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

Feb
2011

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AUSTRALIAN INVESTORS ASSOCIATION

What's in store for 2011

By John Abernethy

The world will grow in 2011. It is likely that the developing world, which is dominated by China, Brazil and India, will grow at a rate of at least 6%. The developed world of the US, Europe and Japan will grow at a more subdued rate of just 2%. Australia is likely to grow at a faster rate than the major developed economies of the world.

These observations suggest to us that equity markets are more likely to rise moderately than to fall in 2011. We do not expect a strong rise, because the economic problems confronting the developed world are immense. They range from excessively high levels of sovereign debt, severely crippled economies and unstable banking systems, to looming unfunded crises created by an ageing population in the developed world.

The magnitude of the problems suggests that government responses must also be immense when they are finally implemented. Indeed we suggest that there will be one very predictable response by governments around the world – new and higher taxes. Whatever growth there is and from wherever it comes, it will attract tax. The taxation response may not be until 2012, but markets will begin to price in the effects of new taxes at some point in the next 12 months. The effect of new and higher taxes will be to lower the expectation of profit growth in future years.

Quite simply the governments of the world will be forced to repair their highly indebted balance sheets in preparation for the forecast dramatic lift in pensions, social security and health payments that will arise throughout the next decade.

Although Australia's sovereign debt is low, like the rest of the developed world we are confronted with the looming problem of an ageing population. The baby boomers, born between 1945 and 1960, are rapidly reaching retirement. Although they are the controllers of immense wealth, they will still burden society with increasing claims on health care, then retirement and aged care. They are moving from a consumption stage to a savings stage of their lives. The combination of increased taxes (whether in the form of direct tax charges or a lift in utility or services charges) and the dramatic change in consumption patterns will surely slow economic growth. In Australia we are also confronted by our excessive household debt. This burden falls most directly on the generation of 30–45 year olds who have borrowed excessively to enter the residential market and who have to or will be required to adjust their consumption patterns.

Despite the above, we in Australia are relatively well off compared to our peers, because we benefit from our direct trade engagement with China. Further, our propensity to attract, house and provide for immigrants supports our population growth. The rest of the developed world is not so fortunate, and the depressing impact of offshore economic sentiment will weigh negatively on our equity market throughout 2011.

Continued on page 2

Wealth Creation Opportunities

AIA National Investors Conference 1– 3 September 2011
Sofitel Sydney Wentworth Hotel, 61–101 Phillip Street, Sydney

Featuring seven streams: ASX sectors; cradle to the grave; investment alternatives; managed investments; property; share analysis; SMSFs

Confirmed speakers include: Marcus Padley, Daryl Guppy, Michael Kemp, Roger Montgomery, Colin Nicholson

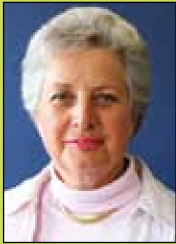
Early bird member rate of $695 (standard rate $795) expires 30 June 2011. Partner rate $630. Includes: lunches; refreshments; happy hour coupons; satchel with speakers' papers; networking opportunities

Further details will be posted to the AIA website **www.investors.asn.au** or call Chris on 1300 555 061.

FIRST TIME IN SYDNEY

President's message

By Alison Harrington



Within two months late last year I spent three weeks in India and three weeks in New York. For an investor the contrast between the two was extraordinary. Before going to India I went to the Brisbane Writers Festival to hear three new Indian authors, and bought all three books. Two were social commentary novels, but the third, *Mahabharata in polyester,* was the life story of Dhirubhai Ambani, one of India's richest men, whose eldest son is predicted to become the richest man in the world in a couple of years. The author, Hamish McDonald, was formerly editor of the *Far Eastern Economic Review*. The book was a fascinating read and exposed me to the stories behind the business names in India and the articles in the business section of the newspapers. Plus it showed, through the business life of one man, how India's economy has changed over the past 40 years.

Contrastingly, a trip to America reinforced how familiar the names of American industry are to me as an ordinary Australian. I don't know how much more wealthy New York must have appeared three years ago but I can safely say that today, at street level, the energy is enormous and the wealth staggering.

The underlying issue in India is still as Mahatma saw it, the need to utilise all the people into active work. However, there are now 1 billion people instead of under 400 million, and the population is getting younger. They still eat the same food, which has been grown the same way for centuries, and have traditional social structures. America is eating manufactured food and has a huge variety of social structures. Their similarity is the belief in a democratic system, however flawed — and of course movies! I was fascinated by both places and will continue to read with interest how the world economy will be changed by how they each manage their own unique challenges.

Our own unique challenge as investors will be to keep up with the way the internet changes the way businesses work. I am already seeing signs that businesses that use the social networking tools well are able to actively grow their business and manage their image. Perhaps it is another area of fundamental analysis we have to incorporate into our assessments.

Where I live in Chelmer, Queensland, about 50% of our part of Brisbane was inundated in the flood. As a community it has been an incredible experience preparing for, and starting to recover from, this ordeal. The individual stories are extraordinary. From an investor's perspective the effect on the economy of the floods and drought throughout Australia will be unprecedented. Some sectors of the economy will boom and some will be devastated. Please be very aware to protect your investments, and once you have protected yourself please offer assistance to anyone you know who is struggling to handle the challenges. After this level of damage much ongoing support will be needed. On behalf of the National Council of the AIA I extend our sympathy to all those who have been affected.

What's in store for 2011... from page 1

We have a positive view on Australia's equity market, which just offsets our concerns about the outlook for the European and US economies.

Therefore 2011 could well be a rerun of 2010, and the investment lessons of the first decade of the twenty-first century should not be lost on any of us. This decade has seen equities in Australia return about 8% pa to investors. It is interesting to reflect that approximately 60% of this return has emanated from income or dividends; so less than 40% of the total return is from capital gain. Further, while the first seven years of this century produced astronomical gains, they were subsequently decimated by the severe market contraction of 2008. The early economic and market gains were overstated by the burgeoning credit creation in the US, Europe and even Australia through to 2007. Then as debt and credit markets crunched the excess gains were quickly taken away. The result was that the decade returned to the long-term norm for Australia of approximately 8% annual return. Returns in the US were more sobering and barely matched inflation.

With this recent history, it would be extraordinary to expect a resurgent recovery in equity markets built upon excessive consumption and the reopening of easy credit. It is not going to happen, and the demographic pressures plus excessive government debt will simply cap any excessive market exuberance.

In the meantime, the growth in China and India should continue. There is much speculation among commentators who somehow predict that there will be strong equity market rallies in 2011 despite a slowdown in the Chinese economy. We do not expect China to slow, but if it did it would severely test the very sober world economic outlook and it would derail equity markets.

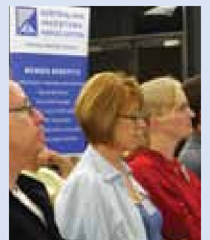
In summary, we believe the outlook for world and in particular Australian markets in 2011 is as follows:

1. Australian equity market return of approximately 5–8% with the return dominated by income
2. Only minor upward adjustment in cash rates by the RBA as it becomes increasingly obvious that Australian households are in debt distress
3. Continued strength of the A$ to levels well above parity with the US$ and towards 80 eurocents
4. Continued weakening of long-term bond markets as the market becomes concerned with the credit ratings of the major economies of the world
5. Continued market volatility as Europe aggressively ramps up its own form of quantitative easing in response to the contagion of economic calamity across its region

Therefore 2011 will be a stock picker's market and those investors who rely on index type equity investment will be disappointed. A balanced portfolio that is over-exposed to long-term bonds, non-Australian dollar assets and low-yielding property assets (e.g. retail) will also be in for another disappointing year.

