

# the INVESTORSvoice

Magazine of the Australian Investors Association - *Investors helping Investors*

September 2014

## SWITCHING FROM TTR TO FULL PENSION

## TAX DEFERRED DISTRIBUTIONS

## Politics behind financial markets



AUSTRALIAN  
INVESTORS  
ASSOCIATION

T | 1300 555 061

[www.investors.asn.au](http://www.investors.asn.au)

### In This Issue >>

Switching from transition to retirement pension	1
President's message	3
Content is (still) king	4
Letter to the editor	6
Who can you trust	7
A guide to tax deferred distributions	8
Investors queue for high yield corporate bonds	10
SMSF loans to trusts	12
What would George do?	14
The politics behind financial markets	16
A better understanding of earnings from common stocks	18
The outcome of an income obsession	20
High priced management or low cost founders?	22
SMSF xtras for Gen X & why for Gen Y	23

# Switching from transition to retirement pension to a full account-based pension

The time's come to break the shackles of a TTR pension  
We explain why you should and how.

Liam Shorte, Richard Livingston

### Key Points

- You can move from TTR to account based pension when you meet a 'condition of release'
  - Worth switching, even if no immediate benefit
  - We explain the process involved
- Switching your SMSF to pension mode: Starting a transition to retirement pension- explained what you need to do once you're 55 and ready to switch your SMSF to 'pension mode'. Now we'll take a look at the steps involved in breaking the shackles of a transition to retirement pension (TTR) – the 10% maximum and prohibition on lump sums – and starting a full account based pension (ABP).

But first a reminder of when you're allowed to do so. To take an ABP you must have met a 'condition of release', the main ones being:

- Retiring permanently from the workforce at or after your preservation age
- Leaving your contributing employment relationship after age 60
- Reaching age 65

Super can also be accessed upon death and there's a list of 'partial early release' conditions as follows:

Having a terminal medical condition;  
Becoming totally and permanently disabled;  
Satisfying severe financial hardship requirements as evidenced by receipt of Social Security benefits and being unable to meet reasonable living expenses;  
Satisfying specified grounds as approved by APRA;

If the benefit is less than \$200; or  
If the member is an eligible temporary resident permanently departing Australia. (Doesn't apply to Australian and New Zealand citizens. Fund must deduct tax before payment to departing residents.)

Importantly, if you're relying on 'retiring' before age 60, make sure you leave your employment and have a genuine intention not to work either full-time or part-time (more than 10 hours per week). Leaving your current job isn't enough, nor is reducing your hours to less than 10 a week.



### Should I switch to an ABP?

If you want to withdraw more super – either by taking more than 10% a year, or a lump sum – the benefits of an ABP are obvious. If you don't, there's no immediate benefit. But as there's often talk of changing the rules relating to TTRs for many switching to an ABP is about guarding against the potential for change. If you're Income Tested and relying on the 'grandfathering rules' to get the age pension, this is a serious risk. An adverse change to the TTR treatment could cause you to switch to an ABP, increase your income under the Income Test and result in you losing the age pension. Even if you're not entitled to the age pension, or not Income Tested, you might want to withdraw more than 10% one day and you never know exactly what the politicians have in store for TTRs. It's better to be safe than sorry and make the switch while you know what the rules are.

### What's involved?

So you've decided to switch. What next? First, read your TTR pension agreement (we hope you've got one) and your SMSF trust deed to see what they say in relation to pensions and what happens when a general condition of release is met.

Remember you must follow your SMSF's

trust deed. The value of having a good deed and keeping it updated becomes apparent at a time like this. Assuming the documentation is in place, there'll be two potential scenarios:

- **Silence.** Many TTR pension agreements simply impose an absolute maximum of 10% and no lump sum payments (regardless of the members age). If you want to take an ABP you've got to 'turn off' this pension – switch it back to accumulation – and start the new one afresh. This isn't ideal since it potentially affects the tax-free/taxable components, bringing unintended consequences.
- **Flexibility.** Other pension agreements allow you to remove the 10% restriction and take a lump sum withdrawal once a general 'condition of release' is met. In this case, the existing pension continues (amended) and the process of switching between pension, accumulation and back again is avoided. The third scenario (which happens far too often) is that pensions are being taken without appropriate documentation. This is potentially a breach of the fund's trust deed, exposing the trustees to the new penalties. It also opens the door to the Tax Office saying there was never a valid pension (costing the fund its tax exemption).

Switching from transition to retirement pension to a full account-based pension  
The time's come to break the shackles of a TTR pension.  
We explain why you should and how.  
*continued...*

If you think you're affected seek personal advice as soon as possible. The combination of trustee penalties and additional tax can add up to a very expensive mistake. Okay, back to our two scenarios:

### Scenario 1: Silence

- If you need to start a new pension, we suggest doing the following:
- Before doing anything get tax and Centrelink advice on whether stopping the pension and starting a new one will have tax implications or affect your Centrelink benefits, (especially after January 2015, when the new age pension rules come into effect).
  - The member writes a letter to the trustee advising that they have met a condition of release, the basis on which it has been met (for instance, having turned 65) and asking for an ABP to be established.
  - The trustee prepares a minute noting the request and passes a resolution commuting the member's account back to accumulation phase.
  - A new pension is established following the steps set out in the Trustee Documentation section of the earlier article.

### Scenario 2: Flexibility

Liam's in-house pension agreement has the following clause for TTR pensions:  
"The Restriction Period will cease upon whichever of the following first happens in respect of the Member:  
(a) the death of the Member;  
(b) the Member reaches age 65; or  
(c) the Member becomes retired for superannuation purposes."

This allows the TTR restrictions (10% cap and lump sum prohibition) to fall away once a condition of release is met. Whilst it's 'automatic' it's still a good idea to document the switch with letters and minutes, so we suggest:

- The member writes a letter to the trustee advising they've met a condition of release, the basis on which it's been met and requesting the restrictions be removed.

- The trustee minutes the request and passes a resolution noting the pension agreement allows for the removal of restrictions and requesting the fund's administrator to note the change on their system.

### A final suggestion

If you're yet to set up your TTR pension, take note that having flexibility is best. This article should also serve as a reminder to make sure you review your super and age pension arrangements before 1 January. If you're in doubt about any element of this process seek personal advice. If you have a question we're available to answer it via our Q&A function.

## President's Message By Bill Shirley



The 2014 National Conference is now over. The initial feedback from around 300 attendees, plus speakers and sponsors seems to be outlining an excellent outcome for the event, and our Association. Your committee has now started the review phase, looking at the feedback and for areas of improvement which could be included in next year's program, which will be held at the Marriott on the Gold Coast, starting Sunday 2 August.

### Bumper Super Returns

It seems, based on various recent press reports, that we should have had some reasonable results in the superannuation space last financial year. The best performing funds in Australia announced results of between 14.9% and 15.8%. Over the last few fiscal years we have experienced positive returns, averaging approximately 13.50% over the five year period.

As we have had a period of consecutive years of reasonable returns, I would like to suggest that we can't expect these levels of earnings to continue into the future. Thus, some strategy planning should be considered in relation to a future downturn, and what activities you may wish to undertake as a yield protection program for your investment portfolio.

### Commonwealth Seniors Health Card (CSHC)

Some points of interest concerning this Government Benefit. Taxable Income. From 1 January 2015, the income test will include non-taxable superannuation income, and will apply to all new claimants from this date. Also from this date, superannuation account-based income streams will be deemed as per the existing Age Pension deeming rules. CSHC holders with existing superannuation account-based income streams will not be affected, unless they purchase a new account-based income stream product on or after 1 January 2015.

Indexing of Income. The CSHC income rates will be indexed annually in line with the Consumer Price Index. The start month for this adjustment will be from September 2014. Travel. From 1 January 2015, CSHC holders will be able to travel overseas for up to 19 weeks before having to re-apply for their card.

### New Tax Penalties

The Australian Tax Office (ATO) has recently been handed some new powers to compel SMSF trustees to comply with their duties and obligations. These new powers are in addition to the ones that already exist. The new ones will commence on 1 July 2014. A sample of some of the fines is listed below to give you an idea of the scope of the regime. For more details please refer to the ATO website.

Administration Penalty Notice Provisions and Amounts	
Lending to members	\$10,200
In-house asset rules	\$10,200
Not keeping members statements for 10 years	\$1,700
Regulator survey is not completed	\$850

The message presented by the ATO at our recent Conference was that trustees need to be even more vigilant in their record keeping and the activities that the fund undertakes. In conclusion, we would like to wish all our members a successful investment year for 2015, and a safe and happy one for members and their families.

Kind Regards ~ Bill Shirley



# Content is (still) KING

Jeff Thomson, Nick Griffin and James Tsinidis

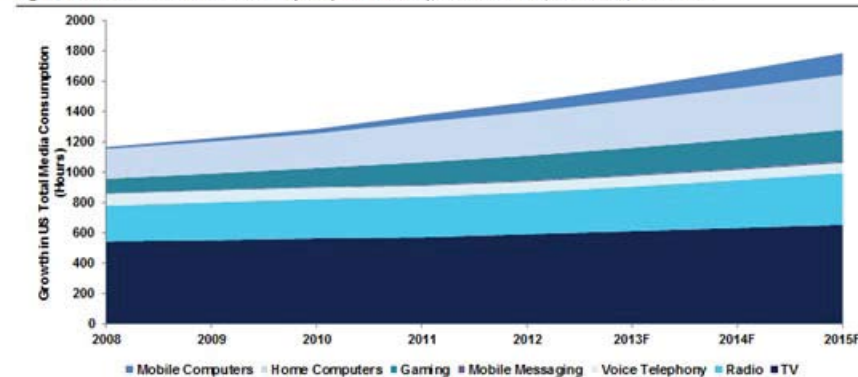
“Content is where I expect much of the **real money** will be made on the **Internet**, just as it was in **broadcasting**.”

