

the Investors' Voice

Newsletter of the Australian Investors Association - *Investors helping investors*

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The new reality

By Jonathan Pain

Over the last decade I have had the pleasure of presenting to many of you at AIA conferences. In essence, my story over that time has

been about the remarkable rise of China and other nations such as India and Vietnam. In 2005 I became very concerned about what I saw in America, in particular their 'housing bubble' and the alarming rise in household debt.

Fast forward to 2010, and a 'new reality'. The world is becoming increasingly divided between those nations that are submerging and those that are emerging. In short, the submerging world will spend less and save more, and the emerging world will spend more and save less. It's as simple as that.

The greatest story of our time is the emergence of the Asian middle classes. According to CLSA, a leading brokerage house in Asia, there are approximately 570 million people in developing Asia who earn more than US\$3000 a year, and this could grow to 945 million people within 5 years. This, according to their estimates, would bring about an increase in discretionary spending from US\$2.9 trillion today to US\$5 trillion within 5 years. The numbers are truly staggering, and serve to illuminate the vast impact developing Asia will have on the global economy. It's my view that this increase in discretionary spending will serve to offset the inevitable stagnation that will occur in the submerging world. Surely this is good news?

Sadly, however, we need to understand that the submerging world suffers beneath a mountain of debt, both private and public. The US, nation of shop until you drop, is seeing households paying back debt for the first time in modern history, as they spend less and save more.

This new frugality is not just an American reality but similarly a British, Icelandic, Irish, Spanish,

Japanese and Greek one too. All these nations have too much debt and face a decade or more of austerity. In recent times we have seen the capital markets punish the profligacy of the Greek government and force a bail-out by the EU and the IMF; and in time Greece and other submerging nations may need to turn to the Intergalactic Monetary Fund for much needed assistance. Already we have seen the citizens of Athens, the birthplace of democracy, exercising their democratic rights in a rejection of the spending cuts to come. There is no doubt that the citizens of other submerging nations, such as the United Kingdom, will similarly take to the streets in protest at the biggest cuts in government spending in history.

In America we are seeing what I believe to be the most significant polarisation of politics in living memory, if not ever. The rise of the Tea Party heralds a notable radicalisation of the conservative movement, and its champions, Sarah Palin and Glenn Beck, are galvanising a very powerful anti-government and anti-establishment movement. These developments need to be monitored carefully in the months and years ahead. In this regard the forthcoming mid-term elections could mark a watershed moment in American political history.

While American politics may have stolen most of the media headlines, it is interesting to keep a close eye on political developments in China too. On 21 August Premier Wen made this statement in Shenzhen: 'China had to resolve the issue of the excessive concentration of unrestrained power and create conditions for the people to criticise and supervise the government.' I see this statement as being of enormous significance, and the fact it was not more widely reported reflects very poorly on much of the media that resides in the 'submerging world.'

Continued on page 2



A place for vulnerable investors

The recent AIA conference was a great success, with just over 270 delegates in attendance. One of our first-time speakers, Marcus Padley, stockbroker with Patersons Securities and the author of the daily stock market newsletter *Marcus Today*, was so enamoured with his experience at the conference that he wrote about the AIA on Saturday 31 July. Have a look at Marcus's article on why inexperienced investors should join the AIA at www.investors.asn.au/about/media-releases/.

President's message

By Jolyon Forsyth



There were many promises made during the negotiations after the recent election. Among those eventually leading to the formation of a minority Labor Government was a promise that there would be a taxation review in 2011. Henry's proposals are to be revisited, and it is to be hoped that many of his sensible recommendations will be adopted.

The interaction of the tax and transfer systems has discouraged many people from seeking paid employment because of the high effective marginal rates caused by the loss of benefits and the tax rate on their earnings. Henry's solution to this was to raise the tax-free threshold to \$25,000 and then impose a tax rate of 35% on all income up to \$180,000 and 45% above that.

Based on the 2010–11 tax rates, and assuming adoption of Henry's recommendation that the Medicare levy be abolished (and ignoring deductions), most taxpayers would pay less tax. Those in the income range \$65,715–\$94,285 would pay extra tax from a dollar up to a maximum of \$500. Many taxpayers could probably save this additional tax merely by doing their own tax returns instead of using a tax agent. To quote from page 31 of the Henry Report (Part One, Overview):

Seventy-two percent of tax filers now seek advice from a tax agent, even though eighty-six percent either claim no deductions at all or only claim work-related expenses, gifts and the costs of managing tax affairs. Australia's use of tax agents is high by international standards; second only to Italy's. By contrast the Nordic countries, which have pre-filing arrangements for tax returns, have low levels of tax agent use.

The equivalent proportion for Italy is more than 90%, compared with 10% or less for Norway, Denmark and Sweden.

My personal experience has been that the returns tax agents prepare are at times incorrect. I have found it necessary to point out that the software a tax agent was using had an error in it, producing an adverse result for the clients. The software used by the AIA's auditors for two consecutive years produced incorrect return figures even though the taxable income was correct.

Henry also suggests that an automatic standard deduction should be introduced to simplify people's interactions with the tax system and facilitate much greater levels of pre-filing of tax returns. This would remove the need for most taxpayers to collect receipts.

I will give a wide berth to any tax agents' conferences in the future!

The new reality... from page 1

Since 1978 we have seen the liberalisation of the Chinese economy. Perhaps over the next 30 years we may also see the political liberalisation of the world's most populous nation. There is absolutely no doubt in my mind that we are witnessing the most profound change in the global economic and political order.

A quote that I have used at each speech I have made since 2005 is: 'Together we shall reshape the world order.' This statement was made by Indian Prime Minister Dr Manmohan Singh, the world's best educated and, in my opinion, most competent leader alive today, while he was standing alongside Premier Wen.

I am on record as suggesting that the Chinese economy will slow next year to about 7% as the government looks to curb house price appreciation and bank lending and reduce China's excessive reliance on fixed asset investment spending. In time, household spending will comprise an ever-growing proportion of the Chinese economy as incomes rise, and this will lead to a rebalancing of what is now the second-largest economy in the world.

The rise of the Asian middle class is the defining development of our time and will shape and define our world for decades to come. Here in Australia we are being pulled ever closer into the Asian economic orbit, with 80% of our exports destined for Asia. We are indeed the 'lucky country' as we enjoy the benefits of a developed nation, such as rule of law and world-class health and education, while also being underwritten by the fastest-growing and most populous nations on earth.

Many people are understandably anxious, as the 'tectonic plates' of the global economic landscape shift before our eyes. As many of you know, my personal belief is that there will be a fusion of East and West incorporating the best of both. We have so much to learn from one another, and so much at stake, but ultimately we can make this world a better place. Welcome to 'the new reality'.

Jonathan Pain is the author of a widely read investment newsletter, *The Pain Report*, which can be found at www.thepainreport.com.au. AIA members can access a special member rate – refer to the Bulletin Board on page 11.

Bulletin board

The ideal Christmas present

Developed and presented by Bill Dodd, a director of the Australian Investors Association, this **12 DVD & CD Sharemarket Investment Course** provides an excellent educational tool for anyone wanting to learn about buying and selling shares. Those who would benefit from doing this course include:

- successful investors who know that continuing education is the key to ongoing investment success
- the beginner investor wanting the step-by-step learning process that will give them the skills to start investing with confidence
- the passive investor wanting knowledge to successfully communicate with the professionals managing their money.