John Abernethy is the Chief Investment Officer of the Clime Investment Management. MyClime and Clime Asset Management are part of Clime Investment Management (ASX:CIW). MyClime is an online stock valuation service.

Bulletin board



Adelaide: 'Investing in the share market'

In response to popular demand, Bill Dodd will hold his 'Investing in the share market' course in Adelaide for the first and only time. The first session will start at 6.30 pm on **Wednesday 31 March** at the Enterprise House, Unley. The second and third sessions will be held on 5 and 7 April. The course is aimed at those who want to learn more about the share market and start investing. Topics covered include fundamental and technical analysis, stock selection, managing trade entries and exits, record keeping and more. Cost is $297 for both members and non-members and includes the DVD set. Members can register online. Non-members must call the AIA Secretariat on 1300 555 061 to register.

Long-term inflation trends and the Australian share market

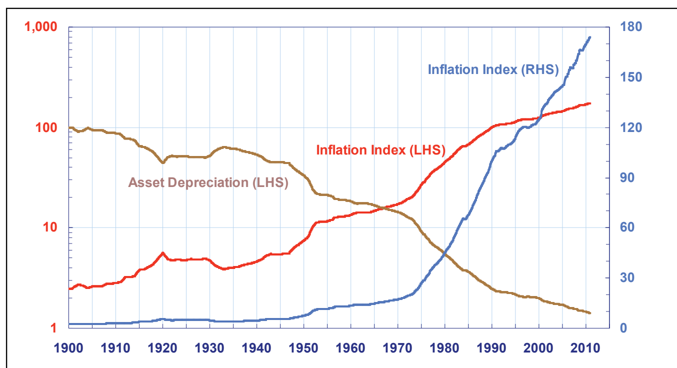
By Robert Vagg

In discussions with AIA members on the long-term market model that has been the subject of previous articles in this series, the question of the influence of inflation has often arisen. This topic is investigated in some depth below.

Many Australian investors commit funds to our share market with the principal aim of creating real wealth over time. Others may do so simply to protect acquired wealth from the harmful effects of inflation. An assessment of the ability of this form of investment to satisfy these aims requires an analysis of the growth history of the ASX with removal of the proportion of share price appreciation caused solely by inflation.

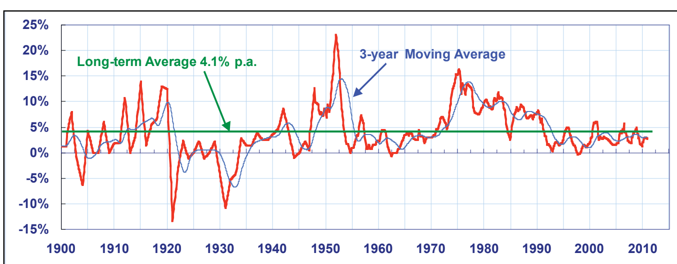
That analysis may be undertaken using a suitable long-term indicator of general change in price levels as a deflator. This is available as the familiar Consumer Price Index (CPI), calculated by the ABS from September 1948 onwards, and the Retail Price Index calculated prior to that time. Combined as one Inflation Index, these data are plotted in Figure 1 below from the beginning of the last century.

Figure 1: Australian price inflation, 1900–2010



Represented on a simple linear scale in Figure1 (in blue), the nature of changes in general price levels may be recognised by the familiar 'hockey stick' shape of exponential growth. Plotted on a log scale (in red), variations in the rate of inflation become evident, with periods of higher inflation around 1915–20, 1947–52 and 1973–90. By comparison, the inflation rate appears to have been relatively stable and benign over the last two decades, which is perhaps surprising considering the degree of credit available during this period. These interpretations are confirmed in Figure 2, where calculated rolling 12-month rates of inflation since 1900 are displayed.

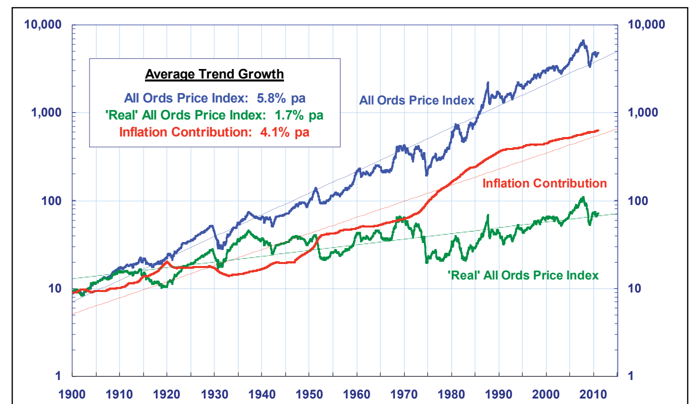
Figure 2: Annualised inflation rate, 1900–2010



A grasp of the potential detrimental effects of inflation on asset values also may be gained from Figure 1. This demonstrates that the 1900 value of an unhedged asset would have depreciated 90% by 1975, and by the end of 2010 would be worth only 1.42% of its initial value. These adverse effects would need to be considered when contemplating non-income-producing investments.

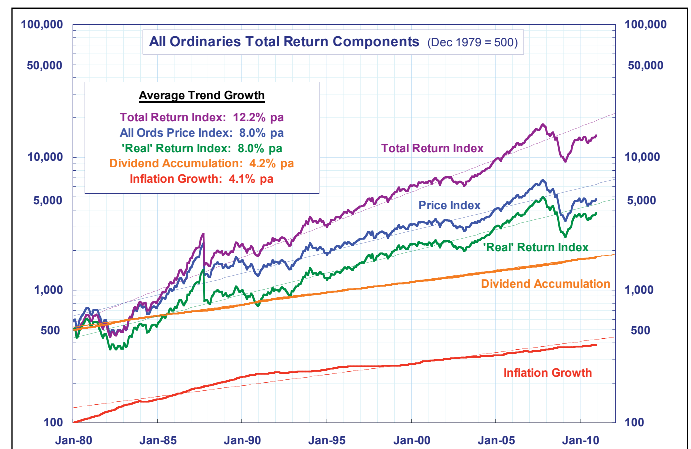
Figure 3 displays values for the All Ordinaries Price Index for the period 1900–2010. Its average trend growth rate through these 111 years is 5.8% pa. Removal of inflationary effects (averaging 4.1% pa) produces a 'Real' (inflation-adjusted) Price Index that shows average growth of 1.7% pa over this period. In order to better compare the All Ordinaries Index with its two growth components, all three indicators have been plotted in Figure 3 with a common initial value for January 1900.

Figure 3: Deflated all ordinaries price index, 1900–2010



The 'real' value of 1.7% growth suggested in Figure 3, however, is not a true indicator of the above-inflation returns obtainable through share market investing. This would require a total return to be considered, to include dividend income. In order to do this I have used published market dividend yields to calculate a Total Return Index based on the All Ordinaries from 1980 onwards, which assumes reinvestment of dividends into the market. It should be noted that this is a conservative estimate of true returns, in that it takes no account of franking credits, special dividends or other means of returning capital to shareholders. Plotted in Figure 4, this index has displayed average growth of 12.2% pa. Two components, dividend accumulation and inflation growth, are shown separately for comparison. It may be noted that the average inflation rate for this period is identical to its long-term average.

Figure 4: ASX investment returns, 1980–2010



This Total Return Index has been deflated to demonstrate the 'real' total return from our share market. Displayed in Figure 4 as the 'Real' Return Index, this has averaged 8.0% pa above the inflation rate since 1980, a value nearly twice the average observed prior to that time. Further, this rate of growth is identical to that of the All Ordinaries Price Index over the same time period.