Bill Gates, 1996

After 25 years the internet continues to change all our lives, every day. Indeed it is no exaggeration to say that it is the most powerful structural change of our times, creating and destroying businesses on a daily basis regardless of the normal economic cycle. The implications for the media industry in particular are potentially profound.

## Total media consumption continues to grow

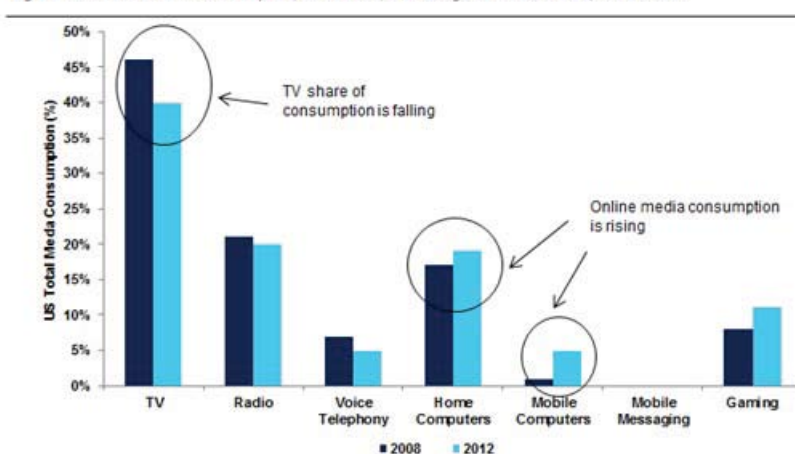
Figure 1: Growth in Total Media Consumption (Annual Hours), US Households, All Sources, 2008-2015



Media consumption has been steadily rising ever since the launch of commercial television in 1941, however the internet has recently marked not only an acceleration in total consumption, but more importantly a significant change in the way media is consumed.

## But the way we consume media is changing

Figure 2: US Total Media Consumption, All Sources, Percentage of Annual Hours, 2008 & 2012



The explosive growth of tablets, smartphones, and now “smart” televisions, combined with access to high speed internet, and new technologies such as video on demand and digital video recorders, mean that for as little as \$7.99 a month (the cost of a basic monthly subscription to Netflix) you can binge consume an entire series (or more)

in a single sitting...and increasing numbers of people are doing just this. Netflix recently took the decision to release all thirteen episodes of the second season of House of Cards at once and not only was it a huge success, but amazingly 16% of Netflix subscribers at one US cable company watched the first two episodes, and a further 10.6% watched the first three episodes, by 5:30pm on the first day of release!

## Binge consumption of media is increasing

Figure 3: The Number of Netflix Subscribers that Watched One Episode of HOC2 on its Premier Day was 8x that of HOC1 (percent of Netflix subscribers at one U.S. MSO that had watched one HOC episode on the premier day for each)

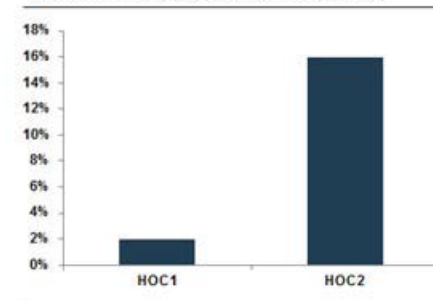


Figure 4: As of 5:30PM on Day 1, 16% of Netflix Subscribers at One U.S. Cable Company Had Watched Episodes 1 & 2 of HOC2 (percent of Netflix subscribers at one U.S. MSO that had watched an HOC2 episode as of 5:30PM EST on 14/2/14)

Episode	% Netflix Subs
1	15.7%
2	16.1%
3	10.6%
4	8.6%
5	3.6%
6	0.9%
7	0.6%
8	0.3%
9	0.2%
10	0.2%
11	0.1%
12	0.0%
13	0.0%

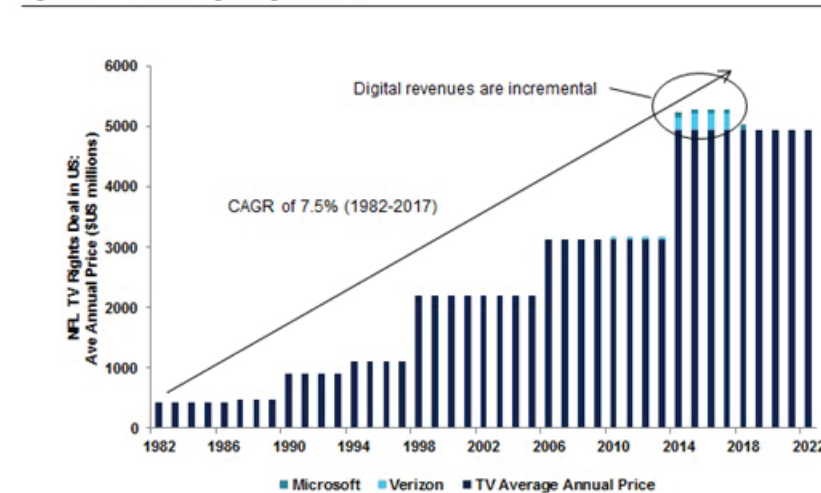
Source: ProCera Networks (based on one US cable network), Citi

Moreover with multiple viewing devices in every household, there is no more fighting over the remote control. Every member of the family can enjoy their own personalised viewing experience, both inside and outside the home, at a time of their own choosing; and contrary to initial expectations this has not eroded the power of the incumbents. In fact with internet network effects and binge consumption the big winners are getting even bigger. Shows such as Breaking Bad, House of Cards and Game of Thrones are rivalling Hollywood blockbusters for audience and impact, which themselves continue to grow share especially with franchises such as Iron Man, of which Iron Man 3 was last year's biggest movie and the fifth highest grossing movie of all time.

While there is a sense of inevitability about the shift towards a more flexible online-centric media world, it remains unclear how the new business model will work. The so-called “over the top” services such as Netflix, Hulu and Amazon Instant Video are often held up as “killers” of traditional media. We don't believe this is correct. As long as content owners continue to successfully control and smartly allocate distribution rights, it shouldn't matter how this content is ultimately distributed to the consumer. Content was at the heart of the traditional broadcast model and we believe it will remain at the heart of new internet media. This is demonstrated by Netflix's recent decision to significantly increase their own investment in content; indeed they expect to invest \$3bn in content in 2014 alone.

## NFL – significant pricing power and incremental digital revenues

Figure 5: NFL TV and Digital Rights Deals



\*\*Figures above exclude DirectTV deal thought to be worth around \$1bn p.a.\*\*

It also appears that if you own the best content then digital consumption provides additional revenues, rather than cannibalizing existing TV revenues. Witness the annual NFL rights (see chart above); on top of recently inking a \$5bn p.a. deal with the major TV networks (an approximately 63% increase on the previous deals), Verizon is paying them \$1bn over 4 years for exclusive rights to stream games to mobile. This comes just after signing a five year \$400m deal with Microsoft for streaming to their Surface tablets. In short, increasing consumer choice of mediums to consume media, means that media consumption is rising and the best content owners are clearly beginning to monetise this opportunity.

The pricing power of premium content owners is best illustrated by looking at the growth in affiliate fees (which are fees paid by cable or satellite companies to the content owner/distributor, basically representing a share of the monthly subscription fee end consumers pay). Figure 6 below shows the growth in affiliate fees at Walt Disney over the last ten years; even more than the actual growth rate, it is the consistency that stands out; growing at an impressive 11% p.a. right through the financial crisis in 2008/9. This segment represents 50% of Disney's media network revenues and 22% of total group revenues. It also means that the importance of advertising, an intrinsically cyclical revenue stream, has been diluted. While advertising has grown in absolute terms, its growth rates have significantly lagged those experienced in affiliate fees.

## Walt Disney Company – Consistently high growth in affiliate fees has diluted the exposure to advertising

Figure 6: Disney's Affiliate Fee Revenue Growth

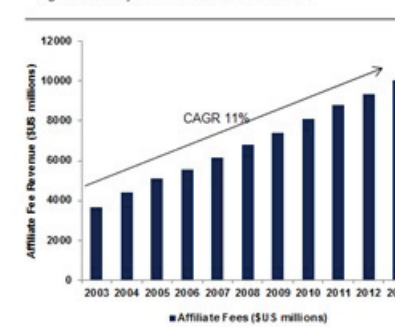


Figure 7: Disney's Advertising Revenue as a percentage of Media Network Revenue and Total Group Revenue



Content is (still) KING continued...

These secular changes have reduced the cyclicality of the industry and allowed large media groups to enjoy a positive feedback cycle of increased revenue visibility, investment in content and pricing power. We believe that this is a structural change which is currently underappreciated by the market.