The objective of The Sharemarket Course is to allow you to invest in the share market with confidence. On completion of the course you will:

- Have an overview of the share market
- Understand the need for an investment plan
- Understand the importance of risk management
- Understand the need to have, and to update, an equity curve on a regular basis
- Have an overview of fundamental and technical analysis
- Understand several methods for selecting a stock
- Have a basic understanding of the charting package "Incredible Charts"
- Have opened a broker's account and purchased a position in one stock
- Understand how to record purchases in a note book or spreadsheet.

Even if you think this is not for you, it would make a great gift for friends and family and the inheritors of your assets so they know how to manage a sudden influx of money. The cost to members is \$197 per set. It can be purchased via the AIA website or by calling the office on 1300 555 061.



Is the ASX coupled to the DOW?

By Robert Vagg



For decades it has been investment folklore that movements in the Australian equities market are coupled with those in the US. This often leads local commentators to rely on US financial data alone as a basis for projections of our own market's likely direction. This belief is strengthened by ready comparison of daily fluctuations in the two markets, with the ASX consistently mirroring the directional movement of the DOW overnight. While there may be both fundamental and technical reasons for this

occurring in the short term, the assumption may not be justified over longer periods. This article compares long-term movements in the two markets and assesses to what extent they are truly coupled.

The consistent upward path displayed by the Australian equities market since the beginning of the last century, as represented by the ASX All Ordinaries Index, is displayed in Figure 1. This also gives some indication of its level of volatility within the calculated 90% confidence limits defining its trend channel. The general impression is of continuous growth, but with a few relatively brief periods of consolidation, indicated as A–E. In general, these each occurred after the index had peaked at the top of its valuation channel to then consolidate as it returned to fair value, represented by its primary trendline (in red). Periods A and B correspond to World Wars I and II respectively. C identifies the credit squeeze of the 1960s that followed 1950s growth, and price consolidation at D simply represents the market's return to fair value after the irrational exuberance of 1986–87. The unique combination of mineral booms and oil-crisis bust of the 1970s is indicated at E.

Figure 1: The All Ordinaries Price Index, 1900–2010



Movements in the DOW over the same 110-year period are displayed in Figure 2. The red primary trendline and associated valuation channel may be traced back to 1800; the red line also indicates gradually increasing rates of price growth over time. The general shape of the index plot, however, differs starkly from that of the ASX. Apart from the mid-1920s to mid-1930s roller coaster, the entire growth pattern may be described by three long periods of consolidation (V at 100, X at 1000 and Z around 10,000) linked by two phases of high growth (W and Y).

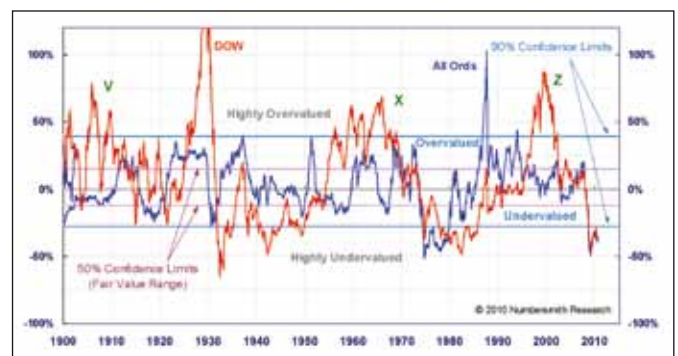
The DOW reached a value of 100 at the top of the consolidation range (V) in January 1906. It was not until November 1934 that it was able to breach and stay consistently above this level. Over this same period, the All Ordinaries appreciated by a factor of 440%. Similarly, the DOW met resistance at the 1000 level (X) that lasted from May 1965 until November 1982. Meanwhile, the ASX increased by a factor of 250%. The DOW has now been in a consolidation phase around 10,000 (Z) for more than a decade, and at 10,800 it is currently below the level reached in April 1999. In contrast, the All Ordinaries proceeded to double from its 3444 dot.com peak to reach 6873 in November 2007, and at 4700 is now 60% above its April 1999 level.

Figure 2: The DOW Industrials Index, 1900–2010



The two primary trendlines shown in red in Figures 1 and 2 represent the calculated mean values around which each index has fluctuated throughout its history. They could therefore be viewed as indicating long-term fair value for each index at any particular time, and by reference they allow estimation of current market value. Percentage movements since 1900 in each index relative to its primary mean are compared in Figure 3. The 90% confidence limits defining the channels of Figures 1 and 2 now are shown as horizontal blue lines that indicate levels of over- or undervaluation. A fair-value range is defined by 50% confidence limits (mauve).

Figure 3: ASX and DOW relative value, 1900–2010



Throughout almost its entire history, volatility in the ASX (blue) has been consistently confined within these 90% limits. Much of this time has been spent in the narrow fair value range. Volatility in the DOW (red), however, is strikingly more pronounced and less consistent, often straying into highly overvalued or highly undervalued territory for prolonged periods, with minimum time spent in the fair value range. Its two extremes were the level of 223% overvaluation reached in September 1929, falling rapidly to be 68% undervalued in June 1932. Each period of zero growth (V, X and Z) produced a continual decline in value. It is somewhat ironic (in view of recent suggestions that the two markets are decoupling) that, apart from the sharp falls of 1973–74, the only period of true overlap has been in the last 2–3 years, leading to the current common undervaluation of 35%.

It may be concluded from these models that as short-term trading markets the two indexes are strongly coupled. As longer-term investment markets, however, they behave independently. The current mid-term growth analyses of the two underlying economies could hardly be more diverse. Investors therefore need to be wary of pessimistic media predictions for our own market based solely on an analysis of those in the US.

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Lifecycle investing

By Doug Turek



Lifecycle investing and target-date retirement funds are a hot topic in Australian institutional superannuation. Here I'll cover why this is important to you and 'guess' how much you should have in bonds for your age.

A short history of lifecycle investing

About 40 years ago American author Burton Malkiel suggested you should 'invest your age in bonds', in order to progressively desensitise the

quality of your forthcoming retirement to fluctuating share prices. This is referred to as the 'birthday rule' and it means every year you should allocate 1% more of your retirement savings into defensive bonds and 1% less in shares.

Some, including me, consider this conservative and instead suggest having your age less 10–20% in bonds. Yale professors Ian Ayres and Barry Nalebuff more boldly suggest you should invest 200% of your assets in stocks when you're in your 20s and 30s through gearing, then reduce this percentage to about 40% by age 60. Canadian Moshe Milevsky, author of *Are you a stock or a bond?*, suggests your career should also guide how you invest. If you're a 40-year-old public servant or a tenured professor like him, consider your safe job a bond and invest more in equities. If you're a stockbroker, invest in bonds despite what you tell your clients to do!

Lifecycle investing by the numbers

Perfect hindsight shows that if you had followed Malkiel's rule you would have weathered the GFC alright. At age 65 you would have had 35% in equities, and would have seen your portfolio fall in value by 10%. Your retirement assets would have been crunched by twice as much (20%), had you been in a fixed 50% equity portfolio instead.