Conclusions: This analysis allows for two simple but important conclusions to be reached. The first is that recent higher growth rates observed for the All Ordinaries Price Index are not due to price inflation but represent 'real' increases in investor wealth. Secondly, the adverse effects of inflation are covered by associated dividend income, and the above-inflation return obtained from our share market is thus well represented by the All Ordinaries Price Index alone.

Robert Vagg is a member of the AIA (email: rsvagg@gmail.com).

Looking at alternatives the right way

By Dominic McCormick

The industry press recently reported Schroders head Greg Cooper as having said at an investment conference that 'alternatives including private equity and hedge funds are not separate asset classes and do not provide diversification in portfolios', and that 'only equity and debt are asset classes'.

Schroders has been vocal in challenging some of the flaws in conventional diversified portfolio management and promoting better approaches, including more dynamic asset allocation approaches and the limitation of traditional risk measures; and I applaud this. In the statements quoted above, however, I believe they are off track. If correctly reported, they represent an overly simplistic view of the alternative investment universe and particularly hedge funds.

Let's consider the statements one at a time.

Alternatives aren't separate asset classes and don't provide diversification

In our view, hedge funds have always been better categorised as alternative 'strategies' (i.e. utilising the major asset classes but through leverage, shorting, arbitrage, derivatives etc., and in the process producing a different risk/return outcome). The hedge funds universe is itself made up of a range of these alternative strategies with quite varying approaches and risk/return characteristics), so it is wrong to generalise that hedge funds can't provide diversification. At one extreme, a pure equity short-selling hedge fund offers excellent diversification benefits, as it will be negatively correlated to long-only equities exposure. Managed futures funds and long volatility hedge funds proved extremely good diversifiers in 2008. The diversification benefits of hedge funds to a portfolio will therefore depend on which ones are used and how.

It is true that hedge funds 'in aggregate' (i.e. hedge fund indices or large, broad-based funds of hedge funds) showed poor diversification benefits through 2008 and a high degree of correlation to equity markets. In our view, however, the key lesson of 2008 is not that hedge funds should be abandoned but that they shouldn't be approached from an 'in aggregate' perspective in the first place. Instead, we advocate a combination of the following approaches to hedge funds, using approach 2 as the core exposure:

1. Targeted approach, identifying certain hedge fund strategies and particular managers that can add value and complement a broader investment portfolio
2. Broader approach, focused on accessing a range of hedge fund 'betas' at low cost and structured in a way that produces very low correlation to equity markets.

Some of the hedge funds selected under approach 1 will always have high correlation to equity markets, but this is no reason to exclude them from portfolios. The key is whether they offer after-fee returns and risks that improve on or complement a much cheaper long-only exposure. The decline in the number of hedge funds suggests that many will fail this hurdle, and the closer the investment strategy is to lower-fee/passive strategies the more difficult it will be to justify the higher fees.

A significant benefit of this approach to hedge funds is that one doesn't have to spend time reviewing all the hedge funds available, or even all available hedge fund strategies. Rather, the aim is to consider from a top-down perspective the types of hedge funds (i.e. strategies) that make sense and will complement a broader portfolio, given one's investment outlook, and then develop a short list. I'm not suggesting this process is easy or doesn't require dedicated and skilled resources, but it certainly doesn't require the same level of resources and infrastructure as it takes to run a large fully diversified global fund of hedge funds.

It is true that the diversification benefits of private equity are quite limited, so I agree with Schroders' views here. However, private equity can still be a valuable return-enhancing component of portfolios if one can get access to some of the high quality managers.

Only equity and debt are asset classes

I take issue with Schroders' contention that there are only two asset classes: equity and debt. What about commodities? Even Roger Gibson, who wrote the book *Asset allocation: balancing financial risk,* has always believed commodities have a role. Again, accessing commodities the right way is crucial, but denying their existence as an asset class is hardly conducive to arming investors with the tools to build well-diversified portfolios.

Then there's gold. A number of fund managers have stayed away from gold and have been suggesting it has been in a bubble for a number of years now. They may ultimately be proved right, but it is an irrefutable fact that gold has been a valuable diversifier and return enhancer for portfolios over the last decade.

So what's the truth about alternative investments?

Most alternative investment categories offer widely varying quality within them. Some investors and advisers may in the end decide to avoid them, perhaps because of the difficulty in assessing, selecting and accessing them, but something more sophisticated than simplistic and over-generalised arguments will be needed to justify their decision.

Indeed, even proponents of including alternative investments in portfolios, such as ourselves, believe there are times when mainstream, long-only asset classes offer particularly attractive value and consequently lower risk, and the diversification benefits of alternative investments are therefore reduced (although in our view some diversification into them almost always makes sense). But there are other times when some mainstream asset classes look excessively valued and risky, and investors should seek significant exposure to diversifying assets and strategies.

While equities don't seem over-expensive in the current environment, and therefore deserve a solid role in portfolios, the key problem is that most traditional portfolios already have much of their exposure in equity risk (and because of the greater risk of equities this 'risk exposure' is significantly more than the dollar exposure). On the other hand, a significant component of the other major asset class, debt/bonds, currently looks expensive and vulnerable in all but a deflationary scenario, and is thus not a particularly valuable diversification tool. Some exposure to other strategies and assets is therefore needed to build a well-diversified portfolio in the current environment.

Conclusion

Trying to dumb down the investment world with simple platitudes may appeal to some investors and advisers in the current environment, but it is likely to damage the desire and ability to build properly diversified and robust investment portfolios. If the investment world really was as simple as sometimes promoted, investors wouldn't need fund managers, researchers or advisers to guide them — a scenario we clearly reject. In the real world, investing is often complex. Learn to live with it, or find people who can help you do so.

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

Bulletin board

Perth Trading and Investing Expo 2011: 19–20 March

For the first time in a number of years the Trading and Investing Expo will travel to Perth and will be held at the Perth Convention and Exhibition Centre. The expo will be supported by an educational seminar program and as the AIA is planning to have a stand we hope you will help us or at least visit the stand.

Microcaps: a recognised asset class

By Boyd Peters

When Listed investment company Contango MicroCap Ltd (CTN) was launched on the ASX in 2004 the microcap sector was so new that it didn't even have a name. Six years later it is a more widely recognised but still poorly understood part of asset allocation.

As with global equities, fixed interest and property before it, the proponents of microcap allocation are raising their voices and being heard. To quote David Stevens, Chairman of CTN: 'There is no doubt the microcap sector will in time be a recognised and established part of asset allocation for astute investors.'

Microcaps represent around 7% of the total Australian market; but, of the 2100 or so stocks currently listed on the ASX, 1800 are outside the ASX 300. This is simply too large a part of the market to neglect.

Microcap stocks, which can be loosely categorised as those outside the ASX All Ordinaries Index (the top 500 stocks) are generally a no-go zone for most fund managers. Essentially this is because even a modest allocation by the multibillion-dollar super funds would represent a significant ownership of many companies within the sector. Nonetheless, individual investors can comfortably allocate 5–10% of their Australian Equities exposure to microcaps without moving the market.

Microcaps continue to be an important part of the Australian economy, and can provide some of the best returns for investors. There are approximately 1500 ASX-listed companies with a market cap of less than $500m. Data provided by just over half of these show that they alone directly employ more than 120,000 Australians. With a combined market cap of about $70b and total assets of $111b, they are sitting on over $11b in cash with reported NPAT over $5.5b (data as at 26 August 2010; source, Morningstar).

