

the Investors' Voice

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

June

2012

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The rain in Spain goes mainly down the drain in May - or is it April?

By John Abernethy *Chief Investment Officer, Clime Asset Management (11 April 2012)*



There seems little doubt that the next traumatic event for investors will emanate from Spain. The European Union has flagged the coming problems by lifting its so called "fire wall" defences by another 500 billion euros in recent weeks. How the situation in Spain plays

out in coming months is difficult to forecast but most likely a rocky period awaits us. It may well rain heavily in Spain by May or the European Union may remain stable inside its fire wall due to its own self created liquidity. At least by the middle of May we may well find that another European Government has fallen with President Sarkozy of France now on the chopping block.

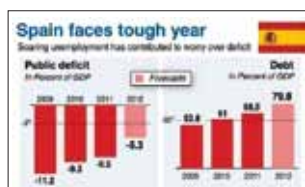


Figure 1. Spain faces tough year
Source: Eurostat/MINHAP

The newly elected Spanish Government of just four months is already on the nose. This is consistent across European

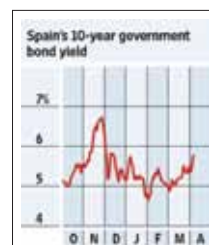


Figure 2. Spain's 10 year government bond yield
Source: Tradeweb

democracies. Promises of more austerity will win elections for those in opposition across Europe, but once they take over government, they then become subject to immense political discontent. Worse still is when the debt and capital markets begin to reassess the cost of sovereign debt or the risk of sovereign default - now called restructure! Spain has felt a lift in its 10 year bond rates in recent weeks (last night at 5.9%) - last seen at the height of the Greek crisis in November. Remember those heady days just 6 months ago when the Germans refused point blank to allow the European Central Bank (ECB) to undertake quantitative easing? A month later they agreed unconditionally and now quantitative easing is a weekly event. Public evidence suggests that the ECB balance sheet is larger than that of the US Federal Reserve and there seems no doubt that it is about to get a whole lot bigger.

Continued on page 3



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President's message

By Bill Shirley



I write this section to remind all our members of the importance of having investments that can achieve a positive cash-flow stream that can assist in paying pensions for those in account-based pension mode. One component that is unique to Australia is franking credits. Franking credits are credits for the tax already paid before dividends are distributed. If the investments are held in a tax free structure such as a super fund paying a pension, these tax credits are fully refunded as cash.

Investors who can receive these credits as a full refund receive a substantial increase in their yearly income. For example, if I had one million dollars invested in Australian shares at an average return of say 6% fully franked. The resulting franking credit thus would deliver an additional \$25,710, on top of the base dividend. This additional income can make a big difference to my life-style in retirement.

This is something to consider when we are planning or reviewing our asset allocation and the mix of sectors. I believe that investors need to pay close attention to this review activity.

Some AIA Happenings

Investor Update – By now you should have received digital copies of our new and fresh looking publication. In the future there will be more investment articles included as these will be sourced from our speaker network. The links we have provided in the past to various finance topics will also still be provided.

We hope you find the information provided interesting and beneficial to your investing methods and strategy. Naturally, if you have any suggestions that may improve the format & content we would be interested in hearing from you.

I should not forget to thank our staff and volunteers in our IT section who have been the main contributors in getting this updated service available to our members through the email system.

Members Update – Recently you should have read our all-new publication titled "AIA Members Update" this newsletter is a new initiative by the AIA and your board. The prime objective is to keep our members informed on that is happening within the association from an internal direction. It will be issued on an as-required basis, as events happen within the AIA.

Conference 2012 – The event is getting closer, and we are now in the detail phase of the event planning. It's nice to see in these difficult investment times so many optimistic people are booking to attend the conference.

Attendees to the conference will be able learn from people such as John Abernethy of Clime, Chris Canton from BT, Jonathan Pain, Editor of The Pain Report presenting "Winds of Change", as well as Davis Chia, Marcus Padley, Colin Nicholson, Roger Montgomery, Chris Tate and many more. A wide range of investment sectors will be presented by our speakers covering topics such as real estate, share strategies, economic update, estate planning, fixed-Interest products, technical analysis, SMSF issues, and Resources. In addition, we have five of our own members delivering topics for the first time.

Members who have not yet booked should really consider attending this important function. The conference promises to provide a wealth of knowledge from the presentations as well as opportunities for member discussions and networking. I look forward to seeing you late July on the Gold Coast.

National Office – I am pleased to announce that the board has appointed Donna Meadows to the position of Events & Member Services Manager, located at our office on the Gold Coast. We wish her all the best of luck in her new role. Please welcome her if you happened to phone the secretariat at any time in the near future.

In closing, in reference to this year's results compared to last year, I offer my best wishes for your investments as we run into the end of the financial year in June. However, in your future planning, please don't forget that Australian wonder, franking credits.

Tribute to Scott McKenzie

16 September 1940 – 29 March 2012

It is with great sadness that we advise our members that 10 months after being diagnosed with lung cancer, Scott McKenzie past away surrounded by his loved ones on March 29th 2012. He was farewelled on April 5th by his family and friends at a moving secular service.

Scott was a man of vision and character, scrupulously honest and a great friend. Scott was a man of integrity and, to paraphrase one of his own mottos, he always endeavoured to do less harm and more good in the world.

Scott worked tirelessly throughout his adult life as a volunteer for many non profit organisations and charities including his role of Director of the Spina Bifida Association, in Apex, the scouting movement and for many years in the capacity of volunteer, Director and Vice President of the Australian Investors Association. He was one of only two Life Members of the Association.

To these roles, he brought his considerable skills in management, writing, speaking and debating, as well as his capacity for hard work and attention to detail. At the age of 55, he joined former colleagues in a financial planning business and studied to become a certified financial planner. Scott was an outspoken critic of many of the practices in the financial advice industry including the payment of commissions and trailing commissions.

Scott McKenzie was trusting and trustworthy. At a meeting of the AIA Board in 1997, the then President, Ray Bricknell, had a letter from Scott offering to assist the AIA achieve its goals so Scott was invited to join the organising committee of the AIA National Conference. This was the beginning of Scott involvement as a major player in the organisation of all AIA National Conferences as well as most other major events.

Scott worked hard for the AIA where he initiated many projects and chaired most of the committees on which he served. He was offered the position of President, but declined, saying that he would rather work in the background to support the ideals of AIA.

Scott was a born contributor. Everything he took on, he did with energy and commitment. Scott made a difference to many people's lives and he will always be remembered as outspoken, honest and generous.

Our sincere condolences go to his wife Barbara and the family. He is sadly missed.



The rain in Spain goes mainly down the drain in May - or is it April? ... from page 1

Spain is quite unique: a developed economy with the highest level of unemployment across the European Union. At 23% general unemployment and staggering 49% youth (under 25 year olds) unemployment, the country appears to be floundering. So what caused this mess? Poor economic management and imprudent regulation of financial institutions for many years seem to be the answers. This in turn created or caused a massive property binge where just about every Spanish citizen believed that they could afford to own a house.