However, that's not a fair comparison, as it doesn't reflect the fact that you would have had more absolute money in your portfolio in the run-up to 2007 if you'd had more in shares. Instead it's better to look, using historical data, at the final range in what you would have accumulated for retirement had you either (a) reduced your equity exposure each year according to a birthday rule or (b) invested with a fixed percentage of equities.

After studying different 30-year savings periods, starting as early as 1875, I found that the birthday rules 'have your age in bonds', 'have your age in bonds less 10%', '... less 20%' and '... less 30%' gave the same median at-retirement balance, respectively, as investing with the following fixed percentages of equities: 48%, 57%, 67% and 77%.

As hoped, following a birthday rule tightened the range between the worst and best outcome by 5–10%. While this is pleasing, it is still a small fraction of the typical minus 50%, plus 100% uncertainty that comes with investing in equities over the long term.

When you invest more in equities early in life using a lifecycle approach, you buy yourself the luxury of being able to invest more conservatively later in life when you have a bigger nest egg to protect. If instead you invest with a fixed percentage in equities, you probably aren't taking on enough risk when you can afford to, and you may take on too much when you can't.

Institutional experience: improvement needed

US investors have embraced lifecycle investing by investing in 'target retirement date funds' (funds which automatically adjust their equity mix with time, chosen by decade of retirement). About three-quarters of US workplace superannuation plans have these on their menu and about 40% of investors use them. Assets in these funds have rocketed from \$69 billion in 2005 to \$256 billion in 2009.

Surprisingly, these funds performed poorly in the GFC. One of the causes revealed in an SEC inquiry was the differing 'glide path' (of declining equities with age) the funds used. This is shown in Figure 1, where each coloured line is the age-based allocation to equities adopted by a different target date retirement fund.

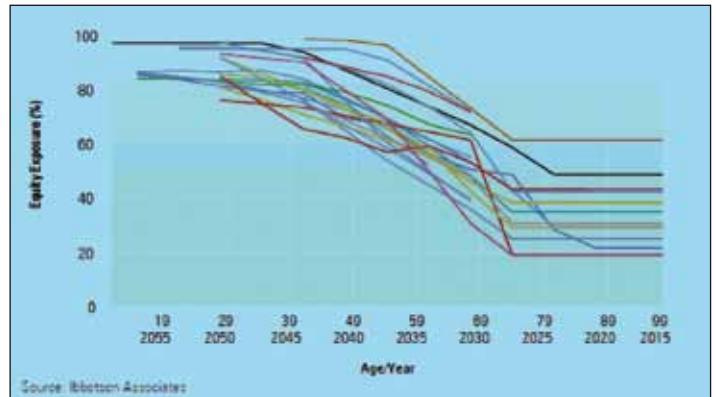


Figure 1: Equity mix by age (or 'glide path') for different US target date retirement funds

This somewhat bewildering chart shows while there is a consensus amongst funds that your equity composition should decrease with age, there is no consensus on what it should start at, be or finish. Some funds invest a young person 100% in equities while others only 75%. For a 69-year-old member's portfolio, one fund invested conservatively 30% in equities, while another invested aggressively 70% in equities. It's no wonder outcomes during the GFC were all over the place with many being disappointing.

In Australia, only a few providers have so far introduced life stage strategies. BT's new 'Super for Life' offers six target date funds labelled and selected according to the decade you were born. To avoid introducing multiple new funds, Industry fund Health Super instead offers a 'life cycle option' where members are automatically moved from their **long-term growth** fund to the **medium-term growth** fund when they turn 50 and then to the **balanced** fund at 60.

A big challenge remains for institutions to determine what your needs and circumstances are so that they can tailor these adjustments. For instance:

- You're receiving other regular income (e.g. defined benefit pension, annuity, Centrelink, a property or a reverse mortgage), so you can take on more risk, and are comfortable doing so.
- These funds are all you have and only just cover living expenses, or you can't stop worrying about your daily superfund balance — so you can't afford to take much risk.

What this means to you

For the independent investor, lifecycle investing is a reminder to check whether you are taking on the right level of risk for your life stage.

For those with many years to go to retirement, having your age less 15% in bonds is a starting point. Once retired, however, you should glide into a fixed equity mix. In my experience this ranges between 40% and 60% in equity like assets. Not enough, and cost rises might erode your wealth. Too much, and a GFC Act II will get you! However, just as a fund can't yet accurately predict your needs, neither can I, with just these benchmarks.

Although this is not often discussed, the type of assets you invest in should also change with age: for instance, inflation-linked bonds should become a more important part of your portfolio as you get older. Perhaps more on this another time.

Dr Doug Turek is Principal Advisor of independent personal wealth advisory firm Professional Wealth. He was formerly a senior advisor to institutions and government with The Boston Consulting Group. He writes on investment strategy and can also be heard regularly on ABC Radio in Victoria. He can be contacted at: dturek@professionalwealth.com.au.

Defensive (growth) strategies using gearing

By Tony Rumble



The above title sounds contradictory, doesn't it? We all know about the tragic failure of the gearing model deployed by Storm Financial, where over-high levels of margin lending destroyed substantial wealth for thousands of investors. Gearing has traditionally been thought of as an aggressive form of investment, with the capacity to magnify not only gains in a rising market but also losses in a falling market. However, there are sound financial reasons why leverage can be used to create robust

investment strategies that actually minimise risk as well as ensuring capital growth from share markets. To understand how, we'll delve into the world of financial management, and also take a look at how investors in Europe and Asia think about wealth creation. (Hint: they don't think like us!)

Every year ASX and Frank Russell combine to assess the returns from popular forms of investing such as shares, residential property, bonds and cash. Each year, including this one, shares deliver the best long-term returns, with residential investment property coming a close second. Fixed income performs well too; but, on an after tax basis, shares should be the main focus for the long term (i.e. 20–30 years). However, in the last decade share investors have experienced two 'minus 50%' events, heightening the risk for shorter-term investors. And for retirees, where large falls in capital value may never be fully recouped, this market volatility is an even bigger concern.

Post the GFC, investments are even more closely scrutinised for their ability to deliver consistently solid returns with acceptable levels of risk. Surveys of SMSF investors routinely tell us that they overwhelmingly shun traditional managed funds in favour of portfolios built around core long-term holdings of blue chip shares. These surveys also tell us that SMSF investors crave income with capital stability or explicit capital protection. Structured investments have also returned to the forefront as an important tool for investors seeking stability and protection, and in this article we look briefly at some of the typical structured investments that prevail in the current market.

That's not to say that structured investments haven't disappointed after the GFC. Most capital protected investments that used the 'CPPI' (Constant Proportion Portfolio Insurance) method of risk management have now become fully allocated to cash or fixed income like investments, as the volatility and losses in the stock market exploded. Investors should reward the capital protection within these products (many of which will mature to return a capital amount to the investor which references much higher market levels than now prevail). But for investors who borrowed to finance the purchase of these 'cashlocked' products and who were relying on the income from them to help cover their interest bills, the cessation of income that accompanies cashlock has been a concern.

Disappointment about the loss of income from pre-GFC structured investments comes with uncertainty about what triggered this cashlock in the first place. Investors and financial advisers should have been aware that cashlock could occur (and most were), but many of them could not explain why the risk management systems in CPPI products behaved as they did. Thus the risk management technology that prevailed before the GFC failed to withstand the test of transparency and simplicity, and this has led to its demise.

