the INVESTORS voice
Newsletter of the Australian Investors Association - *Investors helping Investors*

March2013

Is it a Bull Market?

SMSF
MicroCaps
Commodities

AUSTRALIAN INVESTORS ASSOCIATION
T | 1300 555 061
www.investors.asn.au

In This Issue >>

The dogs are barking that it's a bull market - but what do dogs know?

By John Abernethy, Clime Investment Management

The brain-numbing feature of most recent commentary by stock market analysts in the financial press is their barking claim that we have commenced a new bull market. Are the dogs rounding up the sheep to move into a greener pasture or are they heading them for the shearing shed?

Their commentary has three key features:

• It is bereft of earnings analysis that would support rising share prices. There is no forecast of growing forward earnings and dividends;
• It does not acknowledge the extraordinary and unsustainable economic policy settings represented by quantitative easing (QE) across 4 major economies. It therefore ignores the possibilities of what might happen should QE cease; and
• It is in stark contrast to the gloomy commentaries of many of the same people just a mere 9 months ago, as parts of Europe were feared to moving towards default. Many who are bullish today were decidedly bearish when share prices were falling.

Right now it is easy to point to share price rises and claim that the market has suddenly moved into a new upwards price cycle. Whilst it is true that the commencement of a bull market always starts in the doom or gloom of recession – "it is always darkest before dawn", it is also true that sustainable bull markets can only occur through a positive economic cycle. Markets will rally hard in response to a perception of rising profits and fall if earnings growth does not become a reality. Importantly earnings growth is highly leveraged to economic growth and so a solid growing economy is what we must observe before we join in this "greyhound" race.

So are we experiencing the commencement of a bull market cycle? Or is the market merely recovering from an oversold position?

To examine this issue we present the following table that has calculated the intrinsic value (IV) of some of our preferred stocks (as presented in the Eureka Growth Model Portfolio) for 2013 and 2014, based on **market consensus earnings.** In calculating IV we have adopted slightly 'lower' required returns (RR's) then what appears in MyClime. In doing so we are acknowledging the rally in Australian bonds that currently yield 3.5% (ten years).

The decision to lower the RR's in this analysis is consistent with the observation that investor risk appetite has increased against the backdrop of a rising bond market. Lower RR's are commonly associated with price earnings ratios (PER) that rise on the perception of future growth in earnings emerging from either a recession or a period of lower growth. Remember the market is always looking forward and a lift in confidence may see the market in general or commission agents (brokers) to perceive or imagine growing earnings. With lower interest rates and renewed confidence for the world economy, then PERs will rise to capture the likely earnings growth. However, there is always the risk that investors will overpay and so at Clime we strongly rely on IV as a rational and stable approach to continually assess value.

To derive a valuation we have projected forward and added the 2013 IV to the 2014 IV. We then divide this by 2 (to derive a midpoint) and look for a 10% margin of safety against the midpoint. This becomes a potential buy price (and fair value) for investors taking a long term investment view, assuming the maintenance of low interest rates and the achievement of market consensus earnings growth.

The Eureka Growth Model Portfolio (1st Feb 2013)

Code	RR	Price	FY13 Value	FY14 Value	Midpoint less 10%	Discount from Midpoint
BHP	12.5%	37.97	45.11	51.04	43.27	13.95%
CBA	11.0%	64.9	68.77	71.54	63.13	-2.71%
WBC	11.0%	28.14	31.97	32.86	29.17	3.67%
BKL	13.0%	34.48	32.62	35.95	30.85	-10.51%
WOW	11.0%	31.57	34.31	37.56	32.34	2.44%
IRE	12.0%	8.54	7.62	8.16	7.10	-16.85%
TRS	13.5%	15.72	15.52	18.1	15.12	-3.76%
BKW	12.5%	12.58	13.06	13.46	11.93	-5.14%
MMS	13.0%	13.98	15.11	17.32	14.59	4.39%
MIN	14.0%	10.3	12.63	13.9	11.93	15.91%
RIO	12.0%	68.13	68.88	79.92	66.96	-1.72%
FLT	12.5%	30.94	29.92	33.19	28.40	-8.21%

What this analysis shows is that there is only a small margin of safety at present, against our derived IV, for most of the preferred stocks.

Let's break them up into 3 categories:

• **Best value** with margin of safety to buy now being MIN, BHP, MMS, WBC and WOW;
• **In value against 2014 IV** but insufficient margin of safety being CBA, BKL, TRS, BKW, RIO and FLT; and
• **Exceeds 2014 IV** estimate: IRE.

So following a 20% rise in the Australian equity market since 30 June 2012, this analysis suggests that the market is now approaching fair value from a longer term investment perspective. Importantly there is not the rampant market overvaluation as witnessed in 2007 and the best value appears to be offered in resource related stocks.

By way of example of what may lay ahead, we derived an IV of $55.64 (as above) for Cochlear (COH) using market forecasts. COH was trading at a remarkable $82 before its results and has fallen by $12 per share in the aftermarket and this appears absolutely justifiable.

Code	RR	Price	FY13 Value	FY14 Value	Midpoint less 10%	Discount from Midpoint
COH	11%	72.96	60.45	63.19	55.64	-23.74%

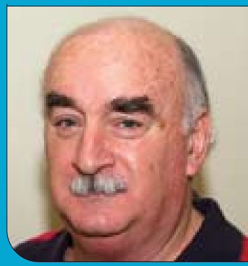
Source: MyClime (Feb 6th 2013)

In conclusion the crucial thing to remember in the above analysis is that market prices of shares may go much higher. If they do in a vacuum of earnings increases, then it will be the result of lower RR's. This is an explainable but a perverse trend that is a direct result of QE and its affect on bond yields (the risk free rate). So from now on it is important to monitor bond yields and particularly given our view that inflation is a serious risk in 2014/15. Nothing about the current world economic settings is sustainable in our view. Therefore investors must look ahead of the market, derive true value and not listen to the barking dogs.

John Abernethy is Chief Investment Officer at Clime Asset Management (www.clime.com.au). The valuations are taken from Clime's stock valuation and reporting service MyClime. A FREE 14 day trial and member discounts are available for AIA members. (www.clime.com.au/aia)
The views expressed in this article are the author's alone. They should not be otherwise attributed.

President's Message

By Bill Shirley



From the Desk of the President

Happy New Year! On behalf of the board we hope you had an enjoyable and relaxing festive season with family and friends.

We are pleased to be commencing the 2013 year following an active preceding year, which has seen us continue delivering a range of products and platforms that assist you with your private investing across many industry sectors.

It seems we may have an interesting period in the coming months, with the big questions being in which direction the interest, equities & real estate markets travel.

Market Direction – Equities - Some broad figures to consider; during 2012 and the early part of 2013 the ASX 300 growth rate was in the region of plus 12%. Also, if the upward trend to date in 2013 is taken into account a further figure of around 8.00% is achieved, making an approximate total of around 20% over thirteen and a half months – Interesting!
(Note – These figures do not include dividends or franking credits, the actual figure will depend on your investment mix, as well as the investment platforms you are using, however the total could be in the low to middle twenties)

Not a bad financial result.

However, I would like to suggest a word of caution in relation to this recent upward trend. Recently and large Australian based Newspaper tabled a set of forecasts via a survey by 23 industry experts in the areas of Market Economists, Academics, Consultants as well some Industry Sector experts. The results tendered make some fascinating reading, I find one of the areas tabled in the statistics very challenging, this being the ASX 200 figures, the average forecasts to the 30th June 2013 were 4627, and to the 31st December 2013 were 4827. At the time of constructing this text the market was already at 5034, well ahead of the above figures.
I leave it you to consider what these figures may mean, however I think a review needs to be made in relation to your portfolio tactical strategy approach for the balance of 2013.

Thus, something to ponder on in reference to your possible approach, in reference to the above information - I think.

AIA happenings for 2013

Webinars – By the time you read this document our first activity in this area will have been completed, we hope to run up to five more during this year.

Events – All our events for each State are now loaded up on the Website for you to review. These events cover Discussion Groups, Information Meetings, Webinairs, as well a half & one day Seminars, quite a program.