Sitting on a goldmine?

Everyone loves to hold potential goldmine stock (i.e. the stock that goes up multiple times in a short space of time and eventually moves into the All Ords to the ASX 200 and ASX 100). Some readers of *Investors' Voice* have no doubt enjoyed success in such companies as Riversdale, Fortescue, Ramsay and JB Hi-Fi.

Generally, people buy a microcap because they understand the company or sector, or have a hunch. In many instances they 'know someone who knows someone' who suggests it's a good company. That can work. The problem is, once you've found your big winner, what do you do next?

With an ever-growing number of stocks listed on the ASX, and hundreds more planning to list in 2011, it's increasingly difficult to know enough about these companies to invest in them astutely. It's even more difficult to know when to buy and sell your holdings.

The upside for microcap stocks is that in periods of good economic conditions they usually lead the way and grow the fastest. Often, moderate increases in revenue can flow straight through as large increases in profit and in share price.

Unfortunately, with the upside comes the risk that a bad year or the loss of a few contracts can cripple a smaller company; hence the need to spread your risk by holding a larger number of microcap stocks than you would large caps.

As Craig Northey from Independent Investment Research says: 'Investors need to be alert to the risks associated with an investment in microcaps. However, if investors have the tolerance for the risk and have a long-term investment horizon, microcaps have the potential to reward investors generously.'

Diversification

A diversified holding of professionally researched and managed stocks is increasingly being recognised as a prudent way to go with microcaps, and investors are becoming more sophisticated in their investment allocations.

Therein lies the rationale for entrusting the management of a microcap portfolio to full-time professionals who can provide you with a ready-made portfolio of fully researched microcap companies. However, not all fund managers can successfully do this for you. Look for a boutique team of multi-skilled managers who are proficient across many sectors and undertake their own research, such as Pengana, Contango and Acorn.

DIY?

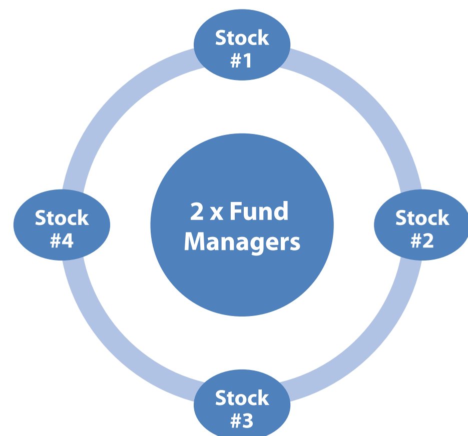
There's no question that DIY can work, as many *Investors' Voice* readers would attest. Provided you have sufficient time, proper resources and of course the inclination and the skill, you should be able to create a good portfolio that is robust enough to withstand shocks to one or two of the holdings within it. However, the reality is that very few investors can do this for long enough to be successful — not to mention be able to sleep comfortably at night. It's no surprise that the portfolio managers have teams of 5–10 people focusing full-time on these 1700+ companies.

What can be practical is to hold a few stocks you know and invest in a diversified portfolio of microcaps, either through an LIC or a managed fund.

There are pros and cons to each. If a unit trust receives a rush of redemption requests it has to sell what can sometimes be illiquid investments, to the detriment of remaining unit holders. Consider the impact of redemption-forced selling in a falling market. In an LIC, on the other hand, shareholders sell their shares to other investors, so the manager does not have to sell any of the underlying holdings. The downside here is that LICs can trade at a discount to their net tangible asset value (NTA), whereas unit trusts are priced at their net asset value.

Perhaps consider a mixture of each: an LIC, a managed fund and a handful of those shares you know well enough to want to hold directly (see chart below.)

Possible MicroCap Allocation



2 x Fund Managers @ 40% each
4 x individual Stocks @ 5% each

Conclusion

Astute investors who allocate to microcaps are well positioned to capture the growth in those companies as they progress from micro to small to large, and it can be a very exciting journey along the way.

Boyd Peters is the National Sales and Distribution Manager of Contango MicroCap Limited.

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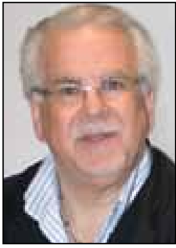
A new era in property investment

By Michael Yardney



Our residential property markets have moved into a new era. We've moved from the boom conditions of 2010 to a phase of slower growth in 2011.

This property cycle started in May 2009, kicked off by the first home buyers' boost then spurred on by existing home owners upgrading, and finally by investors re-entering the market. But the market has now been slowed by the triple whammy of multiple rises in interest rates, increasing unaffordability and falling consumer confidence.

Over the last few months home buyers and to a lesser extent property investors seem to have moved to the sidelines, finance approvals have dropped, auction clearance rates are declining and in some areas prices have fallen slightly.

Yes, we've moved into the next phase of the property cycle.

The last year or so was like all the other property cycles I have lived through, with greed and fear getting out of balance; and properties in some of our suburbs increased in value by over 20% a year.

Many Australians stopped thinking of their home primarily as shelter and a long-term investment, and began to think of it as either a 'get rich quick' scheme or a very large automatic teller machine. This was spurred on by rising property values and the hype in the media. But this has all changed now and the days of double-digit property value growth are behind us, at least for a while.

Lately I've been hearing from property investors who are concerned about what lies ahead for property. I try to reassure them that the property market is behaving normally. This is not the end of this property cycle; it's a mid-cycle slowdown as some of the fundamentals realign. That doesn't mean growth in values has stopped. It means the markets in the major cities are growing more slowly. And at the same time rents are rising.

As our cities mature they become less affordable. In every state we have multiple property markets, with some properties increasing in value while others fall. There's an ever-expanding divide between the 'haves' and 'have nots'. Quite simply, the rich are getting richer.

In terms of capital growth, properties in the lower socio-economic areas and many outer suburbs tend not to perform anywhere near as well as those closer to the CBD and the water. Families in the outlying areas are suffering more from rising interest rates as repayments take up a larger portion of their disposable income.

Of course, our property markets have always moved in cycles of rapid upward movements, followed by periods of flat or even negative growth, followed by another move upwards. I have often suggested that the sooner an investor has traded or invested through a cycle, the better investor they will become. Then they'll understand that slower phases in the property cycle, such as the one we are currently experiencing, are normal and they will know to take advantage of it.

Shrewd investors, whether they invest in the stock market, property or whatever, share an important strategy. They know that the best time to buy is not when the market is hot, when buyers are out in droves competing for properties that are snapped up at alarmingly increasing prices. Rather, they wait and buy when the market slows down.

Experienced investors know that the market is cyclical. They know that, no matter how frantic the market may seem, sooner or later it will slow down and they will be able to buy at their leisure.

In a boom market, buyers often find themselves losing out to another buyer who is driven by fear and greed. The fear of missing out on the property boom and the greed of wanting to own more properties are both very human emotions. When there are fewer buyers and competition is reduced, there is time not only for thorough research but also to compare, negotiate and drive a harder bargain.

Over the last few months I have spent a lot of time researching our property markets, the economic markets and financial matters. I have done this to protect my own property portfolio, to help our private clients and to educate the readers of my blog; and I've come to some interesting conclusions.