The new wave of post-GFC structured investments rely on combining bonds (which on maturity provide a return of the investor's original capital) with call options (which give exposure to the asset/s of choice for the investor). Most of the Australian issuers of structured investments are now providing these types of capital protected investments with gains linked to the performance of the Australian or international share markets, or commodities or exotic assets. Often these investments have a 5-year term, and the best come with high levels of liquidity and involve simple and predictable payoffs. Some have maximums or 'caps' on the level of gain available from the investment; as long as this level is sufficiently high (e.g. above 50% for a 5-year term), they can still provide investors good outcomes.

These 'bond + call' based investments are validated by corporate finance theory, which has for many years likened ordinary shares themselves to an investor holding a bond and a call option issued by the same company. Bonds provide regular income and usually high levels of price stability; and call options provide the opportunity for upside or capital appreciation. Corporate finance scholars see these payoffs in ordinary shares too: stable dividends from shares are like income or coupons from bonds (and maintainable dividends underpin share prices, as investors in stocks like CBA experienced at the bottom and immediately after the GFC). And gains on ordinary shares can be replicated exactly by holding a call option over the share, for a fraction of the cost of holding the ordinary share itself. So by combining a real bond with a real call option, financial engineers are now creating structured investments that behave like ordinary shares, but with capital protection as well.

But here's where savvy investors have been able to go further, using simple leveraged investment products to access the potential for capital growth, while at the same time minimising the amount of capital that can be lost if the market falls. Instead of buying combined 'bond + call' products, in the last 18 months investors have increasingly been attracted to buying products that just focus on the growth profile delivered by call options, or products that have option-like payoffs. Most of these products are issued using simple 'deferred purchase agreement' technology, meaning they are issued as 'securities' (and hence are eligible for use by all investors including SMSFs).

Instead of outlaying \$1.00 to get \$1.00 of market exposure — with the attendant risk of losing the entire \$1.00 — investors can now access the same \$1.00 of market exposure for far lower cost (and hence lower risk too). For example, Deutsche Bank has started issuing its 'Access Certificates' in Australia, giving investors exposure to the Australian share market, and to international markets and stocks like Berkshire Hathaway. The DB Access Certificates cost around \$0.20 per \$1.00 exposure for a 3-year term with a cap of 50%, meaning that the maximum loss is \$0.20, allowing the remaining \$0.80 to be held in cash or TDs for capital stability (or invested in other growth assets, helping diversification). Alpha Structured Investments provides its Alpha 'BOOST' certificates, giving exposure to \$1.00 of the S&P/ASX 200 Price Index for an annual cost of \$0.08 with a cap of 85%. The Alpha BOOST product also allows investors to walk away during the investment term if they choose to do so; and the low upfront cost plus the walk-away feature reduces the cost and downside risk compared to buying the underlying shares themselves.

European and Asian investors are flocking to use these low-cost, 'leveraged' investments. Instead of using the leverage to increase investment exposure, they can use it to reduce the cost/risk of investing, while at the same time getting exposure to growth, if it occurs. Unspent cash can be deposited in low risk/low return investments, providing potentially better capital stability than from traditional, broadly diversified portfolios.

Finally, a note of caution. The new wave of simple, low-cost leveraged investments offers outstanding flexibility and risk management, with the ability to capture growth as it occurs. However, beware of structured investments where the cost is dressed up as an interest rate, where you can buy the product only if you take out a loan from the product issuer. If you are considering one of these new 'limited recourse' loan or 'instalment' style products, don't be persuaded to buy unless the promoter has an ATO ruling confirming the tax deductibility of the interest payments.

Tony Rumble, PhD, is founder of LPAC Online Pty Ltd and Alpha Structured Investments Pty Ltd www.alpha-invest.com.au. This article is educational in nature and does not provide any express or implied recommendation or advice and does not take into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Before making an investment decision, the reader must consider whether it is personally appropriate in light of his or her financial circumstances, and should seek further advice on its appropriateness.

Twelve investment areas to avoid

By Dominic McCormick



After 25 years in the investment and financial services business, I spend a lot of time suggesting ways investors could enhance and preserve their wealth — suggestions that are sometimes ignored, misunderstood or poorly implemented by investors and advisers.

Perhaps a more helpful approach is to take the opposite perspective and suggest investment areas that investors should seek to avoid. Such guidelines could result in the occasional missed opportunity;

nevertheless, I believe they could significantly reduce the number of mistakes investors (and advisers) make in building investment portfolios.

So here is my list of 12 investment areas to avoid:

1. **Retail capital guaranteed products.** These products are recipes for disappointment, due to expensive capital guarantees, excessive fees and lack of exposure to the total returns from the underlying assets. Inflexible structures and limited access to capital often result in a significant opportunity cost. Investors in most capital guaranteed products will struggle to beat the return on cash. The investment banks that create them make most of their money the minute the deal is done, irrespective of whether investors make money over time. Regard 100% gearing into most capital guaranteed products (for supposed tax benefits) as gambling, not investing (see guideline 2).
2. **Any product sold largely or primarily on its tax benefits.** Investors should have learnt this one well lately through the failure of some agricultural managed investment schemes, but history shows most other tax-driven investments, such as film investments, have also failed investors. I don't include gearing/margin lending here because I see it simply as a tool and not an investment in itself. Consider gearing if you understand the risks and have some good investment ideas, but not to reduce your tax.
3. **IPOs of listed investment companies (LICs) and LICs at a premium to NTA.** Newly minted LICs pushed to investors will almost always move to a discount to NTA. Disheartened investors will become frustrated and sell, accentuating this movement. Those trading at a premium to NTA may remain there for some time, but the odds are against them remaining there longer-term.
4. **A sector or niche where big brand name managers are enthusiastically launching new funds.** Following this guideline would have kept investors out of technology funds in the lead-up to 2000 and out of global REIT funds in the lead-up to 2007. There may be some strong initial gains from such funds, but the odds of keeping them are low. After the party, these are the funds that will languish on the bottom of the performance tables for years.
5. **Funds that grow dramatically in a very short period of time.** Funds that go from a few million to billions in less than a year or two should be avoided. Most successful managers take some years to build support. Funds that grow very quickly tend ultimately to underperform.

6. **Any fund that has recently won lots of industry awards from the media and/or research houses.** At worst, these are funds ready to blow up (e.g. Basis in 2007); at best, they are likely to be entering a period of underperformance (especially if they are growing too quickly — see guideline 5). Excessive popularity is usually bad for future returns.
7. **Contracts for difference (CFDs).** Note that I am talking about 'investing' in CFDs. Trading CFDs may suit some experienced active participants who understand the risks they are taking — and that what they are really doing is gambling. For investors, CFDs are an expensive, tax-ineffective (typically no franking credits) and often dangerous way to get medium to long-term exposure to assets.
8. **Fund manager or fund structures earning massive fees very quickly or for poor results.** Fund managers should be able to get wealthy by delivering good returns over the same long-term timeframes as their investors. But if they can get rich very quickly, either their fee structure is flawed or they have too much in funds under management (see guideline 5). Either way, avoid these funds. Importantly, investors should always ask their managers where they have the bulk of their own wealth. If the answer is largely in the management company and not in the investments they are recommending, avoid them.
9. **Active managers who say it is 'process' not people that matters most.** It's not. Good active management is primarily about good people and their judgment. Good, passionate investors can sometimes train other smart, passionate individuals to be good investors; but if they leave, leave with them.
10. **Any product promoted by someone you know nothing about.** Be sceptical of anyone who turns up out of the blue with a new fund or new idea. They have probably already tried it and failed elsewhere.
11. **Economists.** Economists are good for explaining where the world is at and how it got there. Some are even good at telling jokes. Unfortunately, these skills are next to useless for building an investment portfolio.
12. **Perpetual optimists or pessimists.** The world is never as black or white as these extremists claim. Importantly, they lack the flexibility to change their views and grasp opportunities. They may occasionally be spectacularly right (which is when they garner most support) but are just as likely to be spectacularly wrong, or at least miss opportunities as they dwell on past glory.