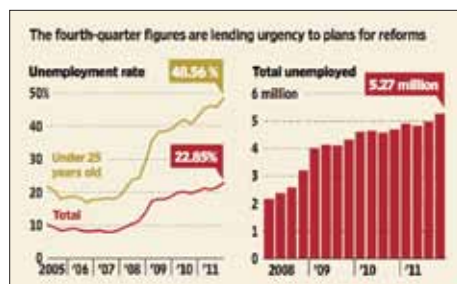


Figure 3. Out of work
Source: Spain's National Statistics Institute

An extraordinary property binge saw massive speculation in housing development. The local banks imprudently and excessively lent against residential property security. As prices rose, it stimulated more property speculation and more geared development. Home ownership by the Spanish population raced upwards to over 82% of all households despite the fact that Spain was stagnating. With low economic growth and high unemployment there was only one way that a population could move into home ownership at such a great rate - excessive residential or mortgage debt, courtesy of the Spanish banking sector. The raging Spanish property market also attracted investment by non-residents. Similarly, the Irish could not get enough of it and they loaded up on investment properties even though many could not afford to live in their own houses.

The Spanish housing bubble actually saved the Spanish commercial banks and financial entities from the worst of the GFC. European sovereign (sub-prime) debt and US sub-prime mortgage securities were not a feature of the Spanish banking system. They had too much toxic assets of their own!

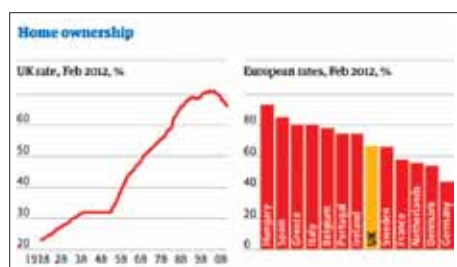


Figure 4. Home ownership
Source: Nationwide

However, whilst those past GFC bullets have been avoided the melt down of the Spanish housing market and the knock-on effects upon Spanish banks has commenced. The ratio of bad loans to bank assets of about 8% suggests that major losses are occurring and some Spanish banks will be short of capital. In recent weeks there have been two reported bank mergers where the target was acquired below NTA - much like Bankwest's takeover by CBA in 2008!

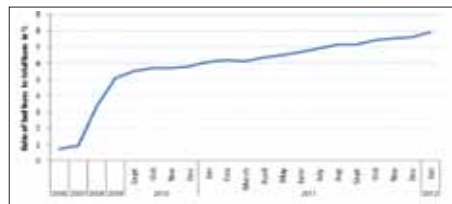


Figure 5. Spanish banks bad loans ratio
Source: Bank of Spain

Spain in context

The Spanish economy is about US \$1.7 trillion and is thus about \$400 billion larger than Australia in terms of GDP. Its fiscal deficit is forecast to be about \$80 billion this year if the Government can bring the deficit towards 4.5% of GDP. The country is now a heavy offshore borrower with a current account deficit of \$55 billion. However, it has managed to grow exports in recent years and this has helped stabilise the offshore debt. The stock market has declined by about 7% this year against solid gains in Germany and France and this reflects a substantial decline in corporate profits. Inflation is well under control at about 2% but industrial production continues to decline. Indeed, industrial production is running at about 75% of the rate of 2007. This explains the massive increase in unemployment. The dramatic decline in retail sales and services activity, below levels of 10 years ago, suggests Government tax revenue from VAT is in sharp decline. All of this leads to the obvious questions:

1. How can Spain reduce its fiscal deficit?
2. Why are ten year bond rates in Spain just a mere 1.75% above those of Australian bonds?
3. Does an economy with such large youth unemployment have a sustainable social framework?

Indeed the following charts, when analysed, suggest that Spain has very serious problems, implying that the European fire wall needs to be very big and that the liquidity needed will resemble a flood inside those walls. Our own Reserve Bank continues to seriously underestimate the problems of Europe. Indeed, if Spain slides further and its bond rates rise higher than another Greece - type moment awaits and the RBA will be moving quickly and belatedly to prop up confidence against another melt down in Europe.

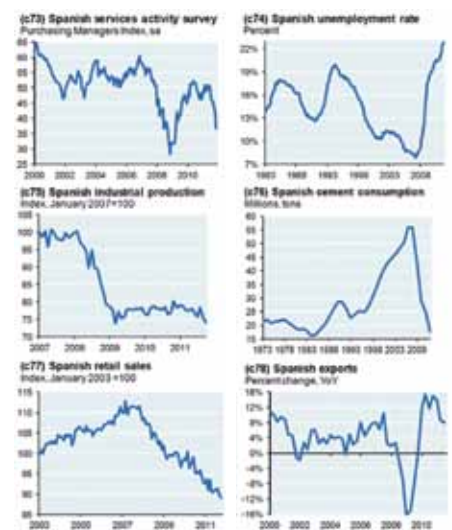


Figure 6. Spain's key economic data

Why is this relevant for Australian investors?

As we noted above, it is likely that there will be more negative market gyrations in coming weeks. Given our view that the economic recovery in the US has tentatively recommenced and that Chinese economic growth is assured for decades, we believe that market weakness is an opportunity to invest in our preferred companies or securities.

Those companies include:	2012E Value	Suggested Margin of Safety
BHP Billiton Limited (ASX:BHP)	\$54.66	>30%
Monadelphous Group Limited (ASX:MND)	\$22.35	>15%
McMillan Shakespeare Limited (ASX:MMS)	\$11.42	>15%
Oroton Group Limited (ASX:ORL)	\$9.48	>20%
ARB Corporation Limited (ASX:ARB)	\$7.98	>15%
Blackmores Limited (ASX:BKL)	\$28.85	>15%
IRESS Market Technology Limited (ASX:IRE)	\$7.28	>15%
Fleetwood Corporation Limited (ASX:FWD)	\$11.66	>15%
Woolworths Limited (ASX:WOW)	\$31.53	>15%
Commonwealth Bank of Australia (ASX:CBA)	\$58.97	>20%
Australian & New Zealand Banking Group (ASX:ANZ)	\$29.69	>25%
Westpac Banking Corporation Limited (ASX:WBC)	\$27.57	>25%

Continued on page 7

Comparing ANZHA and WBCPC

by Vincent Chin *Senior Analyst, Clime Asset Management*



Vincent provides a comparison of the subordinated notes issued by ANZ and the convertible preference shares issued by Westpac. This analysis will explain why ANZ notes are trading at a premium on their issue price and why Westpac Preference shares are not.

A brief summary including relevant terms and conditions for these securities are tabulated in the table below.

ASX Code	ANZHA	WBCPC
Type	Subordinated notes	Converting preference share
Size after book build	\$1.5B	\$1.2B
Margin	2.75%	3.20%
Interest	90 day BBSW + 275bp	180 day BBSW + 320bp
Interest / dividend	Floating rate, paid quarterly	Floating rate, paid semi-annually
Gross cash / franking	Gross cash	70% cash, 30% franking
Deferral of payment	No	Yes, dividend may not be paid
First call (redemption)	14.06.2017 (5.25 years)	No redemption
Maturity date (last)	14.06.2022 (10.25 years)	No maturity
Early conversion date	N/A	31/3/2018
Conversion date	N/A	31/3/2020
Ranking	Ranks above ordinary and all preference shares	Ranks above ordinary shares and equally with all preference shares
Regulatory treatment	Tier 2 capital	Tier 1 capital
Step-up	None	None
Running yield*	7.1%	7.5%
Clime valuation	6.9% - 7.0%	7.8% - 7.9%
	VALUE	OVERVALUED
*Spot BBSW (05/04/12)	4.32%	4.29%

Sources: Company announcements; Clime Asset Management; MyClime

For more information regarding ANZ notes and Westpac shares, please refer to company releases and respective PDS's.