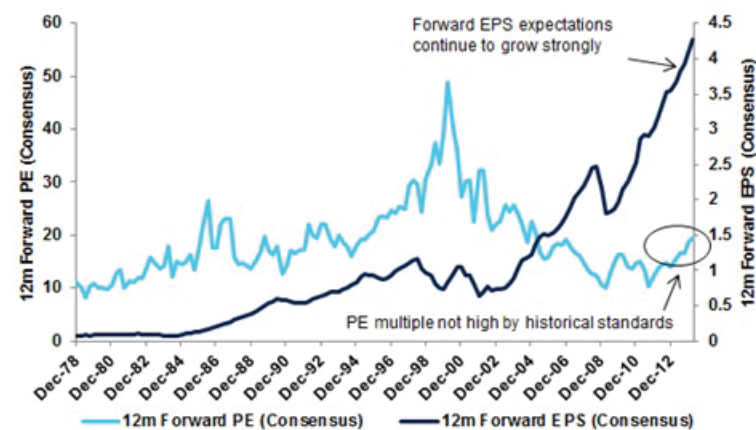
All of the companies shown above are potential beneficiaries of these trends, although we believe the Walt Disney Company, a top three position for our funds, is one of the best plays on this. Synonymous with Mickey Mouse, Disney has now grown into a content bohemoth including ABC, ESPN, the Disney Channel and A & E Networks (including the History and Bio channels). Its studio division built around Walt Disney Studios, also includes Pixar Animation Studios (Toy Story, Finding Nemo, Monsters Inc), The Muppet Studios, Marvel Entertainment (Blade, X-Men, Spider-Man, Iron Man, Thor, The Incredible Hulk and The Avengers) and Lucasfilms (Star Wars; Indiana Jones). It also owns or licenses 14 theme parks around the world.

Moreover the significance of the acquisitions of Marvel (acquired in 2009 for \$4.64bn) and Lucasfilms (acquired in 2012 for \$4.04bn) have yet to be fully appreciated by the market. Not only have they enhanced revenue visibility for the group, (with Star Wars VII, The Amazing Spider-Man 2 and Avengers: Age of Ultron all due to be released in 2014/15); their back catalogues have also significantly enhanced the long term earnings power of the group.



Content is  
(still) KING  
continued...

Figure 8: Disney Forward PE (Consensus) and Forward EPS (Consensus)



Source: Bloomberg, data as at 7 Mar 2014

After another strong set of results, analysts have recently upgraded their earnings estimates for Walt Disney again and the PE multiple remains relatively undemanding versus history, as well as given its strong growth and improved earnings visibility. 21st Century Fox is another large media conglomerate which is likely to benefit from the same trends and is also currently an investment in the K2 International funds.

### Conclusion

The structural changes occurring in new media are likely to increase the pricing power and improve the revenue visibility of the large media content owners; and Disney is a primary beneficiary of this trend. We also believe that the market is only just beginning to appreciate this and consequently the PE multiple is likely to continue to re-rate further. Content currently makes up approximately 10% of both the K2 Select International and K2 International Opportunities funds. Investments such as these, which are leveraged to strong secular changes and growing somewhat independently of the normal economic cycle, are typical of our process at K2 International.

If you would like further information about the K2 International Strategies, please contact a member of our distribution team on 03 9691 6111 or visit [k2am.com.au](http://k2am.com.au).

DISCLAIMER: The information contained in this presentation is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. Please note that past performance is not a guarantee of future performance. A product disclosure statement and additional information booklet or information memorandum or general information on the funds referred to in this presentation can be obtained at [www.k2am.com](http://www.k2am.com) or by contacting K2. You should consider the product disclosure statement before making a decision to acquire an interest in the fund.

## Letter to the editor

Dear Editor,

Earlier this year, I wrote to my local MP regarding proposals by the Federal government to water down legislation on payment of commissions to financial advisors. I feel that any attempt to soften requirements provided by Future of Financial Advice (FoFA) legislation is detrimental to investors and an important issue for AIA members. It is hard to fathom the reasoning behind these changes, considering that FoFA was aimed at protecting people, especially those who are aiming to pay their way through their retirement years. I can only conclude that they are protecting the "big guys". My letter is below

Karen McNamara - MP Federal memberfor Dobell

Dear Karen,

I am extremely concerned about the proposed reintroduction of paying financial advisers by commissions from managed funds, banks etc.

This system was used for many years and led to many incidents where investors were given poor or the wrong advice, some losing their life's savings, homes and worse. The advice given by Storm Financial in 2009 was a prime example.

Now our government (I am and have nearly always been a Liberal voter) in response to strong lobbying from the banks and institutions propose to go back to this system. Arthur Sinodinos, the Assistant Treasurer, an ex employee of the National Bank, is a strong advocate of this reintroduction. An article in the Weekend Financial Review, 15-16 February 2014, gives a good summation of the proposal.

I am a self funded retiree with a self managed superannuation fund and was looking forward to perhaps handing my portfolio to a professional financial adviser in my more senior years. Some years ago I did seek the help of an adviser who I felt after doing some research was OK.

It soon became apparent that his main motivation for recommending products was sales commissions. After some extensive self-education, I now do it myself. If we go back to this system I will have to continue doing this.

Financial Advisers handle life savings of hard working people and should have the same knowledge and standard of education as other professionals such as doctors, lawyers and teachers and not be motivated by commissions.

I would much appreciate it if you would present my concerns to the appropriate ministers and I look forward to your response.

Many thanks for your time and consideration.  
Peter Stewart

# Who can you trust?

## Are you getting advice or a sales pitch?

Brian Spies, AIA Director

The letter from Peter Stewart to his local MP reflects the concerns of many AIA members. We have all heard stories where improper, conflicted financial advice has resulted in substantial loss of savings, shattered dreams, disillusionment and even bankruptcy.

An increasing number of people who have lost trust in the system are attracted to the AIA because they feel they have nowhere else to turn. The AIA offers a safe environment for these people to share stories and experiences, and learn from each other, whether they be at local discussion groups, information evenings, seminars or the national conference.

### The investing journey

Successful investing is a long journey requiring many years to become proficient, learning what works for you and what doesn't. There are no short cuts. Take control. Educate yourself. Take responsibility for your own actions based on your learning of the subject matter. Be sceptical of people trying to sell you products or services. If it sounds too good to be true, it probably is.

Many excellent books have been written on investing. Read avidly. Informative, expert presentations are given at AIA seminars and conference. Listen and critique them. Other investors will share their stories with you. Empathise and think how their journey compares with yours. What can be learnt from their (and your) mistakes? Be aware of your personal hopes and fears, the barriers and incentives that lead to buying and selling decisions that, although they appear rational at the time, are driven by emotions rather than sound decision making. Have an investment plan and follow it.

### Life-changing decisions

Australia's retirement system has gradually evolved over the past 20 years from defined benefit schemes, where retirees receive a fixed percentage of their final salary and the employer bears all the risk, to defined contribution schemes where market and investment risk is borne by the individual. Australia's superannuation system, the envy of the world, has grown to over \$1.8 trillion. Our Centrelink system provides a safety net.

This immense amount of wealth waiting to be invested has created a fertile market for salesmen, spruikers, advisors, planners and shonks. It has built an immense financial

planning industry underpinned by complex legislation and conflicted remuneration structures, where more than two-thirds of professional planners are employed by or affiliated with banks or insurance companies and rewarded by sales of specific products. The interim report of the Financial System Inquiry, headed by David Murray, points out that only 15% of the 54,000 financial advisers in Australia can be classed as independent. Over half are owned by large vertically integrated institutions such as banks; the remainder belong to dealer groups that have varying minority ownership by the large institutions.

Whom do you trust? Who do you go to for advice on how to grow and preserve your life savings? Therein lies the dilemma.

### Advice or sales pitch?

Many Financial Advisors and Financial Planners work hard in their client's best interests and are deeply committed to principles of transparency and integrity. A key pillar of the profession, according to the Financial Planning Association of Australia is to "develop strategies to assist clients in managing their financial affairs to meet life's goals, which involves reviewing all relevant aspects of a client's situation across a breadth of financial planning activities, including inter-relationships among often conflicting objectives." This makes sense, if adhered to by well-trained, skilled professionals with your interests at heart. Yet it is possible to become a financial planner in Australia by paying \$2000 and completing a two-week course. Who do you trust?

### Receiving sound advice

We go to advisors to receive advice. Sound advice costs money. There is no free lunch. The potential for conflicts of interest is everywhere. As Warren Buffet said at his 2009 shareholders meeting, "Don't ask a barber if you need a haircut".

If a person offers advice and receives remuneration based on products they sell you, there is clearly a conflict of interest. Whose interests do they put first – theirs or yours?

The Murray Inquiry supported the views of many commentators that there should be a clear distinction between two categories of advisors or planners.

1) Those who receive remuneration (salary or performance bonuses) based on the volume of in-house products they sell. This group includes advisors employed by or

associated with the big four banks and life insurers. The advice may appear to be "free", but the products sold generate commissions and bonuses to the advisor. Trailing commissions may go on indefinitely after the product is bought, generated out of annual fees that significantly dilute the performance of the investment over time. These advisors should properly be referred to as "financial sales or product salesmen" (or saleswomen) or brokers.

2) Financial Planners or Advisors who are trained and skilled to advise on a wide range of investment strategies and financial products suited to the goals, aspirations and understanding of the client. These professionals deserved to be paid in the same way as doctors or lawyers or architects, by an upfront fee. They should be accredited, well educated and well regulated.

### What if I can't afford to pay for good advice? And what if I can?

Financial decisions can be life changing. They can be liberating if done well, and ruinous if done poorly. A good financial advisor is worth their weight in gold, but they may be hard to find. Ask friends for referrals; check references, ask about their experience, training, knowledge and accreditation. How do they invest? Do they walk the walk as well as talk the talk? The stakes are high. For some people who cannot afford an up-front fee, commissions may be acceptable, but make sure that the commissions are fully disclosed and transparent, and they are reasonable and justifiable. However commissions always engender some sort of conflict of interest – would a commission-based advisor ever recommend that an individual stay in cash or buy a low-fee index ETF? I suspect not.