There are, of course, plenty of other mistakes investors (and advisers) can make. Moreover, making mistakes is sometimes valuable. Keener, engaged investors are probably best off making some of these mistakes for themselves — it's one of the best ways to learn about investing. However, if you are a less engaged investor or adviser, or don't want to spend a big chunk of your life thinking about investment issues, avoiding these areas will serve you well. And far less of your time will be taken up in reviewing product disclosure statements, reading research reports and meeting product manufacturers.

Dominic McCormick is the Chief Investment Officer of Select Asset Management.

Bulletin board

AIA November events

November is jam packed with events in most capital cities. Please note the dates below, and for more information or to register visit the Events page of the AIA website (www.investors.asn.au) or call 1300 555 061.

Sydney: **Sharemarket Investment Course** — 8, 15 and 22 November 2010

Sydney: **Bulls v. Bears** — Friday 12 November 2010

Brisbane: **Asset allocation strategies to help you navigate the year ahead** — Friday 19 November 2010

Perth: **Asset allocation strategies to help you navigate the year ahead** — Saturday 20 November 2010

Adelaide: **Risks & rewards** — Saturday 20 November 2010

Telstra

By Gerard Paynter



On 29 September 2010 Telstra CEO David Thodey spoke at a strategy day for the company. He concluded his speech by saying that in three years' time: "Telstra will be faster and more customer-centric. We will have lower costs and higher productivity. We will have sales and marketing expertise to match our network and engineering experience. And we will have capitalised on profitable new growth businesses in media, international markets and network-based applications and services."

It's an impressive goal, and certainly we all wish Mr Thodey well. However, it's as well to bear in mind two things: (a) we have heard statements like this from Telstra in the past; and (b) the company seems to have been experiencing massive change for years but there is still more to come.

In this article I want to consider the future for Telstra. First I will look at the biggest challenge facing the company — the national broadband network (NBN). Then secondly I will consider the four key parts of the business: mobile, fixed line, directories and data.

Ord Minnett currently has a hold recommendation on Telstra and a high risk rating. The reason for this recommendation is that, while we see opportunity in the new strategy proposed by the company, we also see risks with the NBN and continuing structural problems within Telstra's existing business.

The national broadband network (NBN)

Without a doubt, the national broadband network has been the main issue dominating people's thinking about Telstra over the last 12 months. The government's decision to build an NBN is an obvious competitive challenge to Telstra. A fibre optic network to all Australian homes will make the existing Telstra copper wire network worthless.

Telstra and NBNco have been involved in difficult negotiations for most of the last 12 months. They finally arrived at a non-binding financial heads of agreement worth \$9 billion post tax to Telstra. Telstra will receive progressive payments from NBNco as compensation for the use of TLS infrastructure (pits, ducts, backhaul fibre) and for decommissioning its copper and high-frequency cable network. Telstra also agreed to migrate its fixed line traffic onto the NBN. In addition, Telstra estimated that Commonwealth Government policy reforms announced at the same time as the deal were worth \$2 billion to the company.

The problem with the agreement is that it is non-binding, and a great number of issues remain unresolved. What the market especially wants is more financial detail.

What is clear is that in the post-NBN environment Telstra will lose its monopoly on fixed lines and will have to compete with the other companies on a more level playing field. The reforms that David Thodey describes, especially the increased expertise in marketing, will be essential if Telstra is to survive in this environment.

Our main issue in relation to Telstra and the NBN is that there are too many things we do not know. Unfortunately for Telstra, when we

look at what we do know about its existing businesses, we see many challenges.

Telstra's recent 2009–10 financial report provides an interesting insight into the performance of the company's four key sectors.

Mobile

Mobile in FY 2010 mostly negative. Telstra grew its mobile service revenue by 6% in FY 2010 (compared with Optus at +12%) and as a result lost 1% of market share to Optus. It was a poor result, but the one positive was the resilience of mobile profit margins (35%) which remained high (but probably unsustainable) by comparison to Optus (26%).

Mobile, the easiest 'fix' of Telstra's operational issues. Ord Minnett believes that, compared to fixed line, mobile is 'fixable' by cutting the company's relatively high margins. Cutting margins will put pressure on profit, however.

Fixed line

Telstra's fixed line in FY 2010: accelerating decline. The acceleration in the decline of Telstra's fixed line business increased in 2010 to 8%. The speed of the decline was a surprise, and was driven by a dramatic acceleration in the substitution of fixed call volumes by mobile and more recently by new social media networks.

Looking at FY 2011. Ord Minnett expects the value proposition of Telstra's fixed line to continue to be severely tested by changes as the move to mobile continues. Over the past few months Telstra has responded by launching new products (T-Box, T-Hub) but we remain sceptical about the potential of these initiatives.

Directories

Sensis in FY 2010. The trend towards online directories continues, with Sensis (White Pages) in 2010 reporting a 5% decline in print revenues.

Looking at FY 2011. Ord Minnett expects both volumes and yields to remain soft in FY 2011. The question is not whether print will continue to decline but rather by how much, and whether the decline will accelerate from here.

IP, data and business services

IP, data and business services in FY 2010. Telstra competes well in the business space. Unfortunately it is a very competitive market and for each new piece of business they generate they are losing another piece to a competitor.

Looking at the components of the business, the issue is that major parts of Telstra's business are in structural decline while the other parts are very competitive.

In conclusion, Telstra management have been set a challenge. They are a talented group and have the potential to be successful. Given the unknowns regarding the NBN and the risks associated with the other businesses, however, Ord Minnett prefers to watch from the sidelines for now. We have a hold recommendation on the stock.

Gerard Paynter is a representative of Ord Minnett Limited, AFSL No. 237121. This article contains general advice only.



Bulletin board

AIA Conference 1–3 September 2011

If you've not yet marked your diary, then please lock in 1–3 September 2011. The AIA National Investors Conference will be held at the Sofitel Wentworth Sydney and has been planned to not clash with any major sporting events — including second runs of AFL finals! Conference program details will be sent to members next year.

Tax notes

Depreciation for investment properties

By Dennis Eagles



Comprehending the various depreciation calculation methods can be a challenge for investment property owners. This article touches on some of the most common issues that may arise.

Depreciation is a deduction for the cost of an asset, claimed over a number of years (the asset's effective life), broadly in line with the way the asset would be expected to decline in value over time. An asset that

increases in value (such as artwork or antiques) would of course not be subject to depreciation. Examples of depreciating assets are furniture, whitegoods, curtains, carpets and computers.