Why is ANZHA better in terms of risk?

1. It is a debt and there is no equity component, although it sits lower than the deposits, secured and unsecured debt. This debt is issued by ANZ, one of the major four banks in Australia with a credit rating of AA-, one of the 12 remaining banks in the world with similar credit rating.
2. No deferral of interest is allowed. In other words, ANZ would have to pay the Notes holders interest every quarter as long as the Notes is not called back or redeemed. The only event that allows ANZ to stop payment of interest is insolvency, or if the payment of interest would result in insolvency. This implies that these notes are "true" debt like instrument as failure to pay would result in default.
3. They have a fixed term of maturity of 10.25 years which is a characteristic of a bond. In addition, they have a first call back of 5.25 years. In the briefing at the ANZ's Sydney head office in Martin Place, we were informed that ANZ has always called back their Notes at the first call opportunity and usually reissued and repriced.
4. ANZ has applied for a credit rating for ANZHA notes so that institutional investors with compliance restriction can participate in this offering. WBCPC (as equity) does not have a credit rating although the bank's credit rating is the same as ANZ.
5. ANZHA will be a tier 2 capital, which means they rank above ordinary shares and all their preference shares (listed and unlisted) tier 1 capital.

Why is the ANZHA better in term of return compare to WBCPC?

1. The interest rate for the ANZ is set by the 90 days BBSW + 2.75%. At today's spot 90 days BBSW of 4.32%, the interest is 7.1% pa. This is about 200bp better than 90 day term deposit rates in the bank.
2. It is also possible to compare this with the Australian Government Bonds. We note that it is about 300bp above the 10 year Australian Government Bonds.
3. ANZ yield is only 45 bp lower in margin compared to WBCPC. We believe the risk return for each of these suggests that ANZHA is more attractive. Despite WBCPC having equity risk, it does not have much equity upside upon conversion. Therefore 45 basis point is not sufficient to compensate for the much higher risk that one is exposed to by participating in WBCPC compared to ANZHA. In addition, WBCPC is a convertible preference shares which obviously sits lower in the capital structure and can't be compared with ANZHA on a like for like basis.
4. We also note that WBCPC pays dividend semi-annually which is less desirable compared to quarterly if one is income / yield focus investor.
5. Importantly, WBCPC can stop dividend payment and the dividend is not cumulative.

Thus, all these additional risks suggest that 45 bp higher in margin is not sufficient to compensate for the higher risk in holding the WBC CPS compare to ANZHA.

We believe ANZHA is attractive from the perspective of holding it as a "substitute" for cash, ie, holding it as "cash equivalent" and in effect it is a 90 day rolling term deposit.

This article was written by the team at Clime Asset Management, and is published weekly, as part of their online stock valuation and research software called MyClime. You can sign up for a completely FREE 14 Day Trial.

Market recovery patterns

By Robert Vagg



After an initial swift recovery from its March 2009 lows the Australian share market now has shown little price growth for almost thirty months, with the All Ordinaries Index continuing to languish in the 4000-5000 trading range. This parallels most other world markets as global economies undergo deleveraging operations in response to the GFC. Such a period of price consolidation has commonly followed many of the various economic crises that the Index has witnessed throughout its 137-year

history. However, for the Australian market similarities between now and the mid-1970s period stand out in particular in terms of the severity of the initial market fall and its subsequent slow recovery path.

Comparisons with the 1970s

In this series of newsletter articles on long-term trends I have constantly referred to an empirical model that allows evaluation of the position of the Australian market relative to an expected mean (fair value) that may be calculated at any particular point in time. That model* shows the paired market lows of September 1974 and March 2009 to be unique in terms of their degree of undervaluation.



A comparison of these two periods is made in Figure 1. This shows the movements of the All Ordinaries Index relative to its calculated fair value (red) since January 1955. Relative valuation channels based upon 50% and 90% confidence limits also are shown. From

a position well above fair value in October 1973 the Index fell rapidly, breaching the lower channel limit and continuing until achieving a bottom a year later that was less than half its calculated mean value. Following a prompt recovery back to reach the lower limit, the Index fell away again and consolidated for a further 18 months prior to commencing a substantial bull market. In all, the Index spent five years highly undervalued below the lower channel limit. The background to this pattern was the initial Middle East oil crisis of 1973-74, followed by an 'after-shock' in 1978-79.

The pattern described by the Index since November 2007 closely parallels this behaviour. After achieving a low that was 57% below defined fair value, it subsequently recovered back to reach and then fall away to consolidate below the lower valuation channel limit, where it currently trades. The background to this pattern is of course the GFC followed by the European debt crisis 'after-shock'.

Figure 2 allows a more detailed comparison of the similarity between these two periods. Based on the average monthly values of the All Ordinaries, movements are shown for the Index in relation to the valuation channel levels. Here the 50% confidence limits (+15% to 13%) define the Index's fair value range. Beyond the 90% limits (+39% and -28%) the market is defined as either highly overvalued or highly undervalued, respectively.



has been overlaid in green to allow comparison. The close similarities are obvious. The extent to which the current pattern continues to emulate that of the 1970s clearly is of high importance to investors.

International recovery comparisons

Perhaps surprising, the extent to which the US stock markets were affected by the 1970s oil crises was significantly less than Australia's. The same is true of the 1987 market crash. In contrast, the 1929-32 bear market falls were far more severe in the US. I thought it worthwhile therefore to compare the Australian market recovery since March 2009 with those of other global markets.



Figure 3 allows comparison of the gains that have been achieved since the March 2009 market bottoms in several major indices up until the beginning of May 2012. The overall impression is one of a relatively rapid recovery during the first year followed by a volatile

consolidation pattern. The US stands out as displaying continuous price growth, such that at 1398 the S&P500 is now 109% above its 2009 low of 667. The other gains are DAX 89%, Hang Seng 81% and FTSE100 66%, with the All Ordinaries trailing at only 42%.

An alternative way to compare these market recoveries would be to calculate the degree to which the severe falls from their highs of November 2007 have been retraced. At 1398 the S&P500 is only 17% below its November 2007 high of 1546, indicating an 83% retracement. By comparison, the DAX has recovered by 71%, the FTSE by 70%, the Hang Seng by 47% and the All Ordinaries by 36%.

Whichever way you look at it, the clear relative underperformance of the Australian market recently must be surprising, disappointing and disturbing to many Australian investors. Of those shown, the All Ordinaries is the only index that is significantly lower than its initial recovery levels reached around March 2010. This hardly would be expected of a domestic economy claimed to be the envy of global peers, and able to lead the world into budget surpluses.

* For details see Robert Vagg, 'A long-term model of the Australian stock market', supplement to *Investors' Voice*, May 2009 (available on the AIA website).