1. This property cycle will come to an end — but this isn't it! There are some great opportunities out there and the markets will reward those who know how to take advantage of them. This cycle is likely to come to an end (not a crash) in a few years' time (possibly 2013) because interest rates will keep rising, pushed up by a booming economy. Between now and then we'll have a few good years and property values will continue to rise, but more slowly than before. If you sit on your hands worrying and waiting for a crash you will miss out on some great investment opportunities right now.
2. The property investment strategy used by the vast majority of property investors during the last few years will not work over the next few years.
3. We are in a new era of property investing. I have recently seen or spoken with a number of investors who are hurting from the credit crunch of rising interest rates and changing bank lending criteria. Some have had to sell their investment properties. Others are worried they may have to in the future. Clearly their investment strategy did not work for them.
4. Interest rates will keep rising and inflation is here to stay, at least for a while.
5. Our economy will perform strongly over the next few years, driven by a resources boom. And our property markets will be underwritten by this strong economy, rising consumer confidence, the huge deficiency of housing at a time of increasing demand, and rising cost of construction.

What this means is that to be a successful property investor and to take advantage of the opportunities this changing market will present over the next few years, you will probably need to take a different approach from the one you took over the last few years. You won't just be able to go out and buy any property and hope for the market to increase and cover you. It will be a time to research more carefully and buy more selectively.

This is the time to buy property below its intrinsic value, in an area where capital growth outperforms the averages over the long term. Buy property to which you can add value so you can create some capital growth. This could be through renovations, refurbishment or redevelopment. But that has always been the strategy of many sophisticated property investors.

Michael Yardney is a published property author and educator. Subscribe to his e-magazine at www.PropertyUpdate.com.au.

Bulletin board

Toowoomba: AIA and ASA joint meetings

Despite the recent tragic events, particularly in Toowoomba and the Lockyer Valley, it is still proposed to continue with the joint AIA and ASA meetings to be held in Toowoomba on the third Wednesday of the month, commencing on Wednesday 16 February at the Empire Theatre from 10 am. To set the scene for 2011, BT Financial Group Chief Economist Dr Chris Caton will provide an in-depth Australian and global economic outlook for the year ahead. This meeting will be free for AIA and ASA members.

On behalf of all members the AIA wishes to express its heartfelt sympathy for communities affected in these areas.

AIA events 2011

Dates for local discussion groups and information meetings in 2011 are now posted to the 'Events' page on the AIA website <www.investors.asn.au>. In addition to regular meetings, the AIA will hold a one-day seminar, 'Investment strategies, planning and portfolio management', in Sydney on 8 April 2011. Check the AIA website for details.

Measuring share portfolio investment returns

By Michael van Cuylenburg

Accurate calculation and analysis of share portfolio returns is fundamental to investment success, as it reveals extremely valuable information about how well monies are invested.

Just putting dollars into a favourite share or managed fund and hoping it will grow sufficiently to meet future goals is not enough. A look at a typical investment/financial plan or client review suggests that accountability for investment advice is on nobody's agenda. The industry seems to bypass it, and clients don't ask.

Without a lead from the industry, investors are none the wiser, so most get by with a rough idea of being 'in front' or 'behind', or make do with basic calculations that reveal barely anything, while a wealth of information about these returns remains hidden and inaccessible.

Analysis of portfolio data can reveal:

- **What the returns actually were**
- **What risk was taken to achieve the returns**
  Portfolio risk is the silent killer of investor's wealth creation dreams. It is perhaps the most important thing to measure and control, simply because increased portfolio risk is directly linked to a lower probability of reaching a wealth creation target.
- **Whether the portfolio was adequately diversified**
  The diversification measure assesses the extent to which portfolio returns reflect the market in which investments are made. This is important. If you invest in the share market, the pattern of periodic returns should look like those of the share market, not like the currency market or a series of lottery bets.
- **Whether there is any adviser value-add**
  This is really the bottom line. Investors need to get the discussion beyond the sales pitch and see what value they are receiving from their brokers and advisers. A good adviser should be able to justify fees and service charges by delivering better-than-market returns for a lower-than-market risk.

  If you are a DIY investor, this measures your own performance no matter what investing approach you adopt.

The investment industry uses these indicators to evaluate fund managers' performance, so it seems fair to say that if it's good enough for the professionals, it should be good enough and relevant enough for private investors to tap into.

Understanding portfolio performance really does put the investor in the driver's seat and in control of their investment agenda. It is a massive reward for the small inconvenience of collecting the data.

The first step is to work out what the returns have been. Let's look at some of the ways of calculating them.

1 Unit price based return

This applies to all managed fund investments and to the rare instance where a broker or adviser calculates a monthly unit price for the portfolio.

The monthly return is simply one month's unit price divided by the price for the month before.

To annualise the monthly return:

Step 1 Calculate the monthly return for each of the 12 months. For example, if the first few monthly unit prices were $1.02, $1.06 and $1.04, the returns would be
1.06 / 1.02 = 1.0392 and
1.04 / 1.06 = 0.09811

Step 2 Multiply these return numbers as follows
1.0392 x 0.9811 x _____ x _____ x _____ etc.
The result of this chain multiplication of 12 monthly returns will be the annual return.

2 Time based return

This is used to allow for capital flows. For example:

- Your shares at the end of last month were worth $10,000
- On the 4th of this month your shares were worth $10,200
- On the 5th of this month you deposited $5,000 cash into your portfolio account
- On the 10th of his month you bought another $3000 worth of shares
- At the end of this month your shares were worth $12,000
- During the month you received dividends and some interest on the cash balance
- At the end of this month your total portfolio balance (cash + shares) was $15,500

The complication here is to allow for the capital flow that changes the amount you have invested. This is done by breaking the month down into sub-periods according to the timing of capital flows.

Your overall return would be the gain on the shares, plus the dividends and interest. Calculate sub-period returns and chain-multiply them. For example:

Step 1 10,200 / 10,000 = 1.02

Step 2 (15,500 / (10,200 + 5,000) = 1.0197

Step 3 Return for the month is 1.02 x 1.0197 = 1.040 or 4.0%

Step 4 Repeat Steps 1–3 for each of 12 months and again chain-multiply the monthly returns to get the annual return.

3 Money based return (Modified Dietz Method)

Methods 1 and 2 above will produce an accurate return. However, if you can't establish the portfolio value on the day before a capital flow event ($10,200 in the example above) then use the following method, which uses a pro-rata value of the capital flow. Using the same data as for method 2:

Step 1 Work out the value of the pro-rata capital flow. Assuming there are 31 days in this month, the value of the pro-rata capital flow is 5000 x (27/31) = 4,354

Step 2 Monthly return is
(15,500 – 10,000 -5,000) / (10,000 + 4,354) = 0.0348 or 3.4%

Step 3 Repeat Steps 1 and 2 for each of 12 months and again chain-multiply the monthly returns to get the annual return.

This method is not preferred, because it is a little less accurate.

Calculators in their various forms can be sourced from the internet. One link to follow up is www.portfolioplus.com.au, where your data collection is simplified and returns are not only calculated but also analysed and compared to various benchmarks.

Michael van Cuylenburg is Principal of Portfolio Plus, www.portfolioplus.com.au.

You can access more detailed information on the mathematics at en.wikipedia.org/wiki/Modified_Dietz_Method. You can also access a mathematical background available for rate-of-return calculations on the DailyVest website www.dailyvest.com/PRR/prr_calcmethods.aspx.

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 in the next couple of months and will be posted to the AIA website.

Tax notes

Tax office compliance

By Dennis Eagles

The Australian Taxation Office is always on the lookout to ensure that we are correctly lodging our income tax returns. They do this in many ways, from data-matching exercises based on information gathered about us (locally and from foreign governments), to statistical benchmarking that determines what they expect us to be lodging, right through to direct audit and surveillance activities.