How about spending \$130 per year to become a better investor? The AIA offers excellent value in helping individuals become "informed consumers" of financial products. By attending meetings, workshops, discussion groups and conferences, you will gradually improve your financial literacy and learn to distinguish between fact and fiction, sound ideas from wishful thinking, sound strategies from dodgy offerings. Most of all, you will get to meet others like yourself and learn that you are not alone. The journey may be long, but it is liberating and rewarding. The motto of the AIA is "Investors helping Investors", and it's true.

Brian Spies is a Director of the AIA

# A Guide to Tax Deferred Distributions

Daryl Wilson, Cromwell

Tax deferred distributions are an attractive feature of many property investments and have the potential to greatly increase the after tax return of an investment.

Despite this, tax deferred distributions are not well understood outside the community of professional investors and tax specialists because they are complex and, dare I say it, boring.

That's a pity because the benefits of tax deferral can be significant, especially for those on high incomes. For many investors, an investment that offers 100% tax deferred distributions can enhance the after tax returns from that investment. By deferring taxes on the returns of an investment, the investor benefits in several ways. One such benefit is tax-free growth: instead of paying tax on the returns of an investment, tax is paid only at a later date, leaving the investment to grow unhindered. In addition, tax may be payable at either reduced rates for capital gains, at a lower marginal tax rate or not at all if an investor's circumstances change prior to realising the investment.

Tax deferred distributions are available if and when a property trust's distributable income is higher than its taxable income. This frequently occurs due to the trust's ability to reduce its taxable income through claiming tax deductions for items such as depreciation on plant and equipment, capital allowances on the building structure, interest and costs during construction or refurbishment periods, and costs of raising equity.

Tax deferred distributions are generally non-taxable when received by investors. Instead, the investor's cost base for Capital Gains Tax (CGT) purposes is reduced by the amount of the tax deferred distribution.

This amount may then be taxed, in whole or in part, when the investment is finally sold or the property trust is wound-up. At its simplest, tax deferral works as follows. Suppose a trust earns rental income of \$100 and has building allowance deductions of \$20. Then the net taxable income is \$80, which is distributed to unitholders to be included in their taxable income. The remaining \$20 of cash is distributed to the unitholders too, but it's regarded as a reduction in cost base.

For so long as the accumulated tax deferred income is less than the investor's acquisition cost, the tax is generally able to be deferred. If tax deferred amounts have reduced the cost base to zero – that is if the investor has received total tax deferred distributions at least equal to the original cost of the investment - then any excess must be declared as a capital gain in the year it is received.

Capital gains are distributed by a trust only when the trust sells assets at a profit. These gains are then taxed in the investor's hands, the same as other gains. Alternatively, investors are taxed on any capital gains, including any accumulated tax deferred distributions, when they dispose of their units in a trust.

## The Benefits

As stated previously, the benefit of tax deferred distributions for investors is the “deferral” of tax until a CGT event, such as when the sale of your units in the particular investment or the wind-up of the trust triggers a CGT liability.

These benefits are considered attractive by many investors because tax deferred distributions are not taxed as ordinary income at your marginal tax rate, but rather under the CGT regime when a CGT event occurs. This often results in less tax being payable, depending on an investor's individual circumstance.

In particular, while the distribution reduces the investor's cost base for CGT purposes, thus increasing the CGT gain on realisation, if the investor holds the units for more than one year they may be able to significantly reduce the tax payable by applying the 50% discount for individuals, or by the 33% discount for superannuation funds.

Tax deferred distributions may also be reinvested until such time as a CGT event occurs. The compounding benefit from reinvesting the tax that would otherwise be payable on these distributions can be significant over time.

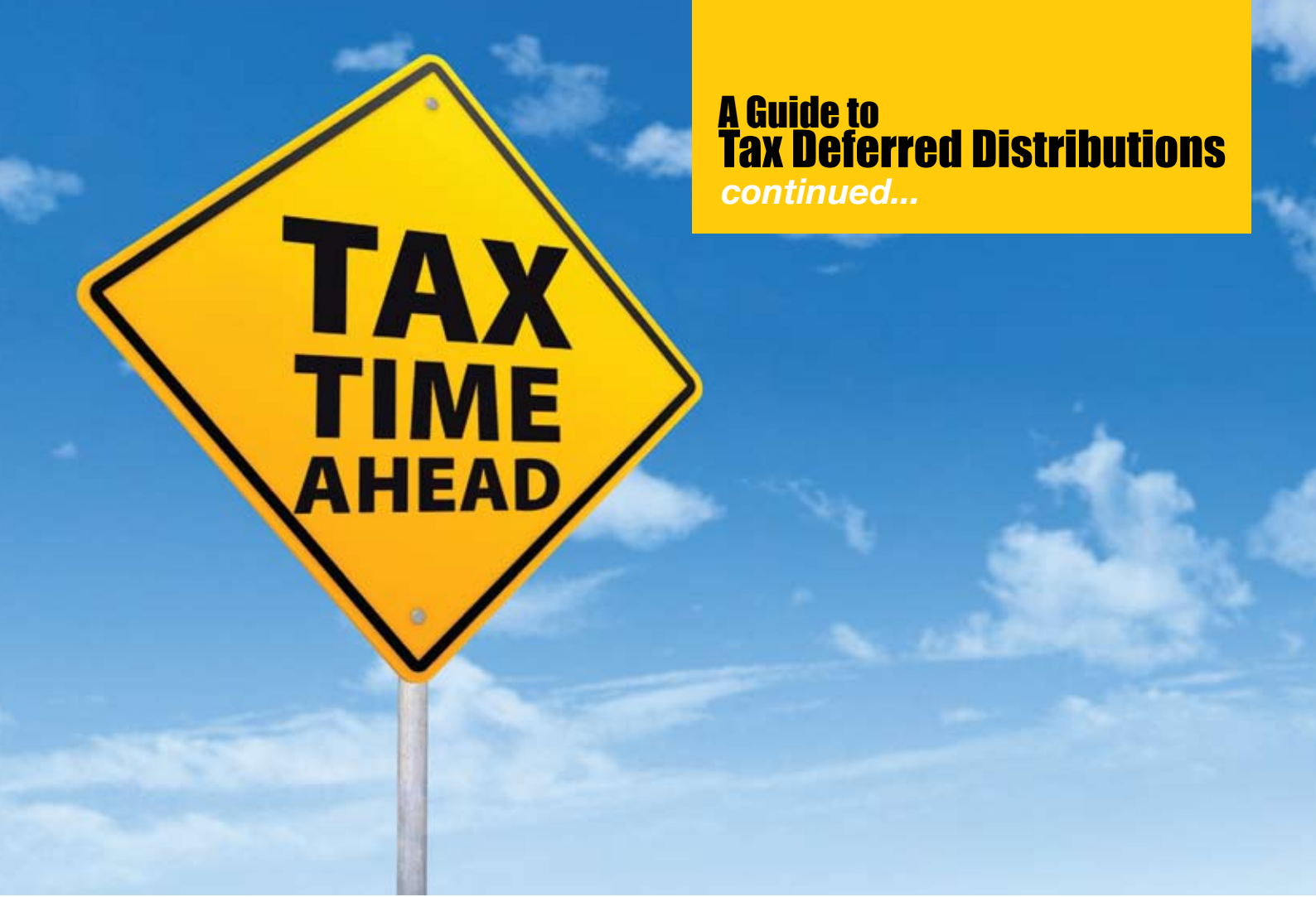
Tax deferral may also offer other advantages. For example, where the units are held by a superannuation fund that realises the investments during the pension phase any capital gain should be exempt from tax.

Tax deferred distributions offer a significant benefit to all classes of investors, including Self-Managed Superannuation Funds (SMSFs), although the benefits are greatest for those who pay the highest marginal tax rate.

The case study below shows the effect of tax deferred distributions for an investor on the top marginal tax rate. The case study compares a hypothetical investment of \$100,000 into an interest paying investment earning 8% per annum (good luck getting that level of interest income these days!) with a property investment paying 8% distributions.

# A Guide to Tax Deferred Distributions

*continued...*



	Interest Investment (\$100,000 initial investment)			XYZ Investment (\$100,000 initial investment)			Difference
Year	Interest	Tax Payable	Net Income	Distribution	Tax Payable	Net Income	
2010/2011	\$8,000	\$3,720	\$4,280	\$8,000	-	\$8,000	\$3,720
2011/2012	\$8,000	\$3,720	\$4,280	\$8,000	-	\$8,000	\$3,720
2012/2013	\$8,000	\$3,720	\$4,280	\$8,000	-	\$8,000	\$3,720
2013/2014	\$0	\$0	\$0	-	\$5,580 <sup>(1)</sup>	-\$5,580	-\$5,580
TOTAL	\$24,000	\$11,160	\$12,840	\$24,000	\$5,580	\$18,420	\$5,580

“  
**Capital gains are distributed by a trust only when the trust sells assets at a profit...**  
”

As you can see, an investor on the top marginal tax rate is \$5,580 better off over the 3 year investment period, equivalent to approximately a 44% improvement in the after tax returns and better cash flow profile.

- Capital gain = \$100,000 capital redemption less reduced cost base of \$76,000 (\$100,000 initial investment less \$24,000 tax deferred distributions = \$76,000) = \$24,000. Tax payable = \$24,000 x 46.5% x 50% = \$5,580.