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

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ETFs: The next wave for managed funds

Tony Rumble *Head of Portfolio Construction at BetaShares*

For investors worried about meager investment returns and the prospect for unexpected losses triggered by market volatility, bank deposits and cash management funds provide temporary respite and protection against further share market declines. However, as markets stabilise over time and investors become more comfortable with increasing their exposure to other asset classes, they increasingly are doing so using the 'Exchange Traded Fund' (ETF) market. ETFs are one of the fastest growing segments of the global and Australian investment market, primarily because they offer low cost (often under 0.5%), tax efficiency and transparency. Because they can be traded like a share on the ASX, investors also benefit from the liquidity and simplicity ETFs offer.

What type of ETFs are available in Australia?

ETFs were launched in Australia a decade ago with the first ETF being produced over the S&P/ASX 200 index. This is an example of a traditional 'passive' ETF – where the ETF unit represents a claim over a basket of physical shares which match the composition of the underlying index or asset. More recently, passive ETFs have been issued in Australia which provide exposure to sub indices or sectors like the ASX resources or financial indices – these also represent a claim over a basket of physical shares comprising the index.

In Australia ETFs are issued using a conventional unit trust structure, with the assets of the fund being held by a custodian (ie separated and ring fenced from the assets of the ETF issuer, for better investor protection).

In addition to 'passive' ETFs, three other forms of ETF are available to Australian investors.

- 'Strategy' ETFs, where the issuer creates a bespoke index to deliver a specific style of investment return (eg a Value ETF) and where the ETF then tracks that index by holding the shares which are contained in the index. Strategy ETFs are sometimes known as 'semi-passive' since the index itself changes composition in line with the style it is designed to implement;
- 'Currency' ETFs, (such as BetaShares US Dollar ETF) which invests in actual foreign currency, to provide investors with a simple way to obtain exposure to selected foreign currencies
- 'Commodity' ETFs which invests into physical commodities (such as the BetaShares Gold Bullion ETF) or where exposure to the commodity is managed using derivatives (so called 'synthetic' ETFs). Synthetic ETFs provide exposure to assets which can't physically be held or stored (eg oil, agricultural and industrial commodities) or where the costs of doing so are prohibitive. Synthetic ETFs have been the topic of discussion over the last year (as investors and regulators focus on the credit and other risks they can create), with some important recent enhancements, discussed below, which should help to mitigate these risks;
- International ETFs, which invests in stock listed on overseas exchanges, to provide exposure to international markets.

Most investors who know about ETFs would be aware that they hold shares or assets which are constituents of an index which the ETF is designed to track. But what most investors don't understand is how ETFs are created and how this mechanism seeks to ensure that ETF prices track very closely in line with the 'net asset value' (NAV) of the relevant index. This is a fundamental concept that all ETF investors should understand.

ETF market making and the 'create/redeem' process

ETFs were born in the US in the days of certificated shares, where the expense of maintaining secure custody of share certificates led large US pension funds to seek cheaper ways to hold and administer their investments. Global custody players set up trust vehicles into which the pension funds could deposit shares, in the exact proportion to

the components of various indices like the S&P 500, and in exchange receive units which were designed to track those indices.

In turn the custodian built computer systems to manage the shares in the ETF trust, to ensure they tracked the index, such as rebalancing the portfolio to take account of corporate events that occurred in relation to component stocks (eg share splits, bonus and rights issues, dividend re-investment, etc). Since large pension funds hold huge numbers of shares, it was perceived that a core part of their investment portfolio could be held and managed for lower cost in this way. In turn, when and if the pension fund wanted to retrieve shares from the trust vehicle, it did so by presenting the unit and receiving shares in exchange.

It's this process of 'in specie' creation and redemption of units that permits market makers to transact in ETF units and the shares that they relate to and this allows the market makers to keep the price of the ETF closely in line with the value of the underlying index or asset it relates to. The 'open ended' nature of ETFs means that market makers can manage any price discrepancies, in order to bring ETF and physical prices back in line.

Strategic uses of ETFs

The foundation of demand for ETFs reflects the traditionally poor performance relative to the index from the majority of actively managed funds. For example, during calendar 2010, 80.9% of all Australian actively managed funds failed to beat the returns of the S&P/ASX 200 index.

It is not well known that most of the returns from a share portfolio represent the fortunes of the sector within which a stock operates with around 80% to 90% of those total stock's returns being linked to the overall performance of the market & sector. Picking individual stocks is often not as important as picking sectors and broad index based sector ETFs are an efficient and low cost way to gain (or sell) exposure to preferred sectors. Since the ETF provides exposure to all the stocks within the index with a single trade, using the ETF is quicker and easier than investing using individual stocks.

Skeptical share market investors around the world are becoming aware that commodities as an asset class can be a very useful inclusion into a properly balanced portfolio, particularly because they have exhibited low correlations with traditional assets like shares and bonds. It's notable that in 2011 the Harvard Endowment Fund achieved a stellar return of 21.4% (across its US\$32bn funds under advice) – with an allocation of 14% to commodities.

Investment heavyweights like Jeremy Grantham (the founder of global funds management group GMO) believe that commodity prices will rise going forward: in his April 2011 newsletter (entitled 'Time to Wake Up: Days of Falling Prices and Abundant Resources are Over') he states his view that "From now on, price pressure and shortages of resources will be a permanent feature of our lives."

To meet this investor demand a range of commodity ETFs are available including over physical gold (ASX Code: QAU) and commodities including oil (ASX Code: OOO), agriculture (ASX Code: QAG), and diversified commodities (ASX Code: QCB). Each of these ETFs also includes currency hedging, such that returns are linked directly to the underlying commodity (without currency risk). In the case of QAU, the ETF is backed by physical gold bars which are segregated and held specifically for the ETF investors.

Unlike gold – which is heavy and expensive other commodities are bulky and relatively inexpensive. Because storage and transport costs for such commodities are prohibitively expensive, financial investors can only access them using commodities futures markets. Some overseas ETFs simply rely on holding an 'over the counter' ('OTC') hedging contract from an investment bank (which in turn invests in the futures markets) – which can create significant counterparty risk to that investment bank. The problem with ETFs structured in this fashion

is that the investor's funds are actually paid to the investment bank/hedge provider at the commencement of the investment – meaning the investor is entirely exposed to the risk of insolvency or poor performance by the investment bank.

To mitigate these risks, so ETFs are linked to commodities and in the case of BetaShares ETFs it places investors' funds on deposit (via the ETF custodian, RBC Dexia) earning interest which provides investors with significant protection against counterparty risk.

What next for ETFs?

ETFs are one of the fastest growing investment categories, here and internationally. With the advent of new technology, they can be delivered with a low cost structure. Their generally low internal turnover provides a tax efficient and transparent mechanism for investors – increasingly important benefits in the new world of meager returns.

Tony Rumble, PhD is Head of Portfolio Construction at BetaShares

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The rain in Spain goes mainly down the drain in May - or is it April ... from page 3

The Australian share market sits nicely in value in the low 4000 region but whilst many stocks are in or will fall into value, we note that there are many "value traps". That is companies like Macquarie and QBE that are trading at close to equity but that earn a very poor return on that equity.

Thus, the coming weeks could well present us with opportunities to acquire preferred stocks and securities at good margins of safety. By being patient, maintaining liquidity and seeking significant discounts on forward value (the margin of safety) we will be able to use a weak general market to our advantage.