Last year these activities resulted in more than 298,000 amendments to tax returns, including 42,000 high-risk refunds or over-claimed amounts, resulting in more than $200 million of additional revenue collections.

To assist in the compliance process, each year the ATO publish their compliance program for the following year, highlighting emerging trends that they are concerned about and indicating areas that they intend to focus their compliance activities on. The 2010–11 program will include a few items that are of relevance to investors, including the following:

- **Information matching.** Last year the ATO used more than 500 million transactions in its information matching process. A similar volume is expected in 2010–11, and includes data from banks and financial institutions, details of property and share ownership and disposals, superannuation contributions and withdrawals, transactions captured by AUSTRAC either entering or leaving Australia, and even ownership records of luxury cars, boats and aircraft.
- **Deductions against investment income.** The ATO found that some taxpayers are claiming rental and share investment expenses that they aren't entitled to.
- **Failing to declare capital gains on the sale of investment assets.** This is a particular focus for 2010–11.
- **Incorrect reporting of rental and dividend income,** particularly by first time investors
- **Incorrect claims for home office expenses**
- **Deductions of superannuation contributions**
- **A new 'risk filtering' process** to assist in determining incorrect and fraudulent refund claims
- **Australian executives and highly paid individuals employed offshore,** with a particular focus on ensuring that all benefits received are declared correctly, such as employee shares
- **An increased focus on wealthy families.** In the past few years, the ATO has issued a 'High Net Worth Individual Questionnaire', requiring detailed reporting of the selected taxpayer's financial affairs, including those of their spouse, other family members and any individuals or entities associated with them.

The bottom line of this article is: the ATO is watching. Please take the time to ensure ALL of your financial affairs are correctly reported, and seek the guidance of a tax professional if there is anything you are unsure of.

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

Seven reasons to invest in fixed income

By Brad Newcombe

Fixed income is back in vogue with investors after the recent listings of the CommBank Retail Bonds and Healthscope Notes. Here are seven reasons to invest in fixed income securities.

Capital stability

One of the key characteristics of most fixed income investments is the repayment of initial investments at maturity or, in some cases, over the life of the bond. Of course, capital repayment is subject to the ability of the issuer of the bond to meet this obligation.

Fixed income includes a spectrum of issuers with different risks. However, all fixed income securities are guaranteed by their issuers; so, assuming the government or the corporation or the issuer of the security remains solvent and does not go into liquidation, investors receive repayment at maturity.

Regular income

Fixed income securities provide a regular income stream through coupon (interest) payments, where the dates and amount of the coupon payable are defined at the time of issue. A portfolio of fixed income securities can be tailored to meet investors' cash flow requirements.

Diversification

Diversification spreads investment across a range of assets, maturities, industries and risks with the aim of reducing the impact of any one investment in a diverse portfolio. Fixed income allows diversification away from the two most highly cyclical asset classes — equities and property.

The fixed income asset class offers a broad spectrum of products, risks, returns and maturities to provide a diversified and balanced portfolio solution for investors.

Ability to earn better returns than bank deposits

Many investors use term deposits, which provide minimal risk but earn relatively low returns. Investing in lower-ranked assets issued by the same institution can offer higher returns. By undertaking this strategy, the investor retains exposure to the same company (assured of its credit quality and ongoing viability) but improves overall return by taking a subordinated position within the overall capital structure of the issuer.

Ability to diversify the range of portfolio maturities

Bond maturities typically vary between one and ten years, although bonds are tradable securities and can be traded before maturity. By purchasing bonds over different maturities, investors can match their redemption profile with times when they will require cash.

Liquidity

Cash is an important component in a portfolio. Those with it can pay their bills and maintain their positions. Equally, very low-risk, highly liquid, fixed income investments like government bonds can be sold at short notice if necessary. Liquidity is a fundamental factor in building a portfolio. Assets that cannot easily be sold or traded in a secondary market need an appropriate return to compensate for illiquidity. An important function of liquidity is being able to sell an asset quickly without significant loss.

Protection against loss in a cyclical downturn

Generally, a fixed income allocation in your portfolio will act to protect it during a cyclical downturn. A greater allocation will provide greater protection. Setting your asset allocation and regularly rebalancing your portfolio, assuming a set fixed income allocation, should provide ongoing protection.

Fixed income is a growing asset class with particular importance for investors at or close to retirement age. As mentioned above, there are many reasons for investing in the asset class but the primary incentive lies in fixed income's ability to provide a regular income stream with capital stability, thus ensuring that investors are not subject to the extreme volatility of the property and equity markets.

Brad Newcombe is a Director of Fixed Income Research, FIIG Securities.

The Chatswood Discussion Group

By Robert Weissmann

Background

The Chatswood Discussion Group was originally formed several years ago by members seeking to meet informally to complement the AIA's structured seminars. Gatherings were arranged at local clubs and sometimes at members' homes. Due to ongoing problems with informal venues, and taking advantage of the AIA's growing membership, we were encouraged to relaunch the group in a new format. The group in its latest incarnation has been going since September 2010. It regularly attracts about a dozen interested AIA members, either in or close to retirement, who mostly run their own SMSFs. The group meets usually on the fourth Tuesday of each month at 7.30 pm in the Dougherty Centre at 7 Victor Street, Chatswood, on Sydney's lower north shore. There is a venue cost of $5 for members and $10 for non-members. Attendees are requested to bring exact change.

Objectives

Members have typically joined the AIA to get access to the organisation's regular series of articles, educational seminars, web archives and online forum. These offerings enhance their expertise to better handle the investment offerings available in the market place. The group refocuses these efforts by providing an opportunity to study and then present on a matter of group interest. This encourages a pooling of expertise for all to benefit. For those with 'bottle', there is an opportunity to venture beyond the usual comfort zone. Fostering participation in a friendly setting provides a vigorous environment to expand horizons and make informed decisions.

Meeting format

The distinguishing feature of the group is that, rather than featuring guest speakers, its members volunteer to make a brief presentation followed by discussion. Alternatively, an agenda item previously nominated is discussed in open forum. In both formats compliance requirements are highlighted, and experiences, attitudes and reasoning are shared. As well, some time is devoted to current issues without any agenda notice. These exchanges can reveal facets not commonly known and of course on occasion there may even be a venting of opinions.

Some examples of presentations and discussions:

- internet news and commentary sites: *FNArena*, Morningstar, Business Spectator, Eureka Report
- strategy of using multiple SMSFs
- borrowing in SMSFs
- review of JB Hi-Fi and Forge Group
- group discussion on economic events over the past month
- Queensland Rail float
- investment software
- feedback on AIA events held during the month.

In summary, the group is another way of implementing the AIA motto of 'investors helping investors'. The group offers an opportunity to expand knowledge and to make informed, sophisticated investment decisions.

Robert Weissmann is the Coordinator of the Chatswood Discussion Group. For details regarding this group please go to the Events page of the AIA website www.investors.asn.au.

The AIA Members' Forum

By Bill Dodd

The AIA online Members' Forum began in August 2009 and offers members the opportunity to communicate, to exchange information and to learn more about investing. The forum now has nearly 500 members who have contributed some 1500 posts, and has become an important part of the educational activities of the association. It provides a great opportunity for members to communicate, particularly those who don't often have access to the AIA's resources or events in major centres.

The forum is a development from the old message board where people could leave a message and expect a later reply. The current Members' Forum is an online discussion site where people can communicate by posting messages. To use the correct terminology: a single topic of conversation is called a **thread** and each entry within the thread is a **post.** The AIA forum comprises a number of individual **forums**, each devoted to a major investment topic.