Managed Funds Report – This report is available in digital or hard copy format for those that are interested in this vast sector, use of the data should reduce your research time in this area. (Check with the office for details)

2013 - Annual Conference – Gold Coast - The planning committee has nearly completed the planning tasks for this major AIA event. Early rumours tell me that there will be some new additions this year in the areas of Life Planning, Aging Issues as well Social Life Styles when retired – should be interesting and I look forward to reviewing the exact details.

Investing Systems Part I Introduction

By Lee M. Spano, Private Investor and Trader
AIA Member

Investing or trading systems are the key to long term consistency and success. Systems are used by the industry and professionals, yet for most investors this is an area where it is difficult to find solid, reliable information. Many of us are confronted with too much information and misinformation, be it fundamental data, technical entries or set ups, or conflicting idle opinion or market commentary. It is difficult to find advice on how to build and manage a robust trading or investing system and how to personalise such a system to our specific objectives, psychology and circumstances. In this two part series, I will attempt to fill this gap by providing solid principles for both traders and investors, which can be applied across different markets.

Background

When most investors hear about 'systems' they automatically think about complex algorithms often used in trading 'robots'. Many believe that developing systems requires many years of experience and some special insights into workings of financial markets. Not so. Many very successful traders or investors have built and managed a system just with a solid understanding of their personal objectives and the markets in which they deeply specialise. Often these traders or investors, such as Jesse Livermore, Dickson Watts, Richard Donchian, and of course Richard Dennis, started from humble beginnings. They approached the markets in a systematic and independent fashion. They did not rely on intuition or gut feeling. They did not heed the advice of any 'expert', they built a solid, tested system which was used successfully for many years.

What is a trading or investing or 'system'?

An investing or trading system is essentially a set of objective rules or guidelines one follows consistently. It will often take the form of your Trading / Investing Plan. This can take many forms, but I have found a succinct, simple checklist in my Trading Plan works best. The Trading Plan sits alongside my Trading Journal. These documents create a business-like environment and importantly, they facilitate daily discipline.

It is important for the rules to be objective and relatively simple. Particularly, for chartists, do not clutter your plan with complex rules, too many, often lagging indicators. In some areas, there are guidelines which are not mandatory rules, but discretionary guidelines. Thus, my systems approach to investing is a hybrid approach – it is mainly according to a strict set of rule, with some discretionary elements.

Why do we need a system?

We read everywhere in business and investing- if you fail to plan, you plan to fail. Yet it is surprising how many investors or traders still do not have a written plan outlining their approach and the criteria required before they buy or sell. Why? Many factors are possible, but two factors are crucial. First, people need to ensure they deal with over-information and misinformation from both online and offline sources. Too much information prevents us from taking solid action. Second, investors simply have yet to take the time to deeply study one or two key markets in which they wish to participate. We all want a short-cut. We want an 'expert' to do it for us. The paradox is we must identify our own circumstances, psychology and objectives first, and then build a suitable system for execution. All of this takes time and perseverance.

Paradoxically, a personalised system itself creates discipline, comfort, confidence, and importantly consistency over the long term, thereby reducing reliance on "experts". Without a consistent approach, the results cannot be tested, there are no criteria to evaluate, and no benchmark to reach. As noted above some of the most successful traders and investors have realised this and then developed systems to suit their specific objectives.

What types of systems are there?

Most systems can be viewed along a continuum. At one extreme there are purely discretionary traders or investors who rely upon intuition, gut feel, or rumour to enter or exit a market. At the other extreme there are purely mechanical traders or investor who usually will rely on clear signals to enter or exit a market. As I mentioned earlier, I am hybrid trader and investor. As I specialise in FX and selected commodities markets, I have found this balance works best, because these are dynamic global markets.

How do we start to build a personalised system?

I will expand on this in the second part of this article, however to begin, the following preliminary questions are important to answer:

- Personal Particulars. Identify clearly elements of your psychology; eg. risk tolerance; your objective eg. capital growth and/or income generation, and specific circumstances, eg. how much time you have to trade, what are the best times, capital available - initially and on an ongoing basis.
- Markets. Identify one or two markets you which to specialise in and understand why. Does the chosen market fit your objectives, circumstances and psychology? For example, if you want a defensive dividend strategy, high yielding ASX (defensive) stocks might be appropriate.
- Instruments. Identify which instrument/s do you wish to use and why. These may include, stocks, options, CFDs, FX, or specific combinations.
- Methodology. Identify your preferred trading or investing methodology or strategy. Examples include trend, swing, break-out, contrarian, or statistical / time based methodology.
- Time-Frame. Clarify your time-frame for applying your methodology? For example, do you wish to use a trend system where investments are held weekly or fortnightly in specific FX markets?

These foundational questions apply to new traders or investors as well as experienced ones. Too often after a few years we just assume these questions have been answered in the past. However circumstances and markets change. So do you. These answers need to be reviewed regularly, just like your Trading Plan. In the second part of this article, we will take this foundation further, and outline the key components of an effective, robust trading or investing system.

Lee M. Spano is a Private Investor and Trader and AIA Member.

Three reasons not to use your SMSF to buy residential property

By Daryl Wilson

Recent warnings by financial regulators have highlighted that claimed benefits from investing in residential property through SMSFs may be too good to be true. Cromwell Director Daryl Wilson discusses the issues.

The strategy of making geared investments in residential property through SMSFs is a relatively recent one, having only been legalised in 2007. Since then, its popularity has exploded, with the Australian Tax Office reporting that in the December quarter 2011, the holdings of residential property within SMSF were $14.2 billion, up from $10.8 billion in 2008.

In November this year, the ATO took the significant step of publicly warning self-managed superannuation fund trustees to be cautious when investing in direct property.

Acting Commissioner Bruce Quigley said he was concerned that some people were using their SMSFs to invest in property without fully understanding their obligations under the law. He said others were seeking to take advantage of certain types of arrangements to get around the law. As a result some fund's trustees face being disqualification, civil penalties or even criminal charges.

This warning is even more significant because, just a week earlier, the Australian Securities & Investments Commission (ASIC) revealed it was undertaking surveillance of some financial advisers and accountants over concerns that property spruikers were encouraging investors to set up self-managed super funds purely as vehicles for what it termed "dodgy" property investments.

When two of Australia's key regulators are ringing the alarm about a certain investment practice, I think prudent investors should take a very long look before they consider getting involved.

There is only one attraction to investing in residential property through an SMSF structure rather than outside it and it is to minimise tax.

Like taxes on other investments undertaken through a SMSF, capital gains and rent earned on a residential property are taxed at only 15 per cent and if the property is held for more than a year, this drops to 10 per cent on capital gains. If the property is backing the payment of a superannuation pension, no CGT is payable by the super fund when it is sold. For this reason, a popular strategy is to wait until the pension phase before selling the property. So far so good. However, there are also some serious reasons why investing in residential property through a SMSF can be a bad decision.

• Lack of diversification

For most people the tax savings can only be achieved by ignoring one of the cardinal rules of sound investment - diversification. The average super fund is simply not large enough to remain diversified while directly owning a residential property. Most Australians own their own homes and these investors are already hugely overweight towards residential property. A homeowner who increases their overweight allocation to residential property by acquiring more of the same asset through their SMSF is not constructing a prudently diversified investment portfolio but is instead taking a huge punt on the residential property market.

• Market risk

No-one can forecast with confidence the future of the residential property market, but among the objective market analysts, caution reigns. Opinion is largely divided between whether the market will decline, tread water, or appreciate very slowly for at least five years. People predicting a boom or a guaranteed profit are more likely to be the spruikers our regulators are worried about. With capital gains anticipated to be modest, and average gross rental yield for houses across Australia standing at a meagre 4.3% according to RP Data-Rismark, it is hard to make case for a huge overweight allocation by SMSFs.

• Complexity

A further downside of investing in property through a SMSF is the sheer added complexity required to realise the available tax benefits. For a start, the asset can't actually be held by the super fund, it needs to be held by a special purpose debt instalment trust (or bare trust) until it is owned outright.

Daryl Wilson is director of funds management at Cromwell Property Group

Finding exceptional companies Eight techniques to help you find the market's best businesses.