- Assumptions used in the case study:
- An investor invests \$100,000 into XYZ Investment (for example, an unlisted property trust) on 1 July 2010 at a cost of \$1.00 per unit (XYZ Investment).
  - The XYZ Investment is redeemed on 1 July 2013 (i.e. after three years) at a unit price of \$1.00. No allowance has been made for any potential capital gain or loss from unit price increases/decreases during the period the investment is held. This would also have CGT implications.
  - Distributions from XYZ Investment are 100% tax deferred for the full period of the investment.
  - XYZ Investment distributes 8.0 cents per unit per annum.
  - The investor does not have any capital losses available to offset gains.

This article has been prepared by Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 (CFM). This article is not intended to provide investment, taxation or financial advice or to act as any sort of offer or disclosure document. It has been prepared without taking into account any investor's objectives, financial situation or needs. Any potential investor should make their own independent enquiries, and talk to their professional advisers, before making investment decisions. CFM does not receive fees for the general advice given in this article.



# INVESTORS

## QUEUE FOR HIGH YIELD CORPORATE BONDS

Liz Moran

In the bond market, there is a price for everything. No matter the risk, what might seem a poor investment for some is a great opportunity for others. Recently, FIIG Securities started issuing bonds on behalf of mid-sized corporations. Since FIIG's first issue for Silver Chef in 2012, it has raised \$470m through 11 issues for ten companies.

High yield bonds provide higher returns due to the perceived higher risk of the issuers. This can be valuable in this low interest rate environment. Most of the bonds are issued by companies that are rated "sub investment grade" or do not have a rating but in reality can prove to be "gold" for canny investors. I'd consider anything earning over 6 per cent as high yield and have included a list of bonds in that bracket below. FIIG has issued all of the bonds below on behalf of the companies listed with the exception of NextDC, Qantas and Sydney Airport.

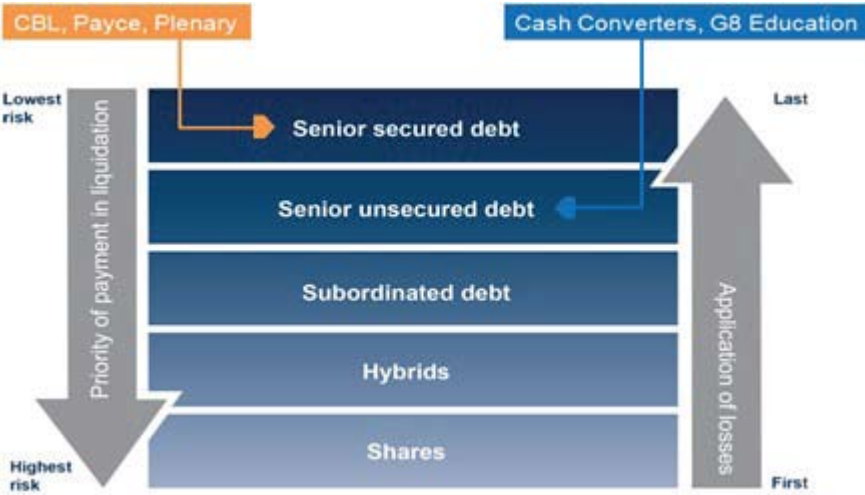
High yield bonds					
Issuer	Maturity date	Bond type	Capital structure	Yield to maturity	Face value
CBL Corporation	17/04/2019	Fixed	Senior Debt	6.47%	\$10,000
Cash Converters International	19/09/2018	Fixed	Senior Debt	6.11%	\$10,000
G8 Education	07/08/2019	Fixed	Senior Debt	6.00%	\$10,000
NextDC	16/06/2019	Fixed	Senior Debt	7.19%	\$10,000
Payce Consolidated	03/12/2018	Fixed	Senior Debt	7.49%	\$10,000
Plenary Bond Finance Unit Trust	16/06/2021	Fixed	Senior Debt	6.56%	\$10,000
PMP Finance	23/10/2017	Fixed	Senior Debt	6.38%	\$10,000
Qantas Airways	27/04/2020	Fixed	Senior Debt	6.42%	\$10,000
Qantas Airways	11/06/2021	Fixed	Senior Debt	6.79%	\$10,000
Qantas Airways	19/05/2022	Fixed	Senior Debt	6.89%	\$10,000
Silver Chef	14/09/2018	Fixed	Senior Debt	6.16%	\$10,000
Sydney Airport Finance#	20/11/2030	Inflation linked	Senior Debt	6.21%	\$12,346

Source: FIIG Securities  
Note: black = retail and wholesale investors, red = wholesale only  
Prices accurate as at 18 August 2014 but subject to change  
# Assumes inflation at 2.5%

Before investing in any bond an investor's first step is to examine the fundamental credit research about the company issuing the bond. Is its business model sound, what experience does the management team offer, what is the state of the company accounts? Is the company expected to survive until the bond is due for maturity? What are the risks to the company's survival and what resources does it have to raise capital to ensure investors are paid interest and principal?

High yield bonds have a number of inbuilt protections for investors, for example:

- High yield bonds are often senior in the capital structure and may have defined security, providing extra comfort to investors. In the corporate capital structure diagram below, five FIIG originated bonds are shown high in the capital structure. Shareholders, at the lowest rung in the structure, provide a buffer for bond holders in a more senior position in the structure. They are in the first loss position and would need to be wiped out before bondholders would incur a loss.



Source: FIIG Securities

# INVESTORS

## QUEUE FOR HIGH YIELD CORPORATE BONDS

continued...

“

There is **no reason**  
**investors** shouldn't consider  
an allocation to **high yield bonds**  
for their **portfolio**”

”

- Generally, if there is a change in control such as a takeover, bond investors have the right to repayment of the bond, although there is usually no obligation. Often the repayment clause is at a slight premium of say, \$101.
- Various covenant protections including:
- A negative pledge that restricts the level of secured debt that will be able to rank ahead of the notes at the outset.
- An overall level of debt incurrence, subject to a pre- agreed level, for example the Silver Chef interest cover ratio must be higher than 3.5 times.
- Restricted ability of the issuer to distribute payments outside of the group to shareholders and prohibits special dividends and limits the level of ordinary dividends.

There is no reason investors shouldn't consider an allocation to high yield bonds for their portfolio. Higher returns do compensate for higher risks. Portfolio theory suggests investors should own a range of investments and a small allocation to high yield bonds will boost overall portfolio returns.

While the Australian high yield market is in its infancy, the US high yield market is well-developed. The Securities Industry and Financial Markets Association estimates the US high yield bond market to be worth USD1 trillion. Year to date issuance to the end of July is a significant USD197.4 billion, or 22.1 per cent of all US corporate bond issuance. Many Australian companies, including household names such as Fortescue, Nufarm and Bluescope, issue into this market because an Australian high yield market didn't exist until Qantas was downgraded by the credit rating agencies earlier this year.

When Qantas first issued its 2020 bond the company was investment grade but has since been downgraded. Companies in this situation are known as a "fallen angels" in the US. After the historic launch and successful issue of its 2022 fixed rate sub investment grade bond Qantas issued a third bond, maturing in 2021 at a fixed rate of 7.5 per cent, with similar characteristics to the 2022 bond. The 2021 issue raised another \$400 million for Qantas, taking total domestic issuance to \$950 million.

Key in any bond assessment is whether you think the company will "survive". If you think the company will still be operating when its bonds are due to mature, then you can expect to be paid your interest and returned the face value of the bond. High yield bonds play an important role in financing companies worldwide. Early indications are that Australian investors are keen to support the developing domestic market.

To find out more about the high yield bonds FIIG Securities has issued, please see the FIIG website [www.fiig.com.au](http://www.fiig.com.au). All of the bonds mentioned in this note were issued in the over-the-counter market. Investors interested in any of the issues need to contact a bond dealer/broker in order to transact.

.....



Greater diversification, less effort



ASX

The mFund  
Settlement  
Service

To find out more about the new way to access  
unlisted managed funds, visit [mFund.com.au](http://mFund.com.au)



# SMSF LOANS TO TRUSTS

Krishna Skandakumar & Daniel Butler

Australian Taxation Office Interpretative Decision ATO ID 2014/23 confirms that a loan to an unrelated trust will not constitute an in-house asset of an SMSF. However, advisers must exercise a high degree of caution — as all is not as ‘simple’ as it seems. This article highlights the need for caution before applying the result.

## Facts of ATO ID 2014/23

The facts of ATO ID 2014/23 are as follows:

- an SMSF advances funds to a property trust (‘Property Trust’);
- a related party of the SMSF (‘Unit Trust’) holds less than 10% of the issued units in the Property Trust;
- the Unit Trust has, as members of the class of general beneficiaries, members of the SMSF (this fact suggests the Unit Trust may not be a fixed unit trust and may have a hybrid or discretionary element. However, this issue is not further discussed by the ATO); and
- the loan was made under a commercial loan agreement.

The issue raised was:

Will a loan from an SMSF to a Property Trust be treated as an in-house asset?

The decision was provided as follows:

A loan from a SMSF to a Property Trust will not be treated as an in-house asset if the Property Trust is neither a related trust (a trust controlled by a member or a standard employer sponsor of the SMSF) nor a related party of the SMSF.

## Reasons for Decision

The ATO’s reasoning is far from controversial.

The analysis begins with the ‘financial assistance’ provision in s 65(1) of the Superannuation Industry (Supervision) Act 1993 (Cth) (‘SISA’). Broadly this subsection provides that the trustee of a regulated superannuation fund must not lend money of the fund, to a member or a relative of a member of the fund. A ‘relative’ is defined in s 10(1) of the SISA and only includes ‘natural persons’. Accordingly, as the Property Trust is not a natural person — it is a trust — s 65(1) will not apply to this course of action.