The Members' Forum provides members with the opportunity to exchange views on a vast range of investment topics, and is one of the best ways to learn about investing and investment approaches. The recent threads described below may be of special interest.

Two different threads have discussed the opportunities for investment in stocks that have rare earth resources. These threads have discussed the fundamentals and followed the progress of stocks such as Lynas Corporation, which has shown the most significant capital gain of all stocks in the ASX200 this year. The discussion on Lynas can be followed at <www.investors.asn.au/forum/showthread.php?t=115> and <www.investors.asn.au/forum/showthread.php?t=373>.

It is interesting that experienced investors often do not agree, and exchanges between such investors show the different points of view and the different investment strategies. An example of these exchanges can be seen in the thread at <www.investors.asn.au/forum/showthread.php?t=366>.

One of the most active forums is devoted to superannuation. Among our members are some very experienced professionals who contribute on this forum. One interesting thread involves a discussion of the role of a corporate trustee in SMSF management; you can find it at <www.investors.asn.au/forum/showthread.php?t=155>. There have also been a number of comments on the recent Cooper Review at <www.investors.asn.au/forum/showthread.php?t=364>.

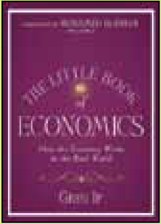
Commodities have been very much in the news in recent times. There has been an interesting forum discussion on gold. Should investors hold physical gold, buy gold stocks or be exposed to gold through an exchange traded fund? Different investors have very different views on these questions; see <www.investors.asn.au/forum/showthread.php?t=262>.

To read these posts you must be logged onto the forum. If any members have difficulty accessing the forum, or problems with any aspect of the forum, they should contact Bill Dodd at billdodd@investors.asn.au.

New forum members often prefer the anonymity of a nickname rather than their own name. The concept of an online forum is new to many of our members, and some will prefer to be readers of posts rather than contributing. However, to make the most of a forum you need to actively post. The forum can be a great learning experience, and it's free for members.

Bill Dodd is a Councillor of the AIA and the Forum Administrator.

Book review



Title: The little book of economics: how the economy works in the real world
Author: Greg Ip
Publisher: John Wiley & Sons, New Jersey, USA, & Canada, 2010
ISBN: 9780 4706 21660
RRP: $27.95
Reviewer: Jo-anne Martin

Greg Ip was a journalist with the *Wall Street Journal* for 11 years before transferring to his present position at the *Economist*. In his introduction he states that he wrote this book not for economists but for the citizens and investors on Main Street.

Although some of the content is America-specific, such as explaining what 'The Fed' means and what its role is, most of the content is applicable worldwide.

I wanted to review this book because, like most people, I had a general knowledge of what 'economics' was, but when put on the spot I was unable to explain the ins and outs of it.

Greg Ip does this beautifully. He walks you through how the economy really works and how it affects the people, even down to the fertility rate. In simple language he defines inflation, deflation, globalisation, economic growth, business cycles, recessions, depressions, monetary policy, unemployment and how it is measured, GDP, and numerous other expressions we hear every day. But he goes further and explains to the reader the causes, the effects on society and the solutions. He gives examples of countries that have experienced these cycles or are experiencing them now.

When he digs into globalisation he also discusses how it brought about America's mortgage crisis, and how China has exploited it to spur growth. He discusses 11 September 2001 and its economic effect, past and present — something I have never thought about.

There are 15 chapters, each tackling a different topic. The first section of each chapter is called 'Into the weeds', in which he explains the internal features of the economy — the data, the people and the lingo. At the end of each chapter is a section called 'The bottom line' in which he summarises the essentials of the chapter in just a few paragraphs.

So who would benefit from having this book on their bookshelf? Certainly people like me with a scant knowledge of how the economy works and what it actually means. In this day and age, knowledge of economics is more important than ever before. Economics influences us every day in the real world, whether we are trying to predict which ASX sector will be the leader in 2011, decide if we should save our money or spend it, or determine the right time to buy a house. Globalisation is here to stay and it affects us all.

Certainly parents of teenagers should rush out and buy this small, easy to understand book for their offspring, because Greg Ip actually manages to make a dry subject 'cool'. Many students are now studying economics in Years 11 and 12, and this book would give them a wonderful overview of all that the subject entails.

My son majored in economics, and most of the time I didn't have a clue what he was trying to discuss with me. Now I do!

Jo-anne Martin is a member of the AIA.

AIA web book reviews

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

Title: **Building wealth and loving it**
Author: Jimmy B Prince
Publisher: Wrightbooks, Brisbane, Australia, 2010
ISBN: 9780 4706 21660
RRP: $29.95
Reviewer: Peter Schiff

Title: **Profit from property**
Author: Philip Thomas
Publisher: Wrightbooks, Brisbane, Australia, 2010
ISBN: 9781 7424 69546
RRP: $34.95
Reviewer: Sarah Buckler

Title: **Property rich: secure your financial freedom**
Author: Melissa Opie and contributor Stephen Zamykal
Publisher: Wrightbooks, Brisbane, Australia, 2011
ISBN: 9781 7424 68051
RRP: $32.95
Reviewer: Averil Scott

Title: **The great super cycle**
Author: David Skarica
Publisher: John Wiley & Sons, New Jersey, USA, 2010
ISBN: 9780 4706 2418
RRP: $37.95
Reviewer: Tony Reardon

Title: **The little book that (still) beats the market**
Author: Joel Greenblatt
Publisher: John Wiley & Sons, New Jersey, USA, 2010
ISBN: 9780 4706 24159
RRP: $28.95
Reviewer: Owen Davis

Title: **The real deal**
Authors: Brendan Kelly & Simon Buckingham
Publisher: Wrightbooks, Brisbane, Australia, 2010
ISB: 9781 7424 69836
RRP: $29.95
Reviewer: Peter Keys

Title: **The universal principles of successful investing**
Author: Brent Benfold
Publisher: John Wiley & Sons (Asia), Singapore, 2010
ISBN: 9780 4708 25808
RRP: $47.95
Reviewer: Bruce Guthrie

Title: **Value.able: how to value the best stocks and buy them for less than they're worth**
Author: Roger Montgomery
Publisher: My 2 Cents Worth Publishing, Melbourne, Australia, 2010
ISBN: 9780 6465 25440
RRP: $49.95 (including GST and free postage within Australia)
Reviewer: Jolyon Forsyth

Title: **Wealth benchmarks: a guide for financial professionals and individuals**
Author: Douglas Turek
Publisher: Wealth Benchmarks Trust, Melbourne, Australia, 2008
ISBN: 9780 9805 04002
RRP: $29.95
Reviewer: Peter Schiff

Title: **Wealth wisdom**
Author: Julian Dawson
Publisher: Wrightbooks, Brisbane, Australia, 2010
ISBN: 9781 7424 68105
RRP: $29.95
Reviewer: J Boucher

Me and my portfolio

By an AIA member

I have been investing in the stock market since 1984 and my portfolio is held in three vehicles:

- personal super fund 66%
- family trust 30%
- family company 4%.

Each of these has the objective of maximising after-tax income.

Personal super fund

The fund has been in operation for 20 years and has achieved a return of 11.5% pa after tax and fees in spite of the GFC and some major corporate collapses. The composition of the fund has changed over the years. Having owned two properties and invested in international funds and property trusts in the past, it is currently invested in Australian shares (96%) and cash and fixed interest (4%).

The fund is an APRA fund with a corporate trustee, an arrangement that suited my executive role with international travel, and suits my retirement lifestyle with regular recreational travel. Online access and email notifications make it easy to provide instructions in relation to investment opportunities.