Remember that, despite the fact that the Australian market is at same level as it was in 2005, there are companies that are trading at multiples of their 2005 share prices. These are the companies that have consistently maintained a high return on equity and have been able to retain earnings and grow. Companies that have been "stress-tested" and passed with flying colours: by growing through a mild recession and a GFC. Thus, in coming weeks we should keep a close eye on the following companies to see if they fall into or deeper into value.

This article was written by the team at Clime Asset Management, and is published weekly, as part of their online stock valuation and research software called MyClime. You can sign up for a completely FREE 14 Day Trial.

In the olden days

By Bob Andrew



I have been invited to write a few words on the early days of the AIA and where the idea originated to establish such an organization.

For those who can remember the mid-1980s, you will recall that the ten-year Australian Government Bond rate then was around 12-13%. Needless to say commercial (bank) rates were significantly higher. At the same time the exchange rate, measured by the Trade Weighted Index (TWI) was

sitting around 65. It is therefore no surprise that many enterprises that relied on overseas trade for their existence looked for ways to reduce their borrowing costs. Behold! Friendly banks were there to help: Foreign borrowing was the way to reduce costs.

Why not get an overseas loan? Swiss interest rates at around 5% compared to the local 12%-13%. Borrowing expenses could be halved! Alas, what happened later when both exchange rates and the Swiss interest rate moved against the borrower? Yes, the friendly banks moved against their borrowers: Those who had borrowed overseas a few years earlier on the advice of their bank, now found themselves facing severe stress, even bankruptcy in some cases.

Those who had borrowed, including many graziers, found themselves in the courts being pursued by the banks. Austin Donnelly was a highly respected adviser, known for his conservative views. He was called upon on many occasions as an expert witness for the defence. It became very clear to him that the original advice from bank to borrowers failed to identify both the exchange rate risk and the interest rate risk. Judgment in most of his cases came in favour of the borrower.

Helen and I had returned to our home in Brisbane at the start of 1990 and were living next to Austin. As neighbours used to do, we had the odd chat over the fence and occasionally the talk turned to the foreign loan problem. Austin was quite upset, because innocents were not being given the full story on the risk at the time they took it on. He felt very strongly that there was a great need for better education and advice for investors. The question was: How best to get the ball rolling?

Eventually the concept of forming an investor group came into Austin's head. He raised the idea with many of his clients and friends, even over the fence, and received nothing but support for the idea. So it was that on 23rd December 1991 the Australian Investors Association Ltd was registered as a Public Company Limited by Guarantee. In the lead-up to this, Austin had prepared the Memorandum and Articles of Association (now the Constitution). He was most insistent that the Association provided for all Asset Classes (no doubt his experience with the foreign loans was still high in his consciousness).

The initial membership of the Association was drawn largely from his client list. The numbers hovered around one hundred in the early days. Austin recognized the need to keep contact with members and produced the early "Investor Alerts" – the aim was to have around nine per year – in addition to editing the quarterly newsletter (now the Investors Voice). I still remember the four of us sitting on Austin's living room floor undertaking the ancient arts of origami and "envelope stuffing".

Now here we are, celebrating the AIA's 21st birthday. The strength of the Association is built on its many past and current members who, in their own way, have nurtured Austin's baby to adulthood.

Investors need bonds

By Elizabeth Moran *Director – Education & Fixed Income Research – FIIG Securities Ltd*



For years, those of us who follow the debt market have argued that Australians are overweight shares (equities), often through very high superannuation fund default portfolio allocations, and it seems prominent

financial figures are starting to appreciate our argument.

Dr Ken Henry, special advisor to the Prime Minister has indicated that the default allocation in superannuation funds to “growth” assets in Australia, of around 70% is much higher than global peers, where, in contrast, most global peers hold over 50% of the portfolio in conservative assets like bonds. Henry argues that “average” equity returns are inappropriate for many investors, especially older investors:

“Depending upon when they enter the system and when they retire, some fund members will benefit enormously from a portfolio weighted heavily toward equities while others will lose big time ... And nobody knows, in advance, who will win and who will lose”.¹

David Murray, the departing chairman of the Future Fund, agrees with Henry as the following comment from an article in *The Australian* indicates:

“The heavy weighting to equities by superannuation funds was exposing the nation to dangerous financial instability and the public to excessive risk, and that funds should be giving far greater allocations to fixed income-related investments—a message that has been oft repeated in recent years but gained new prominence in the past week after former Treasury secretary Ken Henry stressed the need for increased investment diversity in the country’s superannuation sector”.²

The Australian government obviously considers superannuation important so we can all self-fund our retirement and rely less on the government for pensions – a huge and growing bill, but there is no safety net for investors in terms of minimum requirements for funds in portfolio allocations to ensure capital is preserved. It makes sense for default portfolio allocations to change as investors’ age. A 65 year old with plans to retire just cannot afford a 40% decline in capital in their super fund, as was the case during the GFC. Ultimately high risk portfolios can lead to losses just as investors want to retire meaning they have to work longer (if they can), rely on less income in retirement or in the worst case scenario seek government assistance to help survive if high risk strategies backfire.

At FIIG Securities, we advocate owning your age as in bonds and cash a percentage of your portfolio or having a maximum 100 minus your age in equities. This guide is easy enough for self managed superannuation fund individuals to replicate.

So, how do bonds differ from equities?

Bonds are simply a loan from you the investor to the company or bank who issues the bonds. Importantly, they are a contractual agreement and as such, the issuer of the bonds must pay interest (known as the coupon) when it’s due and principal according to the terms of the agreement. In that way investors who purchase bonds know what their income will be and in most cases know when they’ll receive their capital back (see Figure 1).

So, bonds have that certainty of income and capital repayment in contrast to equities where dividends can be cut and the price of shares can fall, meaning investors can never know their return until they make the decision to sell.

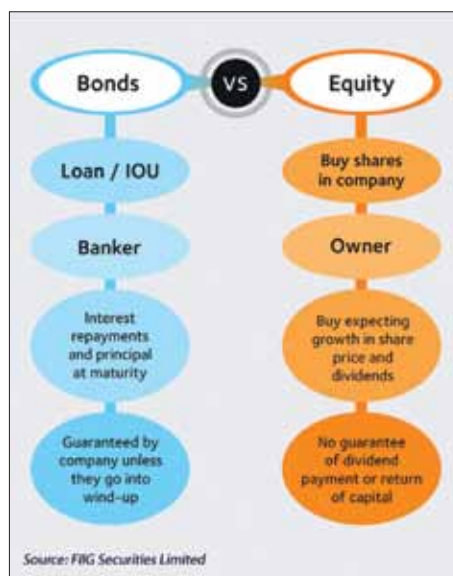


Figure 1

Current investment environment

Risk and volatility remain present in the current market and are likely to be evident for years to come. While the US is showing slight signs of recovery, doubts are building regarding Greece’s ability to remain in the European Union and Spain’s ability to service its debt. Other European countries are facing tough austerity measures that will inhibit growth and China has lowered its growth expectations. Australia is in an enviable position but the recent cut to the government budget will dampen growth in our economy. It’s no longer unthinkable that we may be in

for a sustained low growth period, despite government forecasts.