In order to make a claim for depreciation you need to determine each asset's effective life, and then apply one of two methods: the 'prime cost method', which depreciates by the same amount each year, or the 'diminishing value method', which attributes more depreciation to earlier years.

In some cases, you need to apportion the amount you claim. This is required if you don't hold the asset for the full year (i.e. buy or sell part-way through a year), or if there is an element of private use.

For an asset that cost less than \$300 and is owned by a non-business taxpayer (e.g. passive investor), an immediate deduction for the full amount is available.

To simplify record-keeping and claims, you may choose to use a 'low value pool', where you can group all assets that cost less than \$1000 into a single pool and apply a fixed depreciation rate regardless of when each asset was purchased during the year. For the 2010–11 year, these rates are 18.75% for new assets and 37.5% for existing pooled assets. Note that you can add existing non-pooled assets to the pool once their value has decreased to less than \$1000.

You may also be entitled to claim depreciation for the construction costs of buildings (and some structural improvements). Depending on the date the building was constructed, a deduction of between 2.5% and 4% per annum may be allowed. Note, however, that for buildings purchased after 13 May 1997, any deductions claimed reduce the asset's cost base for capital gains tax purposes (i.e. you get a deduction each year, but may incur a larger capital gain when you sell the property).

If you sell a depreciable asset, there are balancing adjustments. If you receive less than your written down value, you can claim the additional decline in value, but if you receive more, you need to include the excess in your assessable income. In some circumstances, capital gains tax may also apply.

This is a brief summary of some of the depreciation rules. But please consult with a tax professional if you own any depreciating assets.

Dennis Eagles is a Director of the Wealth Management team in Grant Thornton's Brisbane office. This is a regular column aimed at providing general information on tax issues. Care should be taken when applying the basic principles to specific cases, as there are often exceptions to the general rules. If in doubt contact your tax adviser. If there are any specific topics you would like covered in future issues, please contact dennis.eagles@au.gt.com.

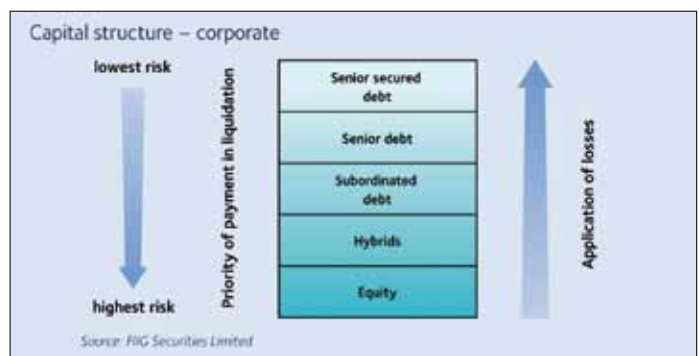
Capital structure

By Brad Newcombe



Investors must be aware of where investments rank in the capital structure of a company. That way, they know the level of risk of those investments and can ensure they are earning appropriate returns. Debt with higher risk should carry greater reward over lower-risk or more 'senior' instruments.

Investors understand the need to compare credit-worthiness across alternative bonds, most commonly summarised by the credit rating assigned by Standard and Poor's, Moody's and/or Fitch. Generally speaking, the lower the credit rating the higher the risk, and thus the higher the required return. This concept is generally well understood; but investors also need to know where an investment ranks within an individual company's capital structure.



The above chart illustrates the capital structure for a typical company from lowest to highest risk. The various elements of the capital structure are shown in order of:

- risk — ranging from senior secured debt as the least risky down to equities as the riskiest
- priority of payment in case of liquidation — with senior secured debt to be paid out in full first, then all subordinated debt, then all hybrid debt, and if any funds remain equity holders share the balance
- application of losses — with equities to bear the first loss and the security of senior debt holders' investments only threatened once all other junior capital sources have been exhausted.

In accordance with risk, the expected long-term return should increase as you move down the capital structure.

It is important to note that companies often issue senior secured debt. This is generally the safest form of debt for an investor or financier, as there is a direct claim on defined assets of the company (or the entire company itself) and it could be considered to be at the top of the capital structure.

The most basic example of senior secured debt is a first ranking mortgage secured over property. However, security can be in the form of practically anything, and with banks it is common for a certain debt to be secured or covered by a pool of loans. Senior secured debt holders have first ranking claim on the assets over which they have security.

After senior secured debt, senior debt takes priority over other debt securities sold by the issuer. If the issuer enters liquidation, senior debt must be repaid before subordinated creditors receive any payment.

Hybrids are securities that offer a mix of debt and equity characteristics. They carry higher risk than all of the debt securities mentioned above, because they sit below them in the capital structure. A key difference between hybrids and the higher ranking senior and subordinated debt is that interest payments on hybrids can be deferred or in some cases completely missed.

Sitting at the bottom of the capital structure is ordinary equity, which is highest risk/reward tranche for investors.

Brad Newcombe is Director — Listed IRS and Fixed Income Research, FIG.

The Managed Investments Group

By Scott McKenzie



Left to right, back: Peter Newman, Geoff Short, Grahame Scopes, Bob Hartley, Mike Tidbold, Alan Timmins
Left to right, front: Debra Sorensen, Jenny Timmins



There are some very interesting structured managed investments being produced these days (see Tony Rumble's article on page 5 in this issue of *Investors' Voice*). Perhaps the group will lead the way in investigating them.

Scott McKenzie is Vice-President of the AIA and MI Group Coordinator.

The MI Group has been meeting in Brisbane monthly for almost 10 years — we aren't sure exactly how long! Usually there are from 10 to 15 members present for each session. The agenda for the meetings has changed over the years but one constant feature has been that a considerable portion of a meeting is given over to a specific topic selected during the previous meeting. Sometimes we have an outside speaker, but more often the topic is presented by one of the group.

A recent innovation is for each member to tell the group what they've picked up about the global economy and markets in the week or so prior to the meeting. We call that our 'intelligence gathering'.

Our October meeting featured each of us explaining what international investments we have, why we have them and what would cause us to sell them. For those without any international investments the question became: 'Why not, and what would cause you to begin investing in them?'

The MI Group initiated the *Managed investments* report in 2007. The fourth edition was posted to the AIA website in September. Most of the work on the recent report was done by Silvana Eccles and group member Bob Hartley.

AIA web book reviews

Recent book reviews available on AIA website www.investors.asn.au.