By Roger Montgomery

First, the bad news: the Australian share market is littered with unexceptional companies that destroy shareholder funds or earn an insufficient return on them. Nine out of every ten ASX-listed companies are not even close to being "exceptional".

Surprisingly, from a universe of 2188 listed securities, fully one third of businesses in the last financial year failed to generate a profit of more than $1. The good news is that weeding out all the unexceptional companies, leaves a much smaller, manageable universe to investigate.

Watch any investment or finance TV program and by the end of the week, you will be thoroughly confused by the range of conflicting opinions on offer. This adds little to our understanding of the share market. Moreover, purchasing shares on the hope there will be capital gain, is no different from betting on red or black at the casino.

These people may be knowledgeable, but that knowledge does not make them great investors, because their knowledge is focused on economic and market trends. For us what ultimately matters is buying an exceptional business at a bargain price.

Clearly, the sharemarket contains many speculative companies yet to make profit. Some may become exceptional and handsomely reward shareholders, but theyare "exceptional" only when they meet my definition. It includes little or no debt, high and preferably rising return on equity (ROE) and a competitive advantage with bright prospects for both the business and intrinsic value growth. These eight techniques will help you find the best:

1. Narrow your search

Using my share preferred valuation tool, Skaffold.com, I ran a number of screens. It gives each listed company one of 15 quality ratings, from A1 to C5, to assess the return needed to compensate for risk. I focused on those with an A1 or A2 Quality Score. The screen rendered just 115 companies, and of those, 91 were currently trading above my estimate of Intrinsic value.
I then ran a "Return on Equity" screen to find all companies that had generated a greater than 15 per cent. Only 226 of the ASX-listed companies qualified. Remarkably, only 164 companies (with a market capitalisation greater than $300 million) had a score of A1 to B2, which is the preferred range for company quality. Only 47 companies from the entire sharemarket achieved the cherished A1 rating.

A good database can drastically narrow the search for exceptional companies, provides more time to investigate the right stocks, and stops the fruitless search for unexceptional companies.

You may be concerned that by narrowing the field so much, you will miss opportunities elsewhere. You will miss opportunities but your job is not be an expert at everything. You don't need to know everything to do well at something. "You won't run out of opportunities. But if you swing too often and miss, you will run out of money."

2. Focus on the industry

It is hard to find exceptional companies in terrible industries. Airlines worldwide have a terrible reputation for destroying shareholder funds, yet investors continue to buy these stocks, even though the odds are stacked again them.
You can find exceptional companies in unattractive industries, small telcos, such as Bigair Group and M2 Telecommunications Group are obvious examples, but you're more likely to find exceptional companies in attractive industries, so think about the bigger picture.

3. Stick to the numbers and have a system

Let the numbers identify truly exceptional companies. Don't rely on a broking report or newspaper story. It is important to have a system that ranks all companies using a consistent methodology and keeps emotion and market noise out of investment decisions.

Focus first on return on equity ROE – a deceptively powerful metric and much more important than a company's reported profit. What matters most is the return that profit is generating on each dollar of shareholder funds.

Look for companies with a record – preferably five to 10 years – of consistently high (at least 15 per cent) and rising ROE, and the potential to lift this further in coming years. Quite simply, companies with rising ROE earn more on each dollar of shareholder funds invested. Typically, they can grow quickly without having to raise debt or issue new stock that dilutes your ownership. Their retained earnings enjoy compound growth which raises the company's intrinsic or true value.

4. Sustainable competitive advantage

Understand what is it about this company that is hard for competitors to replicate. This is the key to a genuine, sustainable competitive advantage, or "economic moat", as some call it. But it's pointless having a competitive advantage if it is only temporary.

Sustained competitive advantage takes many different forms. For example, Woolworths' competitive advantage is its scale. With growing size it becomes more efficient through purchasing power and lower fixed costs. This allows lower prices while maintaining profit margins. Seek's competitive advantage is its user network. As more people use Seek to find jobs, more advertisers use the company to reach them, and so more people are compelled to us it.
Other sustainable competitive advantages might be based around intellectual property, goodwill, corporate culture and networks, site locations or balance-sheet strength.

5. Pricing power

Warren Buffett believes pricing power can be more important for a company than good management. Pricing power is the most valuable sustainable competitive advantage and a hallmark of exceptional companies. By contrast, commoditized industries as price takers, lack pricing power and should be avoided. The ability to raise prices can be a key driver of sustained high ROE.

6. A bag of tricks

Unexceptional companies have a few telltale signs. Poor companies raise capital to pay down debt, and thereby generate an insufficient rate of return, or they have too much debt or raise equity capital at the wrong price. Exceptional companies typically have low debt, retain more earnings because they achieve high rates of return, and will buy back shares when they fall too far below the company's intrinsic value to reduce the number issued. Both strategies further enhance the return on shareholders' equity.

7. The board

The market arguably focuses too much on the "star quality" of the chief executive and not enough on the board. The board's most important job is to choose the right CEO, provide incentives and monitor their performance. Usually, an exceptional company has an exceptional board. Such a board has a strong chairman, a good mix of governance and industry skills, continuity, and clear evidence that directors take their responsibilities seriously.
As investors we need to think carefully about who is managing the managers – the board!

8. Ethics

The final point goes hand in hand with board quality. Exceptional boards ensure all shareholders are treated equally. Such boards invest shareholder funds as they would their own, and have directors who always put shareholder interests ahead of their own.
To assess ethics, read the company's corporate social responsibility report, if it has one. It should be more than just marketing spin. Read the annual report to check the company does what it says it will each year.

Roger Montgomery is founder and chief investment officer of Montgomery Investment Management.

The access you need

We provide investors with access to a wide range of ASX listed bluechip shares and exchange traded funds through an instalment warrant structure (which can be suitable for SMSFs).

RBS Investor Products

Instalment warrants are one of the few products that allow investors who are SMSFs to obtain the benefits of gearing. This is due to the limited recourse nature of the borrowing associated with instalment warrants.

Apart from the benefits associated with gearing, interest deductions and enhanced franking credits generated by instalment warrants can be used to reduce earnings and contributions tax liabilities payable by SMSFs. SMSFs can also potentially enhance returns using instalment warrants due to the high level of franking credits generated by geared shares in a low tax vehicle*.

Multiple Solutions

RBS Investor Products Platform covers 2000 products/warrants listed on the ASX with different underlying assets giving access to Australian shares, international shares and managed funds.

Speak to RBS about our Multi-Asset Investor Products.
Log on to **www.rbs.com.au/markets** or call **1800 450 005**

RBS™

Issuer: The Royal Bank of Scotland plc (ABN 30 101 464 528, AFSL 241114)

What happens when SMSF trustees don't agree?

By David Oon, DBA Lawyers

Abstract: A recent NSW Supreme Court case highlights the importance of appropriate trustee combinations as well as strategic mechanisms that assist when trustees don't agree

Often the last thing most new SMSF trustees consider is what might happen years down the track when fellow trustees fail to agree. Unfortunately, a number of things can sometimes go wrong with an SMSF's management. This article considers several thorny issues and a number of preventative steps.

Unwise combinations in the office of trustee — Notaras v Notaras

Often, as two or more people's affairs intermingle (usually because they are family or business partners), the natural desire may be to start an SMSF to act as a vehicle to hold assets such as real property. No relationship is immune from conflict and some combinations of trustees are more unwise than others. This is well illustrated by a recent New South Wales Supreme Court decision of Notaras v Notaras.

The facts of Notaras case revolve around an unfortunate dispute between two brothers. The plaintiff (Basil) was the brother of the defendant (Brinos). Both were the only trustees and members of an SMSF. By 2011, relations between the two had soured over a separate property dispute that also reached the Supreme Court of New South Wales, which was decided in favour of Basil.

In December 2010, Brinos had made withdrawals of from the SMSF's bank accounts that exceeded his entitlement as a member. The SMSF's accountant (who was also Basil's wife), subsequently sent documents to Brinos requiring his signature. Brinos returned the documents without signing them. While the judge in the case did not explicitly find that Brinos refused to sign them, his Honour found that the trustees of the Fund had put themselves in breach of the Act.