If so, how do you pick high growth equities and isn’t everyone else looking for the same attributes? I think it’s very difficult to pick high growth stocks in a low growth environment. Also investors should consider that those growth stocks may already be priced as such. Small revisions to profit can mean significant declines in value.

Bond investment is altogether different than equity investment. As a bond is a legal agreement and the company issuing them must make coupon and principal payments, investors’ primary focus is the ability of the company to survive. It’s much easier to choose a company that you expect to survive, even if they have a couple of consecutive loss years than one which will grow. Take Leighton Holdings as an example. They’ve made some poor tender bids that have cost the company and it’s been forced to revise profit forecasts twice in the last 12 months. The share price has been a roller coaster (the share price was \$30 just over a year ago but is now less than \$18). Yet the company is supported by a significant amount of pending work. It’s easy for an investor to judge whether Leighton’s are likely to survive, but much, much more difficult to predict what will happen to the share price and if that order book will translate to growth.

Over the last 12 months, Leighton’s share price from moved 39.9% from its peak to its low. Over the same period, Leighton’s senior A\$ bond price peaked at \$106.50 and its low was \$102.50, showing a price volatility over the same period of just 3.8% (Source: Bloomberg). Much of the reason for Leighton’s bond price movement was due to lower interest rates and had nothing to do with the perceived risk of the company.

In summary, bonds provide a consistent return and with full capital repayment at maturity (in the vast majority of cases). The fact remains that bonds are lower risk and display less volatility than equities. Assuming the credit quality of the issuer remains the same, fluctuations in bond prices are less of a concern for those that hold bonds until maturity. Do you have enough bonds to ensure your retirement goals?

¹ “Funds should be more conservative – Henry”, by Clancy Yeates, Sydney Morning Herald, March 17, 2012. See also, “Superannuation funds are overweight on shares, warns Henry”, by David Uren, *The Australian*, March 17 2012.

² “Super fund investments are far too risky says David Murray” by Michael Sainsbury, *The Australian*, March 21, 2012

Specialisation & simplicity - key elements for long term success

By Lee Spano *Private Investor and Trader, Australian Investors Association (AIA) Member*



Specialisation and simplicity are perhaps two of the most important elements for long term success in both investing and trading. Too often we are caught up with too much information, too much analysis, too many fundamental rules, too many technical indicators, and too many opinions. In this article we will explore the hallmarks of specialisation and simplicity which characterise effective, robust investing or trading systems. A case study taken from the commodities sector will

illustrate these hallmarks, and assist investors and traders to become more independent in designing and managing their own systems.

The design features of specialisation and simplicity are not obvious. On the contrary, it is often only after some years of trading or investing experience, that we realise less is more. Many who do not succeed are often caught up in relying on the opinion of others, 'expert systems' created by others, or do not build a foundation of knowledge and experience to independently analyse the markets and then design systems to suit their specific objectives and personalities.

Specialisation and simplicity as hallmarks may be traced to the pioneering work of Richard Dennis and William Eckhardt, in particular, the famous Turtle Experiment in 1983 and 1984. You might recall, 14 novice traders were taught a simple, specialised mechanical, rule-based system for trading the futures markets. The Turtles reportedly made more than \$175 million in five years, and proved, amongst other things, that trading or investing skills could be learnt. However, the key pre-condition was building these skills on the back of a tested, proven, simple and specialised mechanical trading system.

Similarly, when we study great traders and investors, such as Jake Bernstein, Larry Williams, Randy McKay, Gil Blake and Warren Buffett, the two key over-arching characteristics of their approaches or methods were specialisation and simplicity. For instance, Buffett employed Focus Investing techniques, and did not agree with modern portfolio theory which tries to spread risk (and opportunity) through a portfolio of holdings or, in some cases, strategies. Buffett chose only a few stocks, studied the companies in great detail, and then would invest for the long term.

A specialised, simple system has less moving parts, less room for interpretation, less subjective elements, and so we have a stronger foundation for sound, objective decision-making. But what do we mean by specialisation and simplicity? This detail is rarely found in either the literature or other information out there. Many successful traders and investors choose to keep the specific detail in this regard to themselves. However, it is possible to illustrate these hallmarks, and we will do so in a specific case study, namely Gold (XAU/USD).

1. Clear Specific Objectives

Any trading or investing system needs to have clear, specific objectives. This is not just in terms of anticipated annual ROI, but also in terms of interim objectives. In the case of a medium term trading system for Gold, what are your weekly or monthly ROIs? On average how many trades do you expect? How much are you likely you make and lose on these trades? What are the default stops, how are they calculated, and similarly for target prices? More broadly, how much time can, and are you likely, to spend managing your trades? The more specific your objectives, the more specialised and personalised your system can become.

2. Specific Markets

Similar to Buffett's Focus Investing approach, effective specialised trading or investing systems focus on one or at most a few markets which are not correlated. When you focus to this degree you understand the essential underlying dynamics of that market. You become 'in sync' with it, and get in tune with its flows. The underlying dynamic of a market is not just volatility; it is how the market moves. For example, Gold on a daily chart often moves in nice Elliott-like trending waves.

3. Core Methodology

This is a subtle factor which only a few highly successful traders or investors understand. This is probably due to information, data and systems overload with the amount of information and misinformation now out there. In essence, what is the core method or concept underlying your system, strategy or approach to that particular market? For example, if you are developing a medium or longer term system for Gold, your core methodology should marry with the underlying dynamic of that market at that particular time. If XAU/USD on a daily chart is in an uptrend, which consistent retracing waves, then your system should be a relatively simple trend based system.

4. Analytical Time Frame

What charting or technical time frame will you choose? Nowadays most platforms again give you too much information, too much choice, from tick to monthly charts. Which will your system use and why? There are some people who try to use multiple time frames. From my experience, this again can cut Occam's Razor- one or at most two time frames is usually more than enough. For Gold, consider using the daily chart, because this is what most analysts and institutions usually focus on, and it correlates well with the broader trends of that market.

5. Simple Technical Tools

The major concern with technical analysis today is that there are too many tools, which can create conflicting signals, and stifle efficient decision-making. This is the common criticism from fundamental investors. However, again less is more. Those of us who effectively employ sound technical tools, usually focus on only a few tools, and then the main focus is on price action; for instance, through bar or candlestick patterns. Other classic tools, such as support, resistance, volatility or volume, usually complete the picture. When we employ only a few tools, we get to know them very well, and become highly skilled in their use. Our investment edge compounds when we combine this skill with specialised knowledge of one or two markets. For example, if Gold is currently in an uptrend on a daily chart, then consider using use trend-based tools, such as moving averages and trend lines.

6. Clear Fundamental Factors

Similarly, focus on clear fundamental factors which move a particular market. Now days, there is a whole industry which will give us news, data, company or economic information. Sadly, often the people who provide this information are not effective traders nor investors, and it is unlikely many of them have built sound systems which are successful in the long term. In the case of XAU/USD, isolate a short list of key fundamental areas which move that market and develop rules or guidelines for your system. For example, how is XAU/USD related to other commodity prices, such as copper or Oil (USD)? How is it related to the USD Index? How is it related to other more risk-based markets, such as EUR/USD or AUD/USD?