However, the substance of the analysis focuses on the in-house asset provisions.

ATO ID 2014/23 begins this part of the analysis with reference to the definition of an in-house asset in s 71(1) of the SISA, which provides that an in-house asset includes ‘a loan to ... a related party of the fund’. The term ‘related party’ is defined in s 10(1) as a member of the fund, a standard employer-sponsor of the fund or a Part 8 associate of either of those entities. As the Property Trust is not a member or a standard employer-sponsor of the SMSF, the analysis turns to whether the Property Trust is a Part 8 associate of the SMSF members. More specifically, the key question is whether the trustees of the Property Trust or any of the other unit holders of the Property Trust are Part 8 associates of the individual members of the SMSF?

The Part 8 associates of a member are found in s 70B. Among other things, they include trustees of trusts that are ‘controlled’ by the members of the fund. Under s 70E(2) of the SISA a trust is ‘controlled’ if:

“

**Will a loan from an SMSF to a Property Trust be treated as an in-house asset?**

”

(a) a group in relation to the entity has a fixed entitlement to more than 50% of the capital or income of the trust (as discussed above, the related parties of the Fund held only 10%); or

(b) the trustee of the trust, or a majority of the trustees of the trust, is accustomed or under an obligation (whether formal or informal), or might reasonably be expected, to act in accordance with the directions, instructions or wishes of a group in relation to the entity (whether those directions, instructions or wishes are, or might reasonably be expected to be, communicated directly or through interposed companies, partnerships or trusts); or

(c) a group in relation to the entity is able to remove or appoint the trustee, or a majority of the trustees, of the trust. A ‘group’ in relation to an entity is defined in s 70E(3) of the SISA to also include the part 8 associates of the entity:

- (a) the entity acting alone; or
  - (b) a Part 8 associate of the entity acting alone; or
  - (c) the entity and one or more Part 8 associates of the entity acting together; or
  - (d) 2 or more Part 8 associates of the entity acting together.
- Applying the legislative framework to the facts, the trustee of the Property Trust is not a Part 8 associate, as:

- the related parties (ie, the Unit Trust that is held by the members of the SMSF) holds less than 50% of the capital or income of the trust; and
  - the related parties have no control over the Property Trust.
- Therefore, the loan has not been made to a related party of the SMSF and does not constitute an in-house asset.

## Trap

Naturally, this may seem to provide a positive result for taxpayers. However, there are many ‘traps’ that exist that advisers must be aware of, due to the oversimplified nature of ATO ID 2014/23.

50-50 unrelated unit trust

The related parties of the SMSF considered in ATO ID 2014/23 only hold a 10% interest in the units issued in the trust. However, practically, there are many SMSFs that own a 50% or greater interest in a unit trust (including through their associated entities). Many have wanted to implement arrangements whereby an SMSF and its related entities owns exactly 50% of a unit trust and therefore argue that the unit trust is not related. The ATO publicly acknowledged in 2013 (in its NTLG minutes) that this could be possible.

## SMSF LOANS TO TRUSTS

However without careful drafting of the deed of the trust and the constitution of the trustee of the trust (if a company), there is no guarantee that the trust will not be ‘controlled’ under s 70E(2) of the SISA. In particular, how matters such as director votes are determined is critical in ensuring that the trust remains an ‘unrelated’ party. Many constitutions, for instance, provide a casting vote to the chair.

For a detailed discussion of 50-50 unit trusts, please see <http://www.dbalawyers.com.au/smsf-compliance/recent-case-huge-implications-control-5050-unrelated-unit-trust/>.

## Other considerations

There are various other elements that can bring the trustee of the Property Trust under the ‘control’ of the members of the SMSF, including:

- whether the entitlements of the trust are varied and provide an entity with more than 50% of the income or capital of the trust in certain circumstances;
- the deed includes an ‘appointor’ role who has the ability to remove or appoint the trustee of the trust; and
- other matters, eg, the Unit Trust, in this ATO ID did not appear fixed, and accordingly, all distributions could be non-arm’s length income taxed at 47% (even if the SMSF is in pension mode) under s 295-550(4) of the Income Tax Assessment Act 1997 (Cth).

Further, a link many overlook is where members have some joint receipt of income with other unitholders in a Unit Trust and their unitholdings are grouped together in determining whether a related trust relationship exists, eg, jointly-owned investments.

“

**Australian Taxation Office  
Interpretative Decision  
ATO ID 2014/23  
confirms that a loan  
to an unrelated trust  
will not constitute an  
in-house asset of an SMSF**

”

## Conclusion

At the risk of sounding like a ‘broken record’, ATO ID 2014/23 answers a fairly uncontroversial question. However, advisers must exercise caution and seek proper advice before advancing funds to what they consider ‘unrelated trusts’.

sequoia

Thank you  
to our 2014  
National  
Conference  
Sponsors

Cromwell  
PROPERTY GROUP

ASX

K2  
Asset Management

AMF  
AUSTRALIAN  
MORTGAGE  
FUND LIMITED

Investor Centre

clime

VectorVest Australia

KATANA  
ASSET MANAGEMENT LTD

Contango  
MicroCap  
Limited

Trading  
Super  
Investing  
FUTURE WEALTH FUND

F I I G  
Fixed Income Specialists

RBS  
The Royal Bank of Scotland

EndowmentBOND  
EXCHANGE

Decisive  
ASSET MANAGEMENT



Follow your CTN MicroCap shares  
on your phone

The Contango  
Mobile Investor  
Centre App  
is available for  
iPhones and  
Android phones

Announcements  
'pushed' to your  
Home screen as  
they happen

Up-to-date Share  
Price and Market  
information at  
your fingertips

Reports, Research  
Contacts and more

Free  
Download

Available on the  
App Store

GET IT ON  
Google play



# What would George do?

Nick Radge, The Chartist



**Ever watch "Seinfeld"?**

Cracks me up whenever I watch it.

The other night was the episode where George Costanza did everything in opposites.

He saw an attractive woman in the diner, walked up to her and, instead of lying and conning her into a date, said he was a short, bald, unemployed man who still lives with his parents.

She immediately went out with him.

Then, he gets a job interview with the New York Yankees.

Instead of sucking up to the owner he tells him how much the team sucks and why every decision is stupid.

He gets the job.

**So what's the point?**

Every time George did the opposite to what he would normally do, what logic and common sense dictates him do, he 'won'.

It's the same for trading and investing and the stock market.

**Why?**

First consider that most retail investors perform badly (recent research from Blackrock shows the average investor has returned 2.1% over the last 20-years compared to the market return of 7.8%).

It could easily be assumed that most

people are making the same, albeit broad, investment decisions.

Therefore, if most people are making the same decisions most of the time, it's not a large leap to assume they're also making what is obviously a 'logical' or 'common sense' decision - probably the first one that pops into their mind.

Which immediately suggests that a logical, common sense decision or reaction that initially comes to mind must be the wrong one.

It certainly can't be the right one - the data would suggest otherwise.

How about the stock market itself, specifically the US?

Many will have you believe the country is an economic wasteland. It's bankrupt, the fiscal cliff, rising debt, rising unemployment, out of control trade deficits, asset sales and who knows what else? It's an economic disaster and for the last 10-years the doomsayers have told you to stock up on baked beans and gold.

Yet the US stock market continues to hit all-time highs. Not just the Dow Jones, but the S&P 500 and all the way down through the ranks to the Russell 2000. It's a dead-set broad based bull market.

In 1936, during the darkest day of the depression when US unemployment was running at 18%, the Dow Jones actually rose 24%.

**Where is the logic?**

And how is that gold trade everyone is ranting about for years? Buy gold, buy gold, buy gold. That's all we hear.

**What's been one of the worst investments over the last few years?**  
Gold.

And then there is Australia, the so-called 'wonder economy' touted by an ex-Federal Treasurer. The economy that every other country in the Western world should emulate.

Our stock market is still a long way from all-time highs. The Resource sector has fallen some 70% since 2011. The Small Ordinaries has flat lined for the last 12 months. If you've invested in anything outside of the top 20 stocks you'd know you've been spinning the wheels for a number of years. It's gone nowhere.

**Where is the logic?**

Which is exactly my point.

Logic has absolutely nothing to do with it. Same as making so-called 'logical' investment decisions.

Often the first reaction you have to a situation, especially under duress, is the incorrect decision.

So next time you're faced with a difficult investment decision, ask yourself, "What would George Costanza do?"

## Investment Opportunity

Cromwell is known for yield producing funds.

But what if growth is your focus?



YIELD



DIVERSITY



GROWTH



LIQUIDITY

## Cromwell Australian Property Fund

The Cromwell Australian Property Fund offers exposure to both listed and unlisted property, and provides liquidity, diversity and access to two highly specialised property portfolio management teams.

5.7%pa  
yield<sup>1</sup>

9.1%  
total return  
since  
inception<sup>1</sup>

Any investment is subject to risk, including an investment in this Fund. Capital growth, distributions and tax consequences cannot be guaranteed. An investment in the Fund is subject to risk and if a risk eventuates it may result in reduced distributions and/or a loss of some or all of the capital value of your investment. Examples of key risks include: construction risk, capital expenditure risk, borrowing risk and economic and market risk as set out in Section 4 of the PDS. To order a PDS, contact your financial adviser or Cromwell Investor Services directly on:

**PHONE 1300 276 693 VISIT [www.cromwell.com.au](http://www.cromwell.com.au)**

1. Past performance is not indicative of future performance. Yield is based on the unit price at 20 June 2014, but unit prices vary. Distributions and capital growth cannot be guaranteed and are subject to the assumptions and risks contained in the PDS. Fund inception date 24th September 2013.