Basil sought a court order that Brinos be removed as a trustee and replaced with a company, Bazport, which had Basil as the sole director and shareholder. The order was granted. This was unusual because the trustees of the Fund would become both Basil, as well as his sole-director company Bazport. Because his Honour still considered Brinos to be a member despite his 'nominal interest', his Honour noted that Basil and Bazport would seek from the ATO an exemption from the relevant section of the Superannuation Industry (Supervision) Act 1993 that requires that each member of a SMSF is a trustee or a director of the corporate trustee.

The outcome of Basil's request to the ATO is unlikely to be made public but it is quite certain that the exercise of resolving the dispute via the Supreme Court was likely to have been time-consuming and quite costly.

The case highlights that one should think carefully before starting an SMSF along with a family member, especially where there are shared business interests. Further, there are other relationships that may present a higher degree of risk that a dispute will arise. These include: SMSFS with parent and children, with in-laws and shared between business associates.

Decision making — must it be unanimous?

There is a general law principle that, where joint trustees are appointed, they must act unanimously. This was affirmed by Kaye J in Beath v Kousal [2010] VSC 24 [18] (12 February 2010). In effect, it is nearly impossible to make decisions if joint trustees do not agree. However, this general position can be modified by the governing rules (usually annexed to the trust deed) providing that decisions can be made in some other manner. For example, deadlocks in trustee decisions could be broken if the trust deed provides that votes are weighted according to each member's balance. Not all governing rules will allow this.

Removal of a trustee

Can the trustee of a SMSF be removed, other than by a court? In order to avoid a costly court process and likely time delays, a properly drafted trust deed and governing rules can provide for a procedure by which a trustee can be removed, and a new one appointed. An appropriate process may be that the member or members who have greater than half the total account balance are able to appoint a new trustee and remove an existing one. Again, many deeds will not provide for this.

The governing rules also determine whether the power to hire and fire a trustee (ie, the appointer power) comes with fiduciary obligations attached, such as the obligation to exercise the power in good faith (Berger v Lysteron Pty Ltd [2012] VSC 95). Unless the rules provide that the power does not have to be exercised in good faith, the decision to remove and appoint a trustee may be subject to attack on various grounds.
Accordingly, governing rules should ensure that the appointer power can be exercised without associated fiduciary duties (these duties would be similar to those of a trustee). Few governing rules will provide for this.

Forcibly removing a member

A trustee who cannot agree with fellow trustees is also likely to be a member of the SMSF. This individual may not reply to correspondence and may generally refuse to participate in management of the SMSF. The question then arises: is it possible to forcibly remove the person as a member?

The governing rules may provide for a mechanism to remove a member. However, the larger hurdle is the requirements under the regulations, where, broadly, prior consent of the member to be removed is required. This may be impossible to obtain where there is a dispute.

A strategy for SMSFs to consider to overcome this potential impasse is for the member with the larger account balance to obtain a prior signed consent from the other member (in their capacity as both trustee and member) that, upon the occurrence of certain events such as, disagreement about a material SMSF decision, relationship breakdown or legal dispute, the trustee can remove the other member from the fund and transfer their benefit to another complying superannuation fund.

Another option for a person 'stuck' in an SMSF with a trustee/member who will not cooperate is to remove themselves from that fund (and roll over funds into another fund). However, legally and sometimes practically, this itself may require the consent of the other trustees (for example, authority to deal with the bank).

Conclusion

The problem of an uncooperative trustee can prove extremely difficult due to the law of trusts, as well as laws protecting the interest of members of superannuation funds. This can be made more difficult by documents that do not confer strategic powers. A wise initial step, then, is to consider carefully with whom you share your SMSF.

Further, strategically drafted trust deeds and governing rules, as well as good initial planning, can assist to cure problems, or possibly, prevent them.
Lastly, for those who are already part of an SMSF, it worth considering whether a restructure of the current structure would be worthwhile.

This article is for general information only and should not be relied upon without first seeking advice from an appropriately qualified professional.

By David Oon (doon@dbalawyers.com.au), Lawyer, and Daniel Butler (dbutler@dbalawyers.com.au), Director, DBA Lawyers

A Small SMSF – Defying the norms

By Graham Wright

Are you like my wife and I – small investors, SMSF Trustees managing a fund with a capital base of less than half a million dollars?

According to the experts, our fund's capital base is almost too low to be viable. Fortunately, we have a stockbroker, an accountant and a financial planner who are willing to support us. We have access a broad range of knowledge about SMSF administration and investing and we access a lot of research material that suits our needs. With tidy administration, we can minimise our costs. The GFC was a life-shaping experience leading us to become more responsible for the decision-making in our investing and administration. Now, every day is a learning experience.

Knowledge and hard work are the keys to success. We have redefined how we will be conservative in our investing. Instead of avoiding risks, we want to manage risks. Time in the market is our greatest risk so we try to take adequate profits in the shortest time possible, choosing when to enter the market and choosing when to exit the market with the in-market time as short as possible. Cash that is not in the market earns Cash Management Account interest rates or term deposit rates. Research and monitoring are the essential hard work as we look for the catalysts that will cause prices of our stocks to rise or fall.

Of course when markets stabilise (a fond hope) with less volatility, we will review our strategy and risk assessment. "Buy and Hold" may again become the suitable strategy.

With our current assets, primarily SMSF funds, my wife and I are eligible for portion of the Aged Pension. When this is added to our SMSF pensions, we can have an income at least equal to or better than my career weekly income, so we are at least maintaining our standard of living. It is of great benefit to understand the Centrelink pension's assessment system so that we can to some extent manage our annual incomes with consideration for our returns on our investments.

We are told that we need our investments to return around 8% to cover costs plus inflation. What we really need is the best returns we can afford to get within our risk management strategies. We need absolute dollars. Investment plans cannot be considered in isolation from the pensions and lifestyles they fund. So we have a lifestyle plan, at least mentally. We know what we would like to fund for the next year and set a funding target. We know that if we exceed that target we can leave the excess in the pension funds. If we fail to reach that target, we know what we can remove from our lifestyle, cruises or short holidays, and other non-essentials that could we could forego.

With this strategy, we are mentally prepared for whatever the market offers us. There are no surprises. We know what is happening in our lives and we adjust accordingly. If we did not have a fall-back plan, we risk being deprived of something we want in our lifestyle. Losing something we like is bad enough but losing it unexpectedly and without preparation hurts a lot more. We are prepared for the worst while working for the best.

Once we know how many dollars we need to earn for the next year's pensions, we can set about earning them. We can develop our investment strategy and risk management with these dollars as the objective. We know how we can deal with excess or deficient returns and we have an idea of the risk we can afford to take. Since we are targeting the dollars we need for our living costs, we don't need to compare our performance against any performance standard, only our objective. We focus on our objective without the distraction of wondering if we are performing to somebody else's standards.

When it comes to investing to get our dollars, Risk Management is the core consideration. We need to preserve our capital to grow future pensions. Our minimum pension requirements can be met by bonds and hybrids with tight household budgeting but cruise holidays are not possible. Equities can achieve our needs but with greater risk of losing capital. A combination can provide a greater degree of safety and a degree of aggression to give an overall conservative approach to achieving our objective. We now maintain a base of capital in Cash or term deposit and some equities.

The driving investment influence now is the belief that time in the equities market is high risk. We need the flexibility to enter and exit the market as we continually assess our investment position.

Preserving capital means entering and leaving the market when a profit is envisaged. We do not cry over missed opportunities or missed profits, we just learn from our experience and look for the next opportunity.

We have another guideline of trying to invest only in companies or industries we understand. I have had a lot of exposure to to engineering, construction and electrical industries and we lived in a coal-mining town for some 6 years. My wife shops every week and sees the retail industry in action. These experiences allow us to add a lot of practical knowledge to the fundamental research that is normally available. We are living and feeling the local economy and understand the intricacies of our investments in action.