Continued on page 10

Book review



Title: SMSF DIY Guide
Author: Sam Henderson
Publisher: Wrightbooks, John Wiley & Sons, Brisbane, 2012
ISBN: 978 0 7303 77238
RRP: \$34.95
Reviewer: Tony Reardon

SMSF DIY Guide is the second book by Sam Henderson, the first being "Financial Planning DIY Guide" and this is something of an extension to that first publication.

More and more of us are running our own self managed superannuation fund (SMSF). Between the 2007 and 2010 financial years the numbers of self-managed super funds grew 47 percent and now accounts for more than 30 percent of the entire superannuation asset pool.

The principal motivations for people to start an SMSF are control over their own money, plus likely cost savings and better tax management compared to large super funds. But what about the reasons people don't have an SMSF? According to a recent (Feb 2012) report by Russell Investments for the SMSF Professionals Association of Australia (SPAA), the key reason is lack of knowledge. If you are thinking about an SMSF but feel you lack some knowledge, then this book may help.

According to the same report, a substantial number of people who already have an SMSF found it difficult to locate quality professional advice, especially investment advice. Many trustees were frustrated by the lack of technical strategic advice offered by financial advisers, and the shallow knowledge pool about regulations and specific strategies, such as contributions limits. Many trustees believe that advisers are selling products to benefits themselves, not the client. So self education is vital and, again, this book may help.

Sam Henderson runs a financial planning firm that specialises in self managed super funds and so is well versed across his subject.

The book covers the basic facts about superannuation in Australia and discusses whether running an SMSF would be right for you. If you decide to establish an SMSF, as he says, it is easy because you pay someone else to do it for you but the book discusses the various issues you need to consider. It then covers the things you have to do to make sure you run the fund so that it complies with the Australian Taxation Office rules.

There are chapters on investing and asset allocation. He discusses using borrowing in your super fund and the rules that apply. He covers the need to think about insurance, and then there are two useful chapters dealing with pre-retirement and retirement itself, and also a chapter on estate planning. Another chapter advises on strategies to reduce tax and to boost your super. Finally he encourages you to take action and to do some overall financial planning, possibly starting by buying his first book.

Each of the thirteen chapters has a summary of key points at the end and various tips are highlighted throughout the text.

Overall I thought the book a worthy guide and it contains references to web sites for further research (although Sam's own web site at www.samhenderson.com.au can charitably only be considered to be a work-in-progress at the moment).

I did have a few niggles about some things I think a good proof reader or sub-editor might have fixed.

In a technical book like this, you want to be able to rely on the numbers, so getting the tax due on \$180,000 wrong by a large amount in a tax table (stated as \$5,550 instead of \$54,550) leads to worries that other numbers might be wrong, although perhaps not so obviously.

Also, you want to be clear about what is being said. For example, at one point he briefly discusses concessional contributions (contributions from income before you pay income tax) and non-concessional contributions and states that you pay no tax when you withdraw the non-concessional contributions in retirement. I think he might have meant to say that you pay no tax on any of the funds you withdraw in retirement regardless as to source, which is actually the case if you are over 60, but that is not what is written.

Surely if you are going to write books then either you or your editor should know that "it's" is a contraction for "it is" or "it has", not a possessive pronoun meaning belonging to it or am I just part of a dying breed that cares about things like this.

My final grammatical niggle is that Sam couldn't quite decide which tense to use. I know it is sometimes difficult but he bounces between present "No tax is paid on super once you reach age 60" and future "If you make a concessional contribution, you will pay tax..." My vote is always for the present tense if at all possible, I think it is much preferred and easier to read.

Minor grammar and editing niggles aside, the book is easy to read, well organised, up to date (as of 2012) and well worth reading by anyone thinking about their own SMSF.

Specialisation & Simplicity - Key Elements for Long Term Success ... from page 9

7. Solid Money Management

People are still too concerned with how to get into a market- the entry, signals, the news, the set up, the economic outlook and so much more. But how much of your system is dedicated to exiting the trade or investment? Do you have clear, solid rules for risk, profit-taking, position sizing, compounding or profit maximisation? Many successful traders and investors believe solid money management is 'the 80%' of their systems. In the case of a medium term, trend based system for Gold, one of your key rules might be to maximise your risk for any one trade to 2% of capital, to then set your stop accordingly, and to trail it as the trend moves in your favour.

The hallmarks of specialisation and simplicity are crucial for long term success. It is as if nowadays we need to cut through the smoke and mirrors of information overload in our digital world to reach this important understanding. Yet it is something that is as valid today as it was in the 1980s, some thirty years ago. An effective investor or trader will develop their system's edge through these hallmarks as we have illustrated them. In so doing they will be well on the road to independent decision-making and long term success.

I must create a system or be enslaved by another man's' - William Blake.

Bulletin board

Investors' Voice welcomes contributions from AIA members, particularly material that can be included in the "Us and Our Portfolio" segment. Contributions should be limited to 1000 words and sent to: The Editor aia@investors.asn.au

How \$1million can last longer than you

By Jon Kalkman *Editor*



My portfolio looks like heresy when measured against the orthodox modern diversified portfolio designed to manage (volatility) risk, but I believe (and the actuaries agree with me) that my large asset allocation to Australian shares is actually a smart approach to ensuring the money does not run out over a 30-year retirement.

Financial planners and their employers (managed funds), are focused on volatility risk, that is bumpy returns. That is what traders do, but with increased life expectancy, retirees need to be very concerned about longevity risk, that is, the risk that they will run out of money.

Actuaries understand life expectancy and longevity risk. They argue that dividends from Australian shares offer the best protection against longevity risk, precisely because dividends grow faster than inflation.

If I'm in a retail super fund however, I am selling assets (units) every time I take a pension payment, so price volatility is a big problem, that can only be addressed by adopting a less aggressive and more balanced portfolio (fewer shares) and therefore producing a lower long-term return and which will therefore increase my longevity risk. My point is that with sufficient income, I can sit out any downturn in my SMSF, so falling share prices have no effect on my investment strategy, and anyway, my income depends on company profits and dividends, not prices. As long as I am not selling any assets, volatility is not a risk I need to manage.

Secondly, the amount of capital I need to generate sufficient income is smaller for shares than other asset classes because the yield is so high inside my SMSF. If I can get 7% after-tax yield from my shares inside my SMSF, I only need half the capital to produce the same income than if it is producing only 3.5% after tax and costs (e.g. for a property investment).

So I get to eat my cake and have it too. I get high yield and my income stream is growing faster than inflation.

The problem for retirees is adequate income now and adequate income after 30 years of inflation. You only get at the nub of the retirement problem by getting retirees to focus on the correct risk which is income security. Yet, the focus of financial planning seems to be the client's tolerance for volatility risk. Surely the aim of financial planning should be to get people to the point where their capital generates enough income now and to make sure it grows over time. Then it does not matter how long they live!

If I have \$1 million in my SMSF invested in Australian shares with full dividend imputation, I receive about 5% in dividends and another 2% cash refund from the Tax Office as the imputation credits are fully refunded in pension phase. My SMSF thus generates \$70,000 per year. (With Telstra in my portfolio I can generate 12% income.)

