilant central bank, who operate in what is a relatively stable and efficient financial system.

Moving forward over the medium to long term it is expected that the AU dollar will fall back towards the longer term average closer to the 0.80 US cent mark. This is expected to occur once US yields begin to rise from historically low levels, while the Australian yields remain steady reflecting its position in an earlier phase of the economic cycle. Naturally this theme has been discussed at length in Investment Committee meetings at Kodari Securities, and as it stands a large proportion of our investable stocks are businesses that stand to benefit from a lower Australian Dollar. As pointed out earlier, in order to capitalise on a forthcoming decline in the AU Dollar, investors should focus their attention towards the businesses that are involved in exporting and those companies with offshore earnings.

A few businesses that fall into this category are companies such as PTM and MFG in the diversified

financial sector, and SRX and CSL in the healthcare space. Both PTM and MFG are active fund managers that specialise in international equity markets, who have the capacity to capture the ever growing super fund space. Over the last few years we have seen a recovery in the old-world economies. Namely, the US in recovery, the UK, Europe and Japan, whose stock markets have outperformed over that period. In recent times, the ASX has been the perennial underperformer and it's the international fund managers which stand to benefit should this trend continue. These businesses also stand to benefit should the decline in the AU dollar transpire. Hypothetically, once the earnings on the outperforming overseas markets are repatriated into a declining AU dollar, the boost to the profitability of these companies would be compelling.

In conjunction, the population demographic is aging, and the demand and reliance on the healthcare sector will continue to grow in the coming years. A couple of business that stand to benefit greatly are CSL and SRX. Both these companies have a significant overseas presence, with roughly 80% and 90% of sales coming from offshore markets respectively. These businesses too stand to benefit should the decline in the AU dollar transpire without any effort on the companies behalf.

With that in mind, when selecting investments investors should base their decisions on a number of factors, not base them solely on perceived movements in the exchange rate. Investors should pay particular attention to company specific factors. Things like market sector, earnings growth, ROE, level of debt, cash flow generation and management team are all imperative when making investment decisions. It's also worth investigating whether a company's earnings growth is attributed to sustainable revenue growth or through unsustainable cost cutting measures. Selecting business that are solid in each of these areas can significantly reduce investor risk, while improving the chances of outperformance.

Michael Kodari is Managing Director of KOSEC - Kodari Securities, www.kosec.com.au

Create Your Personal Investment Plan:

Sydney One-Day Seminar & Workshop, Friday 7th November, 9.00am to 4.30pm

A 'hands-on' interactive workshop

Why is financial planning so important, and why is the process of implementation so difficult. It appears there is no end to the questions and unknowns that make planning such a challenge, which is why financial literacy and sound financial planning is so important.

In this AIA "first", we bring together three of Australia's top investing and financial planning experts to guide us through a structured process of preparing a financial plan tailored to your personal needs and circumstances. Be prepared to roll up your sleeves, learn what to do and what not to do, and draft your own plan. With this knowledge, you will be better prepared to refine, update and improve your financial plan over time to suit your personal circumstances.

The sessions are:
Introduction, a top down approach to financial planning- Brian Spies (AIA Director)

Lifestyle Goals and Expectations - Doug Turek (Professional Wealth Pty Ltd)

Strategic Asset Allocation - Doug Turek (Professional Wealth Pty Ltd)

Investment Types, Growth Assets -Tony Rumble (SMSF Advice Solutions)

Investment Types, Debt and Defensive Assets -Tony Rumble (SMSF Advice Solutions)

Managing Your Portfolio - Colin Nicholson (Investor, Author and Educator)

Revising and Improving Your Plan - Colin Nicholson (Investor, Author and Educator)

Bull or Bear Market Early Warning System

Robert Markham - Vectorvest

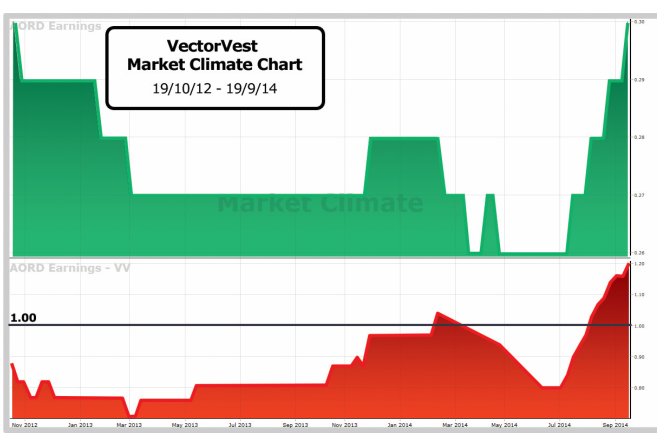
The Efficient Market Theory states that it is impossible to "beat the market" because share prices always incorporate and reflect all relevant information as soon as it becomes available. Implicit in this theory is the condition that all market participants receive and act on all relevant information at the same time. Of course, this notion is silly and is not true.

The reality is that market participants certainly would like to be among the first to receive all relevant information, but only a few have the wherewithal to do it. The Pros and high frequency traders can do it, but most of us are among the last to hear any market moving news until it's old hat.

In addition, you can argue the effects of economic and geopolitical events on the market all you want, but it won't help you predict when a bull or bear market will occur.

So how can we as investors deal with this?
We have to focus on the primary forces driving the market and not get bogged down or misdirected by useless headlines.

The most important thing that counts is the trend of forecasted earnings which is one of the three factors driving the market-– earnings, interest rates and inflation. The trend of forecasted earnings is presented graphically in VectorVest's Market Climate Graphs shown below:



These graphs gives us a sense of timing because we can watch them move up or down.

A bullish stock market scenario will prevail as long as the VectorVest Forecasted Earnings Trending Indicator in the bottom graph is above 1.00. Currently, this graph is showing us that this indicator moved above 1 at the beginning of August after being essentially flat and below 1 for most of the last 2 years.

Earnings have provided a tried-and-true "Early Warning System" that has managed to predict bull and bear markets again and again. Simply put, money goes where money grows. As long as earnings are rising and interest rates are unappealingly low, investors will stay true to the market and stocks will continue to rise---and of course the converse applies!

Could the current upward movement in the Forecasted Earnings Trending Indicator mean we are about to enter a new bull market phase, and how long and strong is it likely to be? According to this "Early Warning System" we are technically at the beginning of a bull market, but as to its strength and sustainability/longevity, it's just too early to make those calls yet.

Just as it did in November 2007 and again in March 2009, VectorVest's Market Timing and Market Climate Systems will give investors an early indication of significant changes in the market--information that we'll be sure to pass along.
http://www.vectorvest.com.au/

Recordings of the 2014 Conference Sessions

Here is your chance to get some great tools to help you learn and plan for this coming year. Just one idea can recoup your investment!

If you missed the latest information from your industry leaders that was shared at the recent AIA Conference, EverTechnology Meeting Services is now giving you the chance to purchase either individual sessions or the complete set of presentations.

Recorded live and synchronised to the PowerPoint slides, EverTechnology conference presentations will allow you to:

- Hear and see exactly what was discussed in each session;
- Quickly refresh your memory with easy track selection; and
- Easily share important information with colleagues and other stakeholders.

The recordings are yours to refer to again and again. You can now purchase individual presentations from the AIA Conference or purchase the complete set for a saving of over $626. Contact the AIA Office or Ever Technology for an order form.

I look forward to hearing from you.

Ed Van Maanen
Managing Director, EverTechnology Meeting Services

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