Because we have a small fund, we have to work hard to make our capital work hard. It requires constant research, constant monitoring and flexibility. We invest in what we know and understand. We accept responsibility for our actions and believe in ourselves. We learn from our experiences so that we can make better decisions in the future. We don't cry over what might have been, just look forward to what could be.

With our small fund we can and will succeed despite what the experts think about small funds.

Graham Wright is an SMSF Trustee & AIA member.
The views expressed in this article are the author's alone. They should not be otherwise attributed.

Commodities Due For An Upside Surprise

By Rudi Filapek-Vandyck, Editor FNArena

There's so much more to commodities than initially meets the eye. Bullish market commentators (and there's never a shortage of those) are glaringly pointing at the sharp run-up in share prices since mid-last year with BHP Billiton ((BHP)) shares, for example, running from close to $30 to above $38 by mid-February; a gain of some 26% in less than three quarters of a year. On an annual comparison, however, most share prices in the sector have still only posted modest gains.

This relative underperformance, it must be noted, is in contrast to the changes that are taking place inside the global community of commodities experts, with analysts suggesting the bias is now likely to the upside for the months ahead. This suggests the sector has some catching up to do, going forwards.

What has restrained investor enthusiasm, outside of the surprise delivered by Chinese spot prices for iron ore, is the widespread anticipation that supply has begun to catch up with demand for many raw materials. Price projections for rare earths, silver, uranium, thermal coal and nickel, for example, are still falling and none of them started 2013 with lots of exuberant optimism in the first place.

The years 2011 and 2012 have taught investors that raw materials are not simply a punt on China's economic management. "No hard landing" says many an economist today with an air of "told you so", but has anyone looked at share prices of coal and nickel producers lately?

One only has to look at the sharp price falls that have occurred for all prices for coal products over the past two years, and then the extended time that prices have remained at levels believed to be unsustainable for suppliers, to really scare investors who are familiar with dealing with markets in supply deficit.

It was in late 2012 that investors, globally, began to contemplate that the forthcoming year could well become the year when global supply of copper, iron ore and crude oil would follow the lead of uranium, lead, nickel and others. In all these examples, price falls from peaks have been nothing other than significant, if not spectacular.

However, more often than not, there is more than meets the eye in commodity markets. Take copper as an example. More bearish market commentators have observed that the price of copper has not kept pace with what appears to be exuberance in equity markets. This is seen as evidence that, sooner or later, equities need to correct to fall back in line with copper, widely regarded as the best available benchmark for global economic health.

Chinese manufacturers, however, had been using copper inventories as collateral to gain credit and funding outside the restrictions on the Chinese banking sector. It would appear that as credit restrictions loosen and funding costs became lower, many of those deals have been unwound and copper inventories sold off. This suggests that demand for copper should be higher than inferred by price movements thus far.

The biggest surprise so far has transpired in the iron ore market. Last year, analysts were starting to price in annual forecasts of no higher than US$120/tonne, with retracements to sub-US$100 prices in the not too distant future, but prices are now back above US$155/tonne and there are no imminent signs of weakness. Moreover, bullish analysts, such as the ones at Goldman Sachs, are now contemplating stronger-for-longer scenarios with an annual price average forecast of US$144/tonne for calendar 2013, with an upside bias.

The big change in overall market sentiment is based upon two key factors: one widely reported, the second generally ignored (at least in Australia). Chinese steel manufacturing has proven more resilient than analysts contemplated, while on the supply side India has completely removed itself as an international exporter. It would appear that India's exports are unlikely to return with a vengeance this calendar year. This supports a stronger-for-longer scenario as suggested by Goldman Sachs.

The biggest question mark remains over what exactly is going to happen to the price of crude oil this year and next. Last year, the world received a big wake-up call when The Wall Street Journal highlighted new forecasts that placed the US back in pole position as the world's number one producer in only a few years hence. Economists now believe it is realistic to expect the combination USA-Canada to become self-sufficient by, or even before, 2020. This has immediately tempered previous expectations of higher oil prices in the years ahead.

I observe, for example, the latest market update by analysts at CommBank suggests prices for West Texas Intermediate (WTI) and Brent crude will converge over the next three years. According to these projections, both will be trading around US$100/bbl by then. The positive news, suggests CommBank, is that the market is only pricing in a premium for potential geopolitical fall-out (Iran) in the short to medium term and spare capacity at OPEC shrinking.

All those mid-to-longer term considerations may well be relegated to the sidelines for most industrial raw materials in the weeks and months ahead if forecasts by US strategist Julian Garran prove correct. On Garran's analysis, most of the world has been de-stocking raw materials over the past two years as economic growth slowed, credit markets tightened and confidence generally slumped. One important factor in this process, argues Garran, has been the withdrawal of suppliers of credit in Emerging Markets such as French banks and RBS. This gap in credit supply has now been filled by US banks.

Recent data suggest credit conditions in emerging markets are improving at a time when real interest rates are falling. Garran considers both factors will play a major role in global re-stocking that is about to occur throughout Asia including China, as well as in the US and even in Europe (he calls on historical evidence to support his forecast). Even if Europe does not to participate in, what Garran labels, "a synchronised global restocking event", one would have to assume re-stocking in the two most vital components of the global economy, namely Asia/China and the US, should be enough to prove the skeptics wrong in the months ahead.

In the words of Garran: "Consensus consistently underestimates the power of restocking cycles after a heavy destock in the previous year".

BOOK REVIEW
Top Stocks 2013

Author:	Martin Roth
Title:	Top Stocks 2013
ISBN:	9781118406250
Publisher:	Wrightbooks
Publication date:	2013 (19th edition)
Publication place:	Qld, Australia
RRP:	AU$29.95 (paperback) AU$19.99 (eBook)
Reviewer:	Mike Barrett

> *"Great for the self-guided investor in Australian stocks"*

Top Stocks is a guide to Australia's 'best' listed companies. If you're reading this to find out what it is like, then you're either new to investing or you are just checking what has changed. That is because the 'old hands' know that this book is a staple if you want a quick reference to Australia's best listed companies. So for the old hands, the message is "business as usual".

Top Stocks sets out to select only the strongest companies, the financially sound steady performers. The selection criteria are as follows: included in the All Ords (i.e. market capitalisation in the largest 500 on the ASX), 5 year record of profit and dividend payments, return on equity >10%, debt to equity <70%, with listed managed investments and foreign stocks excluded. 99 stocks make the cut. Alan Hull often jokes that this is all you need to know because you now have the list of the top stocks!

Most pages are devoted to listings for these top stocks. Each stock gets a double page in the same format. You get a price chart, basic price/PE data, three short narratives covering the business, 2012 results and the business outlook, plus a table of 2012 vs 2011 financials with some useful ratios like interest cover and return on equity. Not exactly bed time reading, but definitely a quick way of finding potted information about a company. The book is rounded off with 16 league tables according to measures such as EBIT margin and five year return.

Clearly the strength of this book is the focus on good performing companies and the readily accessible summaries. If you're an investor who is interested in selecting companies like these then this book will save you a huge amount of research time. You may need to dig deeper elsewhere, but the book allows you to obtain a high level view with very little effort.

The notable weakness is in the narratives. Top Stocks has such good credibility that people are inclined to accept what it says, but I urge you to keep your sceptical facilities alert. In my view the business outlook sections present an unduly positive view. Maybe the authors took too much notice of a company's own report of its prospects, which is always optimistic.

So if you are a self-guided investor in Australian stocks, I'd recommend the book strongly. Just take the business outlook with a pinch of salt.

Where are some of the pitfalls of traveling when you're a Senior?

By Seniors Holiday Travel

Seniors Holiday Travel have learned that when it comes to international travel there are many seniors who have a strong desire to travel however are worried about the potential pitfalls. Visiting another country can be very rewarding but you'll definitely encounter issues you would not face at home.

You may want to visit the Eiffel Tower, see a show in Las Vegas, St. Petersburg's Winter Palace or walk along the Great Wall of China, there is a wonderful thrill that comes from being there, and doing it.

Travel can be very challenging if you're unfamiliar with the local language, customs and cuisine although for many that's part of the fun. When you decipher the dinner menu or finally climb onboard the right bus, you'll probably feel a great adrenalin rush you have not experienced in some time. International travel can help you understand why explorers crossed oceans, sought the South Pole and climbed Mt. Everest.