Dividends are linked to profits by a fairly constant pay-out ratio so that dividends increase as company earnings increase. If history is any guide, my dividends grow by an annualised rate of 7 or 8% per year, which is greater than inflation. In other words, if I can manage to live on \$70,000 this year, I am better off next year without the need to reinvest any income. I also do not need to sell any shares.

As my income is growing faster than inflation and my assets remain intact, my \$1 million must be able to sustain me for as long as I live, and then I can pass the portfolio on to my heirs.

With this strategy, my SMSF portfolio generates about 15% total return, comprised of 7% income and about 8% average growth. Why retail super funds can only generate 8% income and growth before inflation is certainly a puzzle.

There is no doubt that the market value of my portfolio will be volatile but my income depends on dividends, not prices. Unlike a retail super

fund where each pension payment is the sale of assets (units) at current prices, my income depends on earnings, not sales. Volatility is not a risk I need to manage and therefore I can afford to hold a less conservative portfolio than would be required if I was in a retail super fund that depends on the sale price of assets for each pension payment.

There are fluctuations in dividend payments, of course but dividends are far less volatile than share prices. During the GFC the All Ordinaries (share prices) fell by more than 50% but the dividends across the whole market fell by only 22%. Some companies were more resilient than that. For example, CBA fell by only 14% and Woolworths and Coca Cola actually increased their dividends. For this reason we hold a cash buffer of up to 3 years forward pension payments in cash to smooth out the volatility in dividends.

Clearly, if I am not paying exorbitant fees to fund managers, and I am not required to hold a conservative portfolio to safeguard me against the volatility introduced by the active trading of my fund manager who was recommended by my adviser, my \$1 million is sufficient to sustain me forever, or at least until the minimum pension payments exceed the income produced by the SMSF.

At age 85 I can sell some shares to satisfy the minimum pension requirement and with that cash repurchase them in another ownership vehicle and the dividend stream continues as before. Eventually, at age 120, the increasing minimum pension payments will remove all my money from the SMSF and ensure that the income from the portfolio is then taxed normally.

The tax is higher outside super, so my income then is lower. Given that the growth in income from dividends has exceeded inflation for 25 years there should still be more than adequate income and I should still not need to sacrifice capital to pay for living costs.

My point is that with sufficient income, I can sit out any downturn, so falling share prices have no effect on my investment strategy and anyway my income depends on company profits and dividends, not prices. As long as I am not selling any assets, volatility is not a risk I need to manage. The risks to my income security, however, are managed very carefully.

New editor profile

We have no "Us and Our Portfolio" segment for this edition, so I take this opportunity to introduce myself as the new editor.

Before retirement I was a school principal. I retired in 2008 (at the beginning of the GFC) and established a SMSF to pay ourselves a retirement income stream. I was a guest presenter at the AIA seminar in November 2010 on Asset Allocation Strategies in which I was asked to discuss "How I would invest \$1m in my SMSF". It is clear from the presentation that is available from the AIA website, that I am a keen supporter of the idea of using Australian Blue Chip shares inside my SMSF for income. I am confident of the long term growth of shares but for me a more important reason for owning shares is the growing income stream they produce which is an ideal hedge against inflation and therefore longevity risk – the risk that I run out of money.

I was appointed guest contributor to the Superguide website (superguide.com.au) in December 2011 in their "Soap Box". This site offers comprehensive information about superannuation and the author, Trish Power, had written a series of articles on how much super was required for a comfortable retirement. She said that \$1 million was not enough super to retire on and that maybe even \$2 million was not enough. I disagreed because I am convinced that with the income produced by my strategy, \$1 million is enough. Here are my comments about that strategy.

Calendar of events

Date	Event	Time	Venue	Topic
20th Jun 2012	Gold Coast Information Meeting	9.30-11.30am	Robina Community Centre, Conference Room, 196 Robina Town Centre Dve, Robina	Investing in ASX listed Securities in a global context
20 Jun 2012	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help Street, Chatswood	Building an income stock portfolio
02 Jul 2012	Canberra Information Meeting	7.30-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	Shares discussion group
03 Jul 2012	Adelaide Information Meeting	7.00-9.00pm	German Club, 223 Flinders St, Adelaide, (Wolf Blass Weinkeller Room)	Investing in ASX listed Securities in a global context
03 Jul 2012	Perth Information Meeting	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah Street, Wembley Downs	TBA
04 Jul 2012	Brisbane Information Meeting	1.30-3.45pm	Broncos Leagues Club, Fulcher Rd, Red Hill	Using value investing for shares
18 Jul 2012	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help Street, Chatswood	Specialised commodities – Rare earths and high-value metals
29 Jul 2012	AIA National Investors Conference	29 Jul-1 Aug12	Surfers Paradise Marriott Resort, 158 Ferny Avenue, Surfers Paradise	Investing strategies for all markets
29 Jul 2012	Gold Coast Seminar	10.00-4.30pm	Surfers Paradise Marriott Resort, 158 Ferny Avenue, Surfers Paradise	An introduction to investing in the Share Market
06 Aug 2012	Canberra Information Meeting	7.30-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	Shares discussion group
07 Aug 2012	Adelaide Information Meeting	7.00-9.00pm	German Club, 223 Flinders St, Adelaide, (Wolf Blass Weinkeller Room)	TBA
07 Aug 2012	Perth Information Meeting	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah Street, Wembley Downs	Australian and world economic update
08 Aug 2012	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help Street, Chatswood	EFTs
09 Aug 2012	Brisbane Information Meeting	6.30-9.00pm	Broncos Leagues Club, Fulcher Rd, Red Hill	Update on the property market
14 Aug 2012	Melbourne Information Meeting	1.00-3.30pm	Telstra Conference Centre, R1, L1, 242 Exhibition Street, Melbourne	TBA
22 Aug 2012	Gold Coast Information Meeting	9.30-11.30am	Robina Community Centre, Conference Room, 196 Robina Town Centre Dve, Robina	TBA
03 Sep 2012	Canberra Information Meeting	7.30-9.30pm	Southern Cross Club, Woden (Check room allocation in foyer)	Shares discussion group
04 Sep 2012	Adelaide Information Meeting	7.00-9.00pm	German Club, 223 Flinders St, Adelaide, (Wolf Blass Weinkeller Room)	TBA
04 Sep 2012	Perth Information Meeting	7.30-9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah Street, Wembley Downs	TBA
05 Sep 2012	Brisbane Information Meeting	1.30-3.45pm	Broncos Leagues Club, Fulcher Rd, Red Hill	TBA
12 Sep 2012	North Shore Information Meeting	7.00-9.30pm	The Chatswood Club, 11 Help Street, Chatswood	Exchange - traded options for income & hedging

As AIA events are confirmed details are posted to the AIA website www.investors.asn.au. Please note topic is subject to change.

Trading & Investing Seminars & Expo

The AIA will be participating in both the Sydney (20-21 July) and Melbourne (5-6 October) Trading and Investing Expos, giving us a great opportunity to promote the AIA. We will be calling for volunteers in the coming weeks. It will be fun and social and, importantly, provide a wonderful opportunity to promote the AIA. If you are interested call 1300 555 061 and speak to Donna.



**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.

Contact

PO Box 7439, Gold Coast MC Qld 9726
Telephone 1300 555 061 • Facsimile (07) 5538 8376
Email aia@investors.asn.au • Website www.investors.asn.au

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