Cromwell Funds Management Limited ABN 63 114 782 777, AFSL 333214 ("CFM") has prepared this correspondence and is the responsible entity of, and the issuer of units in, the Cromwell Australian Property Fund ARSN 153 092 516 ("Fund"). Before making an investment decision in relation to the Fund investors should read the product disclosure statement dated 24 September 2013 ("PDS"). Applications for units can only be made on the application form accompanying the PDS. This correspondence has been prepared without taking into account your individual objectives, financial situation or needs. Therefore, in deciding whether to acquire units in the Fund, you should consider the PDS and assess, with or without your financial or taxation adviser, whether the product fits your objectives, financial situation or needs. Forward-looking statements in this correspondence are provided as a general guide only and subject to the risks and assumptions in the PDS. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in this correspondence. If you acquire units in the Fund, CFM will receive fees as disclosed in the PDS.

Cromwell Funds Management Limited | Level 19, 200 Mary Street, GPO Box 1093, Brisbane QLD 4001 | Phone 1300 276 693 | Fax 07 3225 7788 | Email [invest@cromwell.com.au](mailto:invest@cromwell.com.au)



# THE POLITICS BEHIND *Financial Markets*

Alan Hull

Back in June the U.S. Federal Reserve bolstered financial markets by announcing that interest rates wouldn't be going up any time soon. And whilst this was a positive sign for markets in the shorter term, it bodes badly for free markets in general. The fact that investors 'Fed watch' in the first place is of grave concern. Thus we have entered the twilight zone of investing.

Take for example when the first quarter U.S. GDP figures were released and they had declined 2.9% annually. From a free market forces perspective this should have sent markets lower but because it signals continued stimulus and market support from the U.S. Federal Reserve, markets actually rallied on the news.

This recent phenomenon of central planners and regulators controlling capital markets through top-down policy goes to the very core of why I think we are in very serious trouble at the moment. It is the political system behind the economic system, behind the financial markets.

Paradoxically the problem stems from the very well meaning concept of providing the greater good for the greater number. (Mind you I think there is a healthy dose of self interest by some parties mixed in there as well) Thus the protectionist policies that were implemented during the GFC were simply designed to minimize the immediate financial pain.

Capitalism is an economic system while socialism is a political system. Capitalism is about individual ownership of property and free exchange whilst socialism is about centralized ownership and putting the well being of the group ahead of the rights of individuals. The kicker is that because one is an economic system and one is political, the two can supposedly co-exist.

Thus we'll have a capitalist system whilst it doesn't cause the group too much pain but when it does then we will override it with central planning policy. The problem is that central planning policy will inevitably run up against free market forces, which is somewhat akin to combining matter with anti-matter...you get a big bang.

So we have emergency low interest rates which everyone now thinks is normal, good news is bad news for markets and bad news is good news. Market corrections repair the distortions and imbalances in economic/financial systems but from where I'm standing there are still plenty of distortions.



Again, central planning policy and regulators are overriding free market forces supposedly to serve the greater good for the greater number. Hence there is no argument from me that the U.S. Federal Reserve's actions of recent times have in fact avoided a full scale depression from occurring. However this could well have been the depression that the global economy needed to have and all they have actually done is delay the inevitable and probably made it a lot worse.

This is my contention and so it would be very logical on the part of the reader (...that's you) to assume that I'm all for a capitalist system driven 100% by free market forces. But in fact this is not my position at all because I know full well that largely unregulated economic systems and resulting capital markets have their own equally as bad problems. So what is the answer?

The answer is there is no answer but rather the realization that political systems like economic systems move up and down a behavioural spectrum. In the case of economic systems they move from equilibrium at one extreme to boom & bust at the other and political systems move from individualism to collectivism. What do the following political systems have in common?

Fascism	Socialism	Despotism	Communism	Democracy	Monarchy
---------	-----------	-----------	-----------	-----------	----------

Whilst some of these political systems in the conventional sense appear to be polar opposites, they all rely on central control (a form of collectivism). Thus after the American colonies broke away from the rule of the British monarchy, they created their constitution. This document was all about protecting the rights of the individual and limiting the power of a central government.



But very slowly the ideals expressed in the constitution have been eroded with the passage of time and the U.S. has moved a very long way back towards central planning policies and centralised control. In my opinion they probably passed their optimal point on the behavioural spectrum between individualism and collectivism early in the twentieth century. At this time they were easily the most prosperous and largest industrial nation on earth.

So I see the latest economic policies of 'too big to fail' and an artificially low interbank lending rate of virtually zero (actually 0.25%) as getting just about as close as you possibly can to the collective end of the spectrum. The next question is why can't this be made to work anyway?

Economic systems are created by a mixture of policy and the resulting interaction of people. Hence they are organic complex systems and as such they rely on the ability of the agents within the system to freely interact with each other. If they can't freely interact then the system is no longer truly complex and that's not a good look for any organic system. Take an ant colony where all the ants who are out foraging for food suddenly get wiped out by a storm...



Because the system is made of non-critical individual agents, the loss of even a very large number of these agents won't bring down the system. Now consider what happened when just one Wall Street Bank went broke in the GFC of 2008 and the consequences of interdependence.



Dear Investor,  
*Intelligent Investor Share Advisor* has been providing profitable stockmarket advice to thousands of Australians for over 15 years, and I'd like to offer you 30 days to access our research and recommendations completely free of charge. So why should you give it a try?

- Performance : A \$100,000 investment in our Growth Portfolio in 2008 would be worth \$198,000 today. That's \$86,000 more than if you'd invested in the All Ords Accum. Index during the same period \* (30 Jun 2008–30 Jun 2013)
- Uncompromising: Our only source of revenue is through memberships, and our only incentive is to make you money.
- Consistent, profitable advice: On average our members have been with us for over 7 years.

For your exclusive *Investor's Voice* 30-day free membership (usually only 15 days), head to [intelligentinvestor.com.au/iv](http://intelligentinvestor.com.au/iv)

\*Past performance is not indicative of future results.

Nathan Bell,  
Research Director

## THE POLITICS BEHIND FINANCIAL MARKETS *continued...*

So at one extreme we have individualism and anarchy where there is no structure at all and at the other extreme we have complete centralised control where we are all serving the collective and there is no individual ownership and free exchange of property (again, the definition of capitalism). I think right now we are close to the collective end of the spectrum and I only hope we don't fall off it. Maybe our politicians would do well to watch George Orwells movie, 1984.

“  
**Capitalism**  
**is an**  
**economic**  
**system**  
**while socialism**  
**is a political**  
**system.**  
”



# A BETTER UNDERSTANDING OF EARNINGS FOR COMMON STOCKS

Lee Spano

Intuitively, all investors know earnings will impact the price of common stocks. Often we take a cursory look at various measures of earnings or profit, and form an opinion about future earnings. However, is this approach good enough? In this article we will explore company earnings in greater detail and distil a practical approach for inclusion in a robust investment plan.

### Which Earnings Measure?

Company earnings, returns or profits can be measured in many ways. Investors are faced with many different terms, formulae and ratios. These include: Earnings Per Share, Net Profit, Net Profit Before Abnormals, Return on Assets, Return on Equity, and the list goes on. But which one gives us a sound measure of earnings, and importantly earnings growth? It is suggested one of the best measures to study in detail is current Earnings per Share (EPS), and importantly EPS Growth (EPSG) over a significant period of time.

### What is Earnings per Share?

EPS is defined as total earnings or income, usually net of taxes, divided by total outstanding shares during the relevant period of time. For example, if company XYZ has net income of \$7m in the year ending June 2008, and the total shares outstanding for that period was \$10m, then the EPS would be 70c. The EPS gives investors a simple and clear benchmark of the company's earnings for each share intended to be purchased. It is a key driver of prices and has been used by classic investors, such as Buffett. However, the current EPS is not enough. We should also study the growth in EPS (EPSG) over a significant period of time, such as seven to ten years, to get a clear idea of how well management has been using retained earnings to grow the company.

### Earnings per Share Growth

The EPSG metric is one we should preferably calculate ourselves from historical EPS data. You should not just rely on a published figure. Calculating it yourself and studying the company's history over seven to ten years will give you a good feel for the company and earnings growth. Earnings growth is important for several reasons. The most important reason lies in the proposition that if a company has had solid earnings growth for a significant period of time, there is a good probability this will continue in the future. Management has been using retained earnings well, and has been growing the company nicely. If earnings grow, there is a likelihood stock prices will grow. To calculate EPSG from scratch is not difficult. Historical EPS data can be obtained readily, for instance from your broker or a good research source, such as Morningstar. The steps can be summarised as follows.

- Step 1. Gather the historical EPS data measured in cents for the last seven to ten years. Here minimise the forecast figures and rely on the actuals.
- Step 2. Place this in a spreadsheet and then ask yourself the question: has the EPS been growing in a steady way, or is it haphazard? If there is no clear and steady EPS growth, it may not be worth proceeding further with your analysis.
- Step 3. If so, then calculate the EPSG from the first year to the last year, preferably finding the compound growth rate per annum. This can be done via a calculator which has a compounding function, or a customised formula in the spreadsheet- we have created and use the latter.

- Step 4. Now make two comparisons. First, compare the EPSG to other stocks you are researching. Second, compare the EPSG to a common baseline, such as the current cash rate or the bond rate. More about this later.
- Step 5. Compare the EPS with the charts, preferably longer term charts, such as the weekly charts. Then ask yourself: has price been growing steadily during the same period as EPS? From our research, we have generally found a strong correlation with stocks that have a steady EPS and a strong EPSG, with uptrends defined technically on the charts. This is clear evidence of the general understanding that earnings are a key driver of price.