It may be that your grand parents told you stories about Lake Como in Italy, or Greece, or Sicily, or played traditional music for you, and those experiences seeped into your subconscious thoughts.

Our brains continue to make new cells and establish nerve connections throughout life. For this to happen, we must "exercise" our brain. Combining travel with learning experiences can keep our brain to remain healthy.

Some travelers prefer to immerse themselves in another culture, trying everything from local foods to traditional sports. You can choose a "home base" and buy groceries, take walks, experience local life and hang out with the neighborhood community. You'll come away feeling you've really learned about your chosen city or region. For others it's all about the food. You might want to sample all the dishes you've seen on "Bizarre Foods".

Some years ago the results of the worldwide election of the New 7 Wonders of the World was announced, and people around the world nominated their favorite sites and voted for their top choices. The Great Wall of China, the Taj Mahal, Machu Picchu, Petra in Jordan, Rome's Colosseum, Chichen Itza in Mexico and the Christ Redeemer statue in Rio de Janeiro, Brazil, won the most votes.

Many seniors decide to visit their family's homeland and there's nothing quite like seeing the buildings your ancestors lived and worked in. There are some problems that you may encounter such as language difficulties, and so leaning a few words is a great idea. If language barriers bother you, but you'd still like to visit another country, consider traveling with a guided or escorted tour group.

While you can avoid most travel-related crimes by simply wearing a money belt, securing your valuables in hotel safes and staying away from high-crime areas, safety is still a top concern. You'll need to do research to identify safe places to stay and scams to avoid.

Maybe consider an escorted tour or a cruise holiday. If you prefer independent travel, you might try an independent tour, in which the tour operator handles all of the travel logistics, but you don't have a guide or set itinerary. Traveling with an experienced companion can be a great way to see another country while having help at your side.

Seniors Holiday Travel is Australia's largest FREE travel Club especially for Seniors. There is no cost to become a member, no ongoing fees, and there are many features and benefits to be enjoyed.

Contact Seniors Holiday Travel on free call 1800-300-999
Email | enquiries@seniorsholidaytravel.com.au
or visit www.seniorsholidaytravel.com.au

Safe Travels

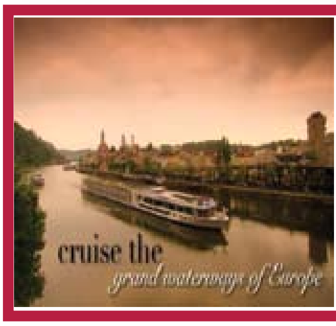
If you send an email and in the subject line – say please make me a member – you will then be automoatically added to the data base and receive the FREE Quarterly newsletter magazine containing all of the last minute specials, information on escorted tours and cruises and special discounts. In addition, you can subscribe to the email super specials updates advising you of the never heard of, never advertised mega secret squirrel last minute deals as offered by the travel wholesalers exclusive to Seniors Holiday Travel Club members who have the flexibility to take advantage of last minute packages.

Join Australia's Most Awarded "Seniors Friendly" Travel Club!

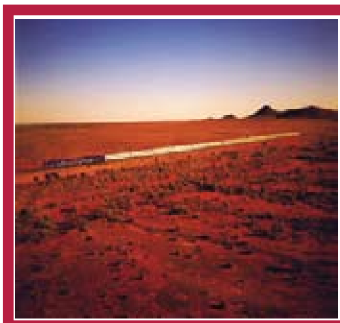
Membership is FREE and the rewards are many!

1. Club Members Can Save Up To 40% On Travel Insurance A Minimum Saving Of 15%!
2. Club Members Enjoy Being Fully Escorted By Travel Professionals On Many Escorted Tours And Cruises!
3. Club Members Get Free Membership To The Solo Travellers Club For Single Travellers.
4. Club Members Get Free Discount Vouchers And Coupons Including Birthday Club Gift Vouchers!
5. Club Members Obtain Access To The Last Minute Super Savers Via Email & Australia Post - Plus We Inform Of Escorted Tours & Cruises Via Specialist Travel Magazines And Publications.
6. Club Members Get Additional - Exclusive Discounts To Seniors Holiday Travel Club Members On Selected Holiday Packages.
7. Club Members Can Receive Free Upgrades On Selected Accommodation And Cruise Categories
8. Club Members Can Get Fee Free Travelex Currency Service.
9. Club Members Can Receive Free Limousine Transfers From Home To Airport On Selected Flights.
10. Club Members Can Be Assured Of Superior Service From Fully Trained And Respectful Experienced Travel Professionals.

Here are some examples of the Current Special Offers!



"Save an EXTRA 5% off all European Coach Tours and Europe River Cruises, departing in 2013 or 2014, booked by April 30, 2013."



"Save an EXTRA 5% off Indian Pacific or Ghan Rail Travel, departing in 2013 or 2014, booked by April 30 2013."

To become a member simply FREE CALL 1800-300-999 or email Enquiries@SeniorsHolidayTravel.com.au

Simply complete the following information and post to Seniors Holiday Travel Club P.O. Box 249 Fortitude Valley Q 4006

Name..

Postal Address...

....Postcode..........................

Email Address (for super special low priced last minute deals)...

Day Time Phone...Mobile..

Are You A Solo Traveller ? (Please circle applicable) YES..........NO..........SOMETIMES

Where would You Like To Go On Your Next Holiday?..

Investors Conference

SENIORS Holiday TRAVEL

FREE CALL 1800 - 300 - 999

www.SeniorsHolidayTravel.com.au

Like Us On facebook https://www.Facebook.com/SeniorsHolidayTravelClub

Licence No: TAG1529 Travel Compensation Fund 7042 ABN: 31 082 670 951

Passive Investing is a waste of time

By Alan Hull

This article is based on one of my early encounters with a Superannuation advisor. Whilst it makes for amusing reading it also contains a serious lesson about reading fine print and constantly monitoring your investments…even managed investments.

At the fertile age of 20, just several months short of my 21st birthday, I received a phone call from a man who said he was a financial advisor and that he would like to set up a consultation with me to discuss my financial future. It was at no cost to me and he was very flexible as to where and when we should meet. Due in large part to his apparent ultraistic intentions and concern for my future welfare, I agreed to meet with him. At the time of the consultation I found myself in the presence of a tallish man, dressed in a very impressive double breasted three piece suite, sporting just a touch of Grey at his sideburns and wearing a friendly, obliging grin. My first thought was, having just left home and the watchful eye of my parents, how lucky am I.

Here was this obviously important man that I warmed to immediately who was going to look after me by taking care of my financial future while I worried about more immediate problems like girls and cars. He asked me, with an authoritative tone, if I had a superannuation policy as it was vital to my future wellbeing in retirement. He added that all sensible and mature people who didn't want to become a burden on their friends and family when they stopped working had one. He then handed to me a document containing national statistics on the aging population proving that reliance on the pension in retirement was futile. Fear shot through my mind as it dawned on me that I couldn't even spell, 'Suporanuation' and I felt my face flush with embarrassment. Add to this my shame at being a future burden on the ones I loved and my confusion at the word 'Demographic' written on the piece of paper in my hand. I'd been on my own in the big bad world for a few brief months and look at the damage that I could cause by simply not knowing about something like, 'Suporanuation'.

I uttered in a whimper, 'What should I do?' He had prepared an important looking document with my name at the top of each page that contained the most fantastic news. If I contributed just $700 a year, BEFORE TAX SO I WOULDN'T EVEN FEEL IT, to a superannuation fund then I would have over $300,000 to play with in retirement. I nearly kissed the man as I realized that not only was financial Armageddon going to be avoided but I was going to have enough money to help others in retirement. The tone of the meeting relaxed and I blurted out a whole lot of meaningless stuff like, 'What's a demographic?' as you tend to do just after a near death experience. But just as I was running out of things to say to this patient listener, he asked me with a hint of concern in his voice when my 21st birthday was. My eyes widened as the stiffness returned to my body and I replied, 'In 2 months…is that a problem?'. To cut a long story short, with parental like concern he explained to me that it was very necessary that I start the policy before I turned 21. With this revelation out in the open I nearly climbed onto his lap, trying to get my hands on the superannuation policy that would change my life back to what it was the day before. Whilst this anecdote is based on a real event in my life, I have exaggerated it for the purpose of illustrating a point. I was dealing largely with a salesman and not a man with purely ultraistic intentions. I do recall that I was curious at the time as to why he required no payment for his services.