The use of full-service brokers has enabled the fund to access IPOs and institutional placements, so it has benefited from such issues as CBA, CSL, WOW and Promina. In addition it has benefited from demergers such as ORG from BLD and Rinker from CSR.

The fund has a high proportion of Australian shares, so it has had a good supply of franked dividends, has never had to pay tax, but has received substantial refunds; and Mr Costello solved my RBL problem. Now that my wife and I are in the pension phase, the tax refunds have been enhanced and off-market buy-backs such as the recent WOW buy-back have always been pursued for their franking credits.

Family trust

Established 20 years ago, the trust has enabled income to be split between family members in a tax-efficient manner, funding three children through university and now solely supporting my wife's and my lifestyle.

The trust has an allocation of investments similar to that of the super fund, but its investment funds are enhanced with a margin lending facility that enables it to respond promptly to IPOs and institutional placement opportunities. In addition, it makes use of the Exchange Traded Options market, selling some calls over shares that the trust wishes to dispose of, but mainly selling puts over shares the trust wishes to buy at a price 10% below current market prices. The put option premiums, normally of 6 months' duration to maximise time value of the premium, either enhance income or reduce the entry price for the shares if they are put to the trust.

The geared nature of the trust enhances the supply of franking credits, which can be passed to the beneficiaries for their tax refunds as well as enhancing the capital gains, which can be timed to make use of the CGT discount and beneficiaries' tax position.

Family company

The company was established 10 years ago and is wholly owned by the trust. Its role is limited to a buy–write strategy with shares in the Exchange Traded Options market. It buys shares and sells a call over them at a price 10% above the current market price, normally for 6 months' duration to maximise time value of the premium; but this is adjusted to take into account ex-dividend dates, as dividends provide additional income and franking credits to the premiums and gains on the shares.

The company's investment funds are enhanced with a margin lending facility and interest cost is more than covered by the option premiums earned.

Unlike the trust, which must distribute all its taxable income each year, the company can retain its income, which is taxed at 30% with no CGT discount but with franking credits. This enables the company to pay fully franked dividends to the trust in years that suit the trust beneficiaries' tax position.

Research facilities

In addition to the websites of full-service brokers, I use the following sources to assist with managing the portfolio:

- Stockdoctor
- MyClime
- Morningstar.

The portfolio contains a large number of holdings — more than a broker would recommend — but this is a position I am comfortable with for the diversification and greater number of opportunities it provides. It has a bias towards financials, resources, resources support, IT and health, with minimal manufacturing.

I trust the above provides some insights that will help members consider their own vehicles for holding their portfolios.

This article was provided by a member of the AIA.

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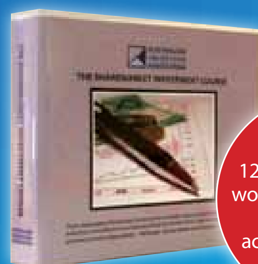
- Develop your own share investing plan



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or visit our website **www.investors.asn.au/investor-education/sharemarket-course/**

Calendar of events

Date	Event	Time	Venue	Topic
01-Feb-11	Perth Information Meeting	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	Economic outlook
01-Feb-11	South Sydney Information Mtg	7.30-9.30pm	Miranda Community Centre, Wattle Room, 93 Karimbla Rd, Miranda	Where will 2011 lead us?
02-Feb-11	Brisbane Information Meeting	1.30-3.345pm	Broncos Leagues Club, Fulcher Rd, Red Hill	Economic outlook & Queensland mining outlook
07-Feb-11	Adelaide Information Meeting	7.00-9.00pm	Enterprise House, Room 4, First Floor, 136 Greenhill Rd, Unley	Economic outlook
07-Feb-11	Canberra Information Meeting	7.30-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	Equities Discussion Group
10-Feb-11	Gold Coast Information Meeting	9.30-11.30am	Robina Community Centre, Conference Room, 196 Robina Town Centre Dve	Gold Coast property update
15-Feb-11	Perth Equities Discussion Group	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	Equities Discussion Group
16-Feb-11	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help St, Chatswood	Small & Mid cap stocks
16-Feb-11	Toowoomba Information Meeting	10.00-12.30pm	Empire Theatres, 54 Neil St, Toowoomba	Economic outlook - Chris Caton
22-Feb-11	Melbourne Information Meeting	6.30-9.15pm	Centre for Investor Education, 17 Argyle Place, Carlton	Large cap & medium cap stocks
01-Mar-11	Perth Information Meeting	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	The resources sector
01-Mar-11	South Sydney Information Mtg	7.30-9.30pm	Miranda Community Centre, Wattle Room, 93 Karimbla Rd, Miranda	Discussion Group
02-Mar-11	Brisbane Information Meeting	1.30-3.45pm	Broncos Leagues Club, Fulcher Rd, Red Hill	How to find a financial planner
07-Mar-11	Adelaide Information Meeting	7.00-9.00pm	Enterprise House, Room 4, First Floor, 136 Greenhill Rd, Unley	The resources sector
07-Mar-11	Canberra Information Meeting	7.30-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	Equites Discussion Group
15-Mar-11	Perth Equities Discussion Group	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	Equities Discussion Group
16-Mar-11	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help St, Chatswood	Self managed super funds - trustee issues
16-Mar-11	Toowoomba Information Meeting	10.00-12.30pm	Empire Theatres, 54 Neil St, Toowoomba	TBA
31-Mar-11	Adelaide Shares Course	6.30-9.00pm	Enterprise House, Room 4, First Floor, 136 Greenhill Rd, Unley	Session 1; Session 2 April 5; Session 3 April 7
04-Apr-11	Canberra Information Meeting	7.30-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	Equities Discussion Group
05-Apr-11	Perth Information Meeting	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	SMSF trustee issues
05-Apr-11	South Sydney Information Mtg	7.30-9.30pm	Miranda Community Centre, Wattle Room, 93 Karimbla Rd, Miranda	Equities Discussion Group
06-Apr-11	Brisbane Information Meeting	6.30-9.00pm	Broncos Leagues Club, Fulcher Rd, Red Hill	Portfolio management
08-Apr-11	Sydney One Day Seminar	9.00-4.30pm	Tattersalls Club, 181 Elizabeth St, Sydney	Investment strategies, planning and portfolio management
11-Apr-11	Adelaide Information Meeting	7.00-9.00pm	Enterprise House, Room 4, First Floor, 136 Greenhill Rd, Unley	SMSF trustee issues
14-Apr-11	Gold Coast Information Meeting	9.30-11.30am	Robina Community Centre, Conference Room, 196 Robina Town Centre Dve	SMSF trustee issues
19-Apr-11	Melbourne Information Meeting	6.30-9.15pm	Telstra Conference Centre, R1, L1, 242 Exhibition St, Melbourne	Resources stocks & Mining industry support services
19-Apr-11	Perth Equities Discussion Group	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	Equities Discussion Group
20-Apr-11	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help St, Chatswood	Economic outlook - Paul Bloxham
20-Apr-11	Toowoomba Information Meeting	10.00-12.30pm	Empire Theatres, 54 Neil St, Toowoomba	TBA
01-Sep-11	AIA National Investors Conference	1-3 Sep 2011	Sofitel Sydney Wentwortth, 61-101 Phillip St, Sydney	Wealth creation opportunities

NB. Topics subject to change.

AUSTRALIAN INVESTORS ASSOCIATION ABN 75 052 411 999

Investors Helping Investors

The Australian Investors Association (AIA) is a national, non-profit, independent association of investors dedicated to helping other investors achieve their goals through education and advocacy.

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