Title: A how to book of self managed super funds

Author: Tony Negline
Publisher: eBook available from actbiz.com.au, Brisbane, Australia, 2010
RRP: \$55.00 or \$120 for one year subscription. 20% discount available for AIA members – available on AIA website www.investors.asn.au.
Reviewer: Jenni Eason

Title: Buffett beyond value: why Warren Buffett looks to growth and management when investing

Author: Prem C Jain
Publisher: John Wiley & Sons, New Jersey, USA, 2010
ISBN: 9780 4704 67152
RRP: \$39.95
Reviewer: Owen Davis

Title: Understanding investments: An Australian investor's guide to stock market, property and cash-based investments (5th Ed)

Authors: Charles Beealerts with Kevin Forde
Publisher: Wrightbooks, Brisbane, Australia, 2010
ISBN: 9781 7424 69508
RRP: \$32.95
Reviewers: Owen Davis & John Matthews

Title: The little book of bull moves – How to keep your portfolio up when the market is up, down or sideways

Author: Peter D Schiff
Publisher: John Wiley & Sons, New Jersey, USA, 2010
ISBN: 9780 4706 43990
RRP: \$27.95
Reviewer: Peter Schiff

Title: The little book of bulletproof investing

Authors: Ben Stein & Phil De Muth
Publisher: John Wiley & Sons, New Jersey, USA, 2010
ISBN: 9780 4705 68057
RRP: \$29.95
Reviewer: Michael Stearn

Title: Shares made simple: A beginner's guide to sharemarket success

Author: Roger Kinsky
Publisher: Wiley Publishing, Brisbane, Australia, 2010
ISBN: 9781 7424 69799
RRP: \$27.95
Reviewer: Brian Cordiner

Title: Shares to buy and when

Author: Jim Berg
Publisher: Major Street Publishing, Melbourne, Australia, 2010
ISBN: 9780 9807 56401
RRP: \$29.95
Reviewer: Jo Martin

Title: Creating real wealth

Author: Michael Kemp
Publisher: Major Street Publishing, Melbourne, Australia, 2010
ISBN: 9780 6465 26867
RRP: \$39.95
Reviewer: Peter Schiff

Title: The Wiley Trading Guide

Authors: 17 Traders & Trader Educators
Publisher: John Wiley & Sons, Brisbane, Queensland, Australia, 2010
ISBN: 9781 7424 69874
RRP: \$49.95
Reviewer: Jo-anne Martin

Book review

Title: Managing your investment property



Authors: Rachel Barnes & Geoff Doidge
 Publisher: Wrightbooks, Brisbane, Australia, 2010
 ISBN: 9781 7424 69553
 RRP: \$34.95
 Reviewer: Peter Schiff

Rachel Barnes and Geoff Doidge are both experienced and successful property investors. Together they own over 130 residential properties, and in *Managing your investment property* they share their expertise in this field with readers who are setting out on a similar path. The authors point out the advantages (largely financial) and the pitfalls of being a DIY owner, as opposed to engaging a property manager. These two major alternatives, which the potential property owner needs to weigh up, are illustrated and emphasised throughout the book.

The book is divided into three parts. Part One deals with preparing for property ownership and covers such topics as acquiring a property, appointing a property manager (if appropriate) and selecting a good tenant. Part Two covers the management of the property step by step. It deals with such issues as advertising the property, vetting applicants, maintaining good records and managing evictions.

Part Three gives advice on how to get the most from one's property investment.

Each chapter is self-contained, but I like the approach that the authors have taken of previewing the next chapter's topic in the final paragraph of each chapter. The sequence of topics is logical for anyone reading the book from beginning to end, giving a good overview of the whole process and its potential pitfalls; and the reader who is already an experienced investor has the option of selecting those areas of particular interest.

The authors have distilled their extensive knowledge base for the benefit of newcomers to the field. They write in a style that is easy to follow and without the use of complicated jargon which can be both confusing and demotivating.

Excellent appendices at the end of the book contain links to helpful websites as well as sample pro formas covering topics such as tenancy application forms, pet owner agreements and letters for increasing the rent.

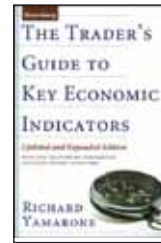
The main emphasis is on residential properties for rent. Since the thrust of the book is investment, mention could also be made of commercial properties and their pros and cons. This, of course, opens up another set of issues, and may form the topic for a future companion volume.

The book is easy to read, and replete with helpful tips and references to other authoritative sources for those who wish to delve more deeply into the many facets of property investment. It is highly recommended for anyone with limited knowledge who is thinking of residential rental property as an investment vehicle.

Peter Schiff is a member of the AIA.

Book review

Title: Trader's guide to economic indicators



Author: Richard Yamarone
 Publisher: Bloomberg Press, New York, USA, 2007
 ISBN: 9781 5766 03017
 RRP: \$52.95
 Reviewer: Vimal Mehta

In *The trader's guide to economic indicators*, Richard Yamarone writes: 'Investing without understanding the economy is like taking a trip without knowing anything about the climate of your destination or what season you'll be in when you get there. Just as inclement weather can wreak havoc with a vacation, putting hard-earned money into the stock or bond market when economic conditions are unfavourable or selling investments for the wrong reasons can destroy financial plans for a comfortable retirement, a new house, or a child's college education.'

Yamarone contends that investors need a working knowledge of economics and an understanding of how the business cycle works. In his book he attempts to bridge the gap between economic theory and the financial markets. He believes that all the indicators in his book relate in one way or another to the business cycle, and are among the most valuable tools of any analyst or economist, and you don't need a degree in economics or mathematics to interpret the information they provide.

In his introduction, Yamarone briefly discusses the business cycle; he provides a table of business cycle durations dating back to June 1857, and a graph of GDP and recessions dating back to 1953. The key message here is that, throughout history, no two business cycles have been the same — in either duration or magnitude. Yamarone's second key message in the introduction is that the more an indicator deviates from the market's expectations, the greater is its effect on the financial markets.

After the introduction, the book is divided into 14 chapters, each corresponding to a particular indicator. The first 12 chapters focus on the GDP, the employment situation, industrial production and capacity utilisation, residential construction, consumer sentiment, and personal income and outlays. Chapter 13 focuses on the fixed-income market and discusses inflation, interest rates and bond prices. Finally, Chapter 14 discusses indicators and data relating to commodities.

Yamarone has set out each chapter in the same format:

- the evolution of the indicator, its major attributes and its effects on the market
- how the data is obtained, analysed and presented
- what the data means, and how to incorporate it into your investment analysis
- how analysts/economists use a little-known sub-component or combination of sub-components of the indicator to make informed decisions.

Yamarone's book is very informative and makes good use of graphs, tables and calculations where necessary to make his point clear to readers wanting to gain a working knowledge of economic indicators and the business cycle. Although the book is written for the American reader, Australians could, with a little research, find equivalent indicators corresponding to Australian economic data. As always, investors should conduct their own research and seek guidance from trusted advisers.

Vimal Mehta is a member of the AIA.

Me and my portfolio

By Ian B



I suspect my approach is a bit different from most. I bought my first shares in 1993 and set up my SMSF. Since I was self-employed, I decided to 'invest' my money with the experts in managed funds. It took me 3–4 years to realise a valuable lesson: don't trust anyone else to maximise your investment returns.

Even though the markets were on a roll from 1993 to 1999, my managed fund returns were laughable, and I decided I had to take control. So I began to educate

myself by reading a lot (mainly investment journals; rarely newspapers), and I started going to meetings to glean some knowledge.

I intended to retire in 10–12 years, so I needed capital growth. I researched mid-cap, small-cap and micro-cap shares, then found myself concentrating on micro-caps. Today I still need growth, so this is the area most of my energy goes into. My selections are based on the big picture scenario, global demands in industry, capital flows, energy requirements and so on.

As early as 2001–02 I began to see a couple of things happening in the financial industry that really concerned me. I also read an excellent book by Robert Kiyosaki (world-renowned investor and educator) called *Prophecy*. This was most insightful, and consolidated my earlier fears.