Now to the policy in question and the absolute facts regarding its performance over the next decade. The lesson here, in advance, is to read the fine print. The short version is that the printout I was shown containing figures that would have made Donald Trump drool at the time, bears scant resemblance to the actual performance of the policy. It was based on 15% annual interest compounding over forty years. My contributions, included in the printout, started at $700 per annum but increased over time in line with the then annual CPI figure. The 15% annual growth figure used was the current performance of the superannuation fund. Like most individuals at the ripe old age of twenty something you tend to leave the superannuation policy in the bottom draw and simply go about life with the comfort of knowing its there.

After ten years of dutifully making the compulsory contributions to the fund and now having the option of not having to make any further payments I decided to fish out the policy and the original printout to see if I was still on target for my Villa in the Bahamas. The decision was also prompted in part by the constant increases in the annual contributions that were becoming a perpetual annoyance. You can imagine my surprise when the actual performance of the fund, according to my annual statement, was approximately half the projected figure on the printout. I will demonstrate in simple form what happened to me and the power of compound interest. The following table shows the difference between the guaranteed performance of the fund and the performance used on the printout using 15%. For illustration purposes I have excluded my contributions and the funds administration fees and simply used a starting figure of $1,000 in both cases.

Year	Guaranteed performance (9%)	Projected performance(15%)
1	$1,090	$1,150
2	$1,188	$1,322
3	$1,295	$1,521
4	$1,412	$1,749
5	$1,539	$2,011
6	$1,677	$2,313
7	$1,828	$2,660
8	$1,992	$3,059
9	$2,172	$3,518
10	$2,367	$4,046

My first point is that the interest rate is absolutely critical when you are compounding it over time. If I continue the above table for another 30 years to my retirement, the final figures are;

Year performance (15%)	Guaranteed performance (9%)	Projected performance (15%)
40	$31,409	$267,863

My figures were muddied by other factors such as my annual contributions, the actual CPI, increases to the administration fees and the actual performance of the fund. Regardless of this I was looking at a similar scenario and, as if by magic, I found myself with the phone at my ear, dialing a number that was also buried in the reams of paper.

I had prepared my questions and the conversation went something like this;

Me...

The growth on the fund doesn't match the figure used on the printout I was shown when I joined the fund…what's the story?

Consultant...

The figure used for the projections was the most accurate figure available at the time you joined the fund. Have you been reading your annual statement and the annual report that we've been sending you every year?

(Pregnant pause)

Passive Investing cont...

By Alan Hull

Me... No, but I assumed that if there was…
(Cut off by the consultant)

Consultant…
I do recommend that you take the time to read it, even if its not straight away.

(With an incredulous tone in my voice)
Me... So you're telling me if I don't have enough money to retire, its my fault because I haven't read the material you've sent me? Surely there's some kind of guarantee on the performance of the fund?
(With an indignant tone in his voice)

Consultant...
Of course there is. Its in your original policy document…haven't you read that either?

(With the sudden realization that my situation was largely due to my own neglect)
Me... 'no'
(With the sudden realization that my situation was largely due to my own neglect)

Consultant...
I SUGGEST THAT YOU READ IT AND THEN CALL ME BACK.

Me... 'thanks…..bye'

I now went back to the reams of paper that were sent out to me each year…not to mention the original policy document that I neglected to read in the first place. It was all there in black and white. The minimum annual growth guarantee of 9%, notification of changes in administration fees for the forthcoming period and changes to my contributions based on the CPI including a complete explanation of the calculation being employed.

By burying it all in the proverbial bottom draw I hadn't lost a single cent and I was even showing a profit…but it certainly wasn't the sort of profit I expected after ten years. So I vowed from that day forth never to be a passive investor again…my time, where time is money, is too valuable.

Changes to 'Investors Voice'

You may have noticed that we have begun some changes to 'Investors Voice'. We intend to build it into a more worthwhile publication, with increased and improved content, and hence it will be of more value to members.

These changes began with the new look of the December 2012 edition, and continue with this edition of 20 pages - increased from the previous 12 pages. The increase in size makes way for more articles and also space for advertising. The inclusion of paid advertising gives the Association another revenue stream, and makes us less dependent on membership subscriptions. We will be able to provide better benefits for your membership dollar!
As for any similar publication, the advertisments are submitted by organisations which we earnestly believe to be reputable and offering sound products and services which we believe may be of interest to members.

However, the acceptance of the advertising does not in any way indicate that the AIA endorses or recommends the products of services.

As always, we value your feedback.
AIA Board

Sunday Workshop

BUILDING BLOCKS *of* FINANCIAL SECURITY

When: Sunday 28th July 2013
Time: 1pm – 4.30pm
Where: Marriott Resort and Spa
Ferny Avenue
Surfers Paradise
Presenter: Olivia Maragna

1300 555 061 or visit www.investors.asn.au
Seats limited and bookings are essential.

MicroCaps: Poised to breakout in 2013?

By Boyd Peters, National Business Manager, Contango MicroCap Ltd

Micro-cap companies can provide investment portfolios with diversification, opportunity and performance.

It is generally accepted that Smaller and MicroCap companies can deliver strong performance for some investment portfolios. However, investors would be quite aware that while the larger companies' portion of their portfolios performed strongly in 2012, the smaller companies' component did not.

The relative performance of the Large, Small and MicroCap indices over the last 12 months can be seen in Chart 1 and Table 1.

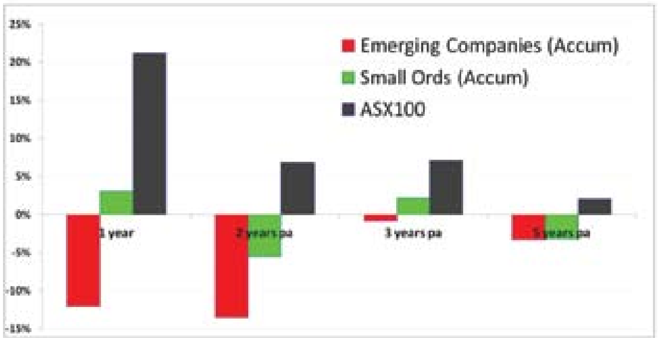


Chart 1: Source Contango

As at 31.01.13	1 year	2 years pa	3 years pa	5 years pa
ASX100	21.2%	6.7%	7.2%	2.0%
ASX Small Ords	3.1%	-5.6%	2.1%	-3.2%
ASX Emerging Companies	-12.1%	-13.5%	-0.9%	-3.3%

Accumulation Indices
Table 1: Source Contango

While a 30% return differential between Large and Micro stocks was extreme in itself, this difference is even more pronounced when the Small Ordinaries (ie stocks ASX101 to stock ASX300) is broken into Industrial and Resource performance, as shown in chart 2.

Chart 2: Source Contango

As at 31.01.13	1 year	2 years pa	3 years pa	5 years pa	10 years pa
ASX Small Industrials	24.17%	6.67%	7.26%	-0.98%	7.66%
ASX Small Ords	3.07%	-5.56%	2.14%	-3.22%	8.47%
ASX Small Resources	-27.44%	-23.71%	-6.74%	-6.92%	12.52%

Accumulation Indices
Table 2: Source Contango

This divergence has been so pronounced and over such a long period of time, that for many investors and even professional portfolio managers, 2012 was just plain confusing.

Portfolio managers that I have spoken to from Contango and other investment houses, were confused because, while there was global nervousness and associated falls in commodity prices in 2012, conditions were not so bad as to justify "the wholesale slaughter of so many good Resource companies across the board", (summarising the consistent message heard from them all).

In addition to the difference between Resources and Industrials, the gap between the large and small cap company performance was similarly extreme. As a result, many investors are looking closer at these smaller companies and asking when, and how much could they go up?