### A Worked Example

A worked example derived from one of our customised spreadsheets, will make things clearer.

Year Ended June	EPS (cents)
2013	55.1
2012	41.2
2011	30.1
2010	27.4
2009	25.0
2008	17.5
2007	16.1
2006	15.0
2005	11.8
2004	6.5

### Calculations-

- Enter the Present Value, the first value: 6.5
- Enter the Future Value, the last value: 55.1
- Enter the number of periods of time (N): 10 years
- Then use your compound function or formula to calculate a compound EPSG of 23.83% pa.
- That is, earnings have been growing at a compound rate of 23.83% each year. Further, from the ten year history, you can clearly see that the EPS figures have been growing steadily. Management has been growing the company and its earnings over a significant period of time. It is thus a preferred stock.

Special note. We have created a template for our readers to analyse the EPS data and to calculate the compound EPSG. If you want a copy, simply contact me as follows: Lee M. Spano, info@creatness.com, message subject: EPSG Template.

### Comparing EPSG

Now that we know the EPSG, how do we make sense of it? Remember dividends and franking credits are in addition to the EPSG. So, if the Dividend Yield for this company is say 2%, then it will have an overall return of 25.83% plus whatever franking credits are issued. The EPSG measures the inherent and dynamic growth of the stock. As mentioned earlier, you need to make two comparisons. First, compare the EPSG with other stocks you are analysing, preferably in the same sector, and determine which are preferable. Second, compare it to a baseline, such as the bond rate of say 6.5% per annum. For our above example, a growth plus yield return of 25.83% is clearly better than the bond rate. Broadly speaking, also understand the bond rate is a static rate, whereas the EPSG rate is a dynamic rate and can improve in the future.

## A BETTER UNDERSTANDING OF EARNINGS FOR COMMON STOCKS *continued...*



### Conclusion

A better understanding of the EPS and EPSG measures will give you a good insight into the fundamentals and management of a company. The five straightforward steps to determine and analyse these measures for common stocks should assist in clarifying and streamlining your analysis of both the fundamentals and the technicals of a stock. Insodoing, you have important foundations to build a robust investment plan.

Lee M. Spano is an investor and the CEO of Creatness International  
□ Copyright Lee M. Spano, 2014 All rights reserved.

### Disclaimer

The information here is not intended as investment advice or any form of advice, and must not be relied upon as such. The information is provided solely for general educational or information purposes and neither purport nor intends to be advice of any kind. No consideration has been given or will be given to the recipients' individual investment objectives, financial situation or specific needs. In this regard, you should consider your own financial or other advisor. Investments can rise and fall in value. The decision to invest or trade and the method selected is a personal decision and may involve an inherent level of risk. Any information provided must not be construed as providing recommendations in relation to any securities or other financial products. It does not constitute and must not be construed as an offer of securities or other financial products nor is it an invitation to you to take up securities or other financial products. The recipient releases absolutely Lee M. Spano and associates from all or any responsibility or liability for any losses, claims or demands that may be incurred as a result of the recipient using the information for investment or other purposes.

\*\*\*\*\*

# Timing<sup>2</sup>

Vigilance Rewards

Having knowledge of the equities market isn't enough. You also need a sixth-sense of timing. Timing doesn't only mean knowing when to act quickly. It also means knowing when to act patiently. Or not at all. Experience, observations, insights and timing set K2 apart. Well apart. At K2, we know vigilance rewards. Find out more at: [www.k2am.com](http://www.k2am.com) or Telephone: 61 3 9691 6111



K2 Asset Management Ltd ABN 95 085 445 094 ("K2") is the Responsible Entity of the K2 Asian, Australian and Select International Absolute Return Funds. You should consider the product disclosure statements for these funds before making any decision to invest. K2 is not licensed to provide financial product advice and any advice in this document has been prepared without taking into account your objectives, financial situation or needs. You should consider whether a product is appropriate for your personal situation. K2 and its related parties do not guarantee the repayment of capital or the performance of any fund. A cooling off period is available to some clients.



# THE OUTCOME OF AN INCOME OBSESSION

Roger Montgomery

You need to eat! Without income how can you pay for the healthcare, lifestyle and living expenses that forever rise in price?

I understand the need to generate income and also admire anyone who has managed to build a portfolio of investments that produces the returns they need to live comfortably.

I would however like you to think seriously about the possibility that an even better lifestyle might be affordable with a different approach to dividends and dividend yields.

The conventional investors' obsession with dividend yield does, I believe, lead to a greater selection of companies with relatively poor prospects. You'll see this in a moment, with an example. By definition, companies that pay consistently high dividends relative to their available profit cannot reinvest large amounts of retained profits at a sustainably high rate of return.

The result to you might be an attractive yield today but a loss of purchasing power over the long run. And given that at retirement you might need to fund 30 years of spending, what you want, and really need, is the ability to maintain your purchasing power! Simply put, if you are receiving \$50,000 of income on a million dollar investment today, but you are still earning \$50,000 of income on a million dollars in a decade's time, you will be much poorer.

When interest rates are so low that the real rate of return (after inflation) on cash deposits is actually negative, many investors dutifully strive to own a portfolio full of high dividend-yielding stocks. Over the long run however, you need your income to grow at a rate above inflation. That is the only way you can maintain your purchasing power, and in the future, afford to eat at the same restaurants you can today. The best stocks to deliver on that promise are not those paying a high dividend yield but those generating high rates of return on incremental capital.

Investors in The Montgomery Fund know our focus is on companies that own businesses that can redeploy large amounts of incremental capital at very high rates of return, over an extended period. And there's another benefit; sustainably high rates of return on incremental capital indicate a strong competitive advantage.

Conversely, the worst business to own must do the opposite out of necessity - reinvests large amounts of capital at low rates of return. Many Australian "blue chip" companies fall within this latter category, drawing many investors into the pit of mediocre returns because of their "attractive" dividend yield and "blue chip" monicker.

“ Over the long run however, you need your income to grow at a rate above inflation ”

## Why Yield Doesn't Yield

A quick investment example in two telecommunications companies over the past ten years will help illustrate this point. In calendar year 2004, Telstra (ASX: TLS) shareholders expected to receive a dividend of \$0.26 per share dividend, a yield of 5.2 per cent on the \$5.02 purchase price at the time. Fast-forward to today, and shareholders expect a calendar year 2014 dividend of \$0.30 per share or a yield on the current \$5.17 of 5.8 per cent. And Telstra's share price has appreciated from \$5.02 at 1 July 2004 to \$5.17 today, delivering \$0.15 or 3 per cent of capital growth.

Combining dividends (\$2.975 per share) and capital growth (\$0.15) over the ten-year period under review, Telstra's shareholders have recorded a total return of \$3.125 per share or 62.3 per cent on the \$5.02 purchase price, an average annual compounded return of just 4.9 per cent. This barely exceeds real world inflation over the period.

Perhaps surprisingly Telstra's normalized net profit is forecast to reach \$4.05b for the year to June 2014, around \$250m less than was recorded ten years earlier. Over the same period of time shareholders' funds have declined by \$2.3b to an estimated \$13.0b, but net debt has jumped by \$3.1b to an estimated \$14.2b.

Year to June	2004	2014 (Est)
Normalised Net Profit (\$m)	4,370	4,050
Shareholders' Funds (\$m)	15,359	13,028
ROE (%)	28.5%	31.0%
Net Debt (\$m)	11,163	14,240

Given the lack of growth in profits, paying out a little over 100 per cent of Telstra's earnings in dividends over this ten-year period has probably been logical. But for long-term, income-dependent investors, it hasn't been particularly useful.

The second telecommunications company I wanted to touch on is one that would be unlikely to have made it on any income-concerned investor's radar in 2005. M2 Telecommunications (ASX: MTU) dividend yield has been significantly below that of Telstra's throughout the ten-year review period. This is less relevant when you realize that both the dividend and the share price have grown meaningfully in that time.

M2's share price has appreciated from \$0.26 to \$6.00 over the past decade and in calendar year 2014, the dividend is expected to be \$0.23. This represents a current yield of just 3.8 per cent but over the ten-year period under review, M2's aggregate dividends totaled \$0.94 (and remember the purchase price was just 26 cents). Together with the capital growth, M2 shareholders have recorded a total return of \$6.679 per share on a 26 cent purchase price. That means that the average annual return was \$0.668 per share, or an average annual compounded return of 38.8 per cent.



More importantly a one hundred thousand dollar investment in 2005 is now worth \$2.7m, easily ensuring that the restaurants you were eating at in 2005 can be afforded today.

M2's net profit is forecast at \$80.0m for the year to June 2014, up from \$1.3m ten years earlier. While the number of shares on issue has grown from 48.2m to 180.4m over this period, primarily to fund acquisitions, it is interesting to note the forecast 2014 annual dividend will be nearly covered twice by normalized earnings.

The crucial message from this little (and rather dramatic) example is that while companies with good long-term prospects are likely to have a lower dividend yields, their strong growth in earnings and dividends will more often than not mean your total investment return, including capital growth, will easily usurp the concept of investing on a dividend yield basis only.

## To Pay Dividends or Not to Pay

And this brings me to the rather controversial subject – at least in the fully franked Australian landscape - on whether companies that own businesses able to employ large amounts of incremental capital at very high rates of return over an extended period, should pay a dividend at all!

Let's analyse two businesses - one has a return on equity of 20 