I sold my rental properties in 2004–05 and got myself out of debt. I purchased some silver bullion via the Perth Mint, which stores and insures it for a reasonable annual fee. The price of silver back then was about \$4.80/oz and has increased nicely due to:

- government mismanagement (especially financial)
- inflation
- expanding industrial demands and applications
- alternate investment/safe haven demands (due to global unease and distrust between various nations, and the demise and devaluation of the US\$.)

I am therefore very bullish on the prospects of gold and silver in the short to medium term (up to 5 years) or until these precious metals are used in the make-up of the new future global currency, even though there could be a pull-back in prices over the very short term.

The other glaring 'elephant in the room' over the last 2–3 years has been the switch in global capital flows from the West to the East, and the evolution of the emerging markets, in particular China and India of course, but also smaller Asian countries such as Malaysia, South Korea, Vietnam, Thailand, Taiwan and Indonesia. I also include places like Brazil, Chile, Peru, Colombia and Southern Africa, where China is pouring billions of dollars into electricity grids and infrastructure. For what? For commodities.

You name the commodity, Africa has it: copper (the barometer of economic growth), platinum, palladium, gold and silver (though gold is more a true currency than a commodity), oil and gas, uranium, coal, iron ore.

China is pouring massive amounts of money into these emerging markets. They are also winning joint ventures with local companies and governments. It must be a lot cheaper and easier for China to negotiate deals in these emerging markets than to continue with the red tape and higher prices here in Australia. Don't get me wrong, we do need restrictions on foreign countries taking over our companies and resources. There should, for example, be a limit of 49.9% foreign ownership, and probably on a lease basis. My fear, though, is that our government hasn't even seen the ramifications of what is happening on our doorstep. There is a massive competition approaching for commodities, and without commodity exports what does Australia have?

Nevertheless, in the short term I continue to hunt out Australian micro and small caps that have a 'great or unique story' and management who are energetic enough to make things happen. Also, the ASX has a number of companies listed in Australia but operating in some of these emerging markets as exploration companies and producers. These include (with * denoting stocks I own):

South Africa: *AZM, GRY, PRU, ADU, SDL, CCC, *LEG, DML, AMX

South America: *CTM, *MUN, AND

Australia: *IGR, *SLR, *RMS, *RRL, *EKM, *MCO, *AOE, *BOW, *FML, *LNC, *THX, *TRY, *AKL, *NCM

So to summarise, I'm bullish at least for the short term in commodities, especially copper and other base metals, rare earth elements for electronics and 'green' cars, oil and gas, especially GTL (gas to liquids) and LNG, uranium in the near future and of course precious metals — gold, silver, platinum and palladium. I'm bearish long term in US\$, bonds, banking sector including Australia but excluding most emerging markets.

I'm fearful of the fact that our Aussie banks are hoarding cash and not lending. What do they know that we don't? Is the GFC in financials much worse than they're telling us? This action is just following the US and Europe, which are rapidly wiping out their middle class/entrepreneurs/future growth demographic. The realisation of this fear would be recession/depression for Australia along with the US and Europe.

My other concerns are that rapid growth in the emerging markets could create an inflationary environment; and the big one — the ramifications of a dwindling US supremacy and the emergence of China as the global leader. I'm pretty vigilant daily, checking on any unexpected announcements or moves that could alter our uneasy status quo here in Australia.

In summary, excluding my home, as at 5 September 2010 my portfolio is made up as follows.

Property	19%
Shares (ASX listed shares)	59%
Bullion/rare coins & notes (Perth)	11%
Cash	6%
Foreign investments/shares/ETFs/forex	5%

(These foreign investments don't include my ASX listed stocks operating overseas.)

My SMSF makes up 80% of the above. I have been in growth phase from the 1990s until now, and am now (as from August 2010) in pension phase. However, I'm still promoting my growth stocks for now, and when the time and circumstances permit I will transition some stocks to income producing.

Ian B is a member of the AIA.

Bulletin board

The Pain Report

Jonathan Pain has spoken at many AIA conferences over the last 10 years. He spoke several years ago about the unsustainable nature of the US housing market, the American debt bubble and the remarkable rise of China. Jonathan has now decided, after 25 years in the investment industry, to become an independent voice in an industry dominated by the Wall Street marketing machine. Jonathan is offering AIA members a discounted rate of \$150, GST inclusive (compared with the regular rate of A\$185) for a subscription to **The Pain Report**. For this you will receive a minimum of 12 reports a year, which will provide you with an independent and global perspective of the world economy and the key factors that will shape and define the world we live in over the years ahead. For more information visit his website (www.thepainreport.com.au). To access this discounted subscription rate, send an email to enquiries@thepainreport.com.au and quote your AIA membership code.

Calendar of events

Date	Event	Time	Venue	Topic
01-Nov-10	Canberra Information Meeting	7.00-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	SMSF update
03-Nov-10	Brisbane Information Meeting	2.00-4.00pm	Broncos Leagues Club, Fulcher Rd, Red Hill	Members' Forum
08-Nov-10	Adelaide Information Meeting	7.00-9.00pm	Enterprise House, Room 4, First Floor, 136 Greenhill Rd, Unley	The year in review
08-Nov-10	Sydney Shares Course	7.00-9.30pm	Dunmore Lang College, Macquarie University, 130 Herring Rd, North Ryde	Sharemarket Investment Course - 8, 15, 22 November 2010
09-Nov-10	Perth Information Meeting	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	How to buy the best stocks for less than they're worth
12-Nov-10	Sydney One Day Seminar	9.00-4.30pm	Tattersalls Club, 181 Elizabeth St, Sydney	Bulls v Bears
16-Nov-10	Dealers' Group Forum	9.00-5.00pm	Rydges Melbourne, 186 Exhibition St, Melbourne	SMSF Strategy Forum
16-Nov-10	Perth Equities Discussion Group	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	Equities Discussion Group
17-Nov-10	Dealers' Group Forum	9.00-4.30pm	Star Room, Imax Theatre Complex 31 Wheat Rd, Darling Park	SMSF Strategy Forum
17-Nov-10	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help St, Chatswood	The share market outlook
19-Nov-10	Brisbane One Day Seminar	9.00-4.30pm	Bardon Conference Centre, Bardon	Asset allocation strategies
20-Nov-10	Adelaide Half Day Seminar	9.00-12.30pm	Enterprise House, Room 4, First Floor, 136 Greenhill Road, Unley	Risks & Rewards
20-Nov-10	Perth One Day Seminar	9.00-4.30pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	Asset allocation strategies
01-Dec-10	Brisbane Information Meeting	2.00-4.00pm	Broncos Leagues Club, Fulcher Rd, Red Hill	Presentation by Bill Dodd & Christmas drinks
06-Dec-10	Canberra Information Meeting	7.30-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	Discussion Group
07-Dec-10	Melbourne Information Meeting	6.30-9.15pm	Telstra Conference Centre, R1, L1, 242 Exhibition St, Melbourne	Economic & Sharemarket Outlook for 2011 - Local & Global
07-Dec-10	Perth Information Meeting	6.00-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	Perth Christmas BBQ
15-Dec-10	Gold Coast Information Meeting	9.30-11.30am	Robina Community Centre, Conference Room, 196 Robina Town Centre Dve,	Round table discussion & Christmas lunch
01-Sep -11	AIA Conference	1-3 Sep 2011	Sofitel Sydney Wentworth, 61-101 Phillip St, Sydney	National Investors Conference

NB. Topics subject to change.



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