A cursory look at consensus valuations taken from brokers and research analysts helps to identify any particular sector which may be poised for a positive market return, based on fundamentals. Table 3 shows consensus valuations which include data up to the end of the recent reporting season.

Fundamentals (as at 25.02.13)	S&P/ ASX 100	Small Ordinaries	*Small Resources*	*Small Industrials*
Price/ Earnings	13.6x	10.5x	*7.0x*	*12.4x*
EPS growth	12.4%	24.7%	*96.4%*	*13.0%*
Dividend Yield	4.7%	3.8%	*1.1%*	*4.7%*
Return on Equity	14.3%	12.0%	*9.9%*	*12.8%*

Table 3: Source Contango

It is clear that in the range, from Large to Small to Microcap stocks there is good value to be found with attractive PE's, EPS and ROEs across the spectrum.

What we are experiencing however, is the attraction of Yield in this marketplace. A summary of the recent earning season is that Revenues were in line with expectations, achieved in many instances on the back of reduced costs. There was little in the way of Capital actions, and investors are prepared to give management the benefit of any doubt. Overall the results were positive, albeit insufficient to translate into rising prices for small and microcap stocks.

High yielding stocks on the other hand, predominately those found within the top 50 ASX stocks, remain in strong demand.

Following a strong year for high yielding stocks, we enter 2013 with a valuation differential between Large and Mid-Cap stocks that continues to expand, never mind the gap to small caps! This is largely due to the demand from public and Japanese yield-seeking funds purchasing high yielding ASX leaders.

Eventually this trend will broaden and flow through to Mid-Caps, Small Caps and then into Microcap companies, but first the market is looking for a catalyst to restore confidence in these sectors. Such a catalyst may be improved manufacturing data from China, Germany or USA and more quantitative intervention such as domestic rate cuts.

Effectively there are 3 ways this can play out in the first half of 2013. Stock prices go up, down, or remain unchanged. The driver is typically valuations, which themselves can go up, down, or remain unchanged. This is hardly rocket science and Table 4 is a simple matrix identifying how the factors of valuation and price interact.

MicroCaps continued...

By Boyd Peters, National Business Manager, Contango MicroCap Ltd

		Fundamentals/ Valuations		
MARKET	Goes Up	Improve	No change	Deteriorate
	Stays flat	Improve	No change	Deteriorate
	Goes down	Improve	No change	Deteriorate

Table 4: Source Contango

This table illustrates the conundrum for investors. They fear entering the market on the basis of compelling valuations only to see prices deteriorate. This experience is known colloquially as "catching a falling knife" where, as share prices fall, valuations can appear cheaper, or more attractive, but fundamentals have not really improved. Ergo, the worse it gets, the better it looks, so to speak.

Essentially, the matrix in Table 4 is a convoluted way of saying that an investor can overcomplicate things and forget to recognise that everything comes back to expectations of future earnings. Importantly, in the recent reporting season we have seen quite positive earnings results.

Barring shocks to the global economic system, at some point in the near future the market may decide that earnings are indeed sustainable and that prices are compelling enough to inspire investors to re-enter the smaller part of the market. At that point considerable pent up value may finally, finally(!) be realised for long-suffering investors.

My presentation at the 2013 AIA National Conference will focus on Small cap earnings and valuations, how the 2nd half of 2013 is looking, and if/when the pay-day finally comes, how much upside still remains. I look forward to seeing you there!

Notes and Disclaimer:
**Consensus data has been produced by Contango Asset Management Ltd and is extracted from internal proprietary research and broker data feeds. No reliance should be made on this data. Daily volatility may change the nature of these figures by the time of reading.*

The material provided is for research and information purposes only, and does not constitute advice or recommendations nor a statement on the future direction of the market. Any products referenced or linked in the material are not endorsed by the author and people who choose to pursue particular products or services cannot hold the author or the AIA liable for any losses or other problems experienced. This not a replacement for advice from an accountant or personal finance advisor.

Selections from a Coffeeshop Wall

"If you always do what you have always done, you will always be where you have always been."

"In the time between when you make a decision and when you commence to act, you have your last opportunity to reconsider."

"Believe you can and you are halfway there."

"Never make the mistake of thinking you are normal"

"A day without laughter is a day wasted."

"Every waterfall starts with a drop of rain."

"When life throws you lemons, make a Gin & Tonic."

"Don't harbour resentment. Happiness will dock elsewhere."

Calendar of Events

Date	Event	Time	Venue	Topic
MARCH				
05-Mar-13	Perth Information Meeting	7.30 - 9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	TBA
05-Mar-13	Adelaide Information Meeting	7.00 - 9.00pm	German Club, 223 Flinders St, Adelaide (Wolf Blass Weinkeller Room)	Borrowing through SMSF Matthew Tripodi
08-Mar-13	SYDNEY 1 DAY SEMINAR	8.45am - 4.30pm	SMC Conference & Function Centre, 66 Goulbourn St, Sydney	Where to from here? Investing Successfully in 2013
13-Mar-13	North Shore Information Meeting	7.00 - 9.30pm	The Chatswood Club, 11 Help St, Chatswood	Australia's Commercial Property Markets: Outlook and Opportunities for Investors Hugh Zochling
APRIL				
03-Apr-13	Brisbane Information Meeting	1.30 - 3.45pm	Broncos Leagues Club, Fulcher Rd, Red Hill	TBA
06-Apr-13	Perth Information Meeting	7.30 - 9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	How to pick stocks in the current market - Colin Nicholson
09-Apr-13	Adelaide Information Meeting	7.00 - 9.00pm	German Club, 223 Flinders St, Adelaide (Wolf Blass Weinkeller Room)	An Introduction to Fixed Interest Elizabeth Moran
09-Apr-13	Melbourne Information Meeting	1.00 - 3.30pm	Telstra Conference Centre, R1, L1, 242 Exhibition St, Melbourne	TBA
10-Apr-13	North Shore Information Meeting	7.00 - 9.30pm	The Chatswood Club, 11 Help St, Chatswood	How to find the best stocks and buy them for less than they're worth - Roger Montgomery
17-Apr-13	Gold Coast Information Meeting	9.30 - 11.30am	Robina Community Centre, Robina Town Centre Drive, Robina, QLD	TBA
MAY				
01-May-13	Brisbane Information Meeting	1.30 - 3.45pm	Broncos Leagues Club, Fulcher Rd, Red Hill	TBA
07-May-13	Adelaide Information Meeting	7.00 - 9.00pm	German Club, 223 Flinders St, Adelaide (Wolf Blass Weinkeller Room)	TBA
07-May-13	Perth Information Meeting	7.30 - 9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	TBA
08-May-13	North Shore Information Meeting	7.00 - 9.30pm	The Chatswood Club, 11 Help St, Chatswood	Can you time the share market? Precy Allen
JUNE				
04-Jun-13	Adelaide Information Meeting	7.00 - 9.00pm	German Club, 223 Flinders St, Adelaide (Wolf Blass Weinkeller Room)	TBA
04-Jun-13	Perth Information Meeting	7.30 - 9.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs	TBA
05-Jun-13	Brisbane Information Meeting	1.30 - 3.45pm	Broncos Leagues Club, Fulcher Rd, Red Hill	How to find and assess good prospective investments in the stock market - Colin Nicholson
11-Jun-13	Melbourne Information Meeting	1.00 - 3.30pm	Telstra Conference Centre, R1, L1, 242 Exhibition St, Melbourne	TBA
12-Jun-13	North Shore Information Meeting	7.00 - 9.30pm	The Chatswood Club, 11 Help St, Chatswood	How to find and assess good prospective investments in the stock market - Colin Nicholson
12-Jun-13	Gold Coast Information Meeting	9.30 - 11.30am	Robina Community Centre, Robina Town Centre Drive, Robina, QLD	TBA
JULY				
28 - 31 July	AIA National Investors Conference		Surfers Paradise Marriott Resort, 158 Ferny Ave, Surfers Paradise	Where to from here? Planning Lifestyle, Financial and Asset Protection

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

AUSTRALIAN INVESTORS ASSOCIATION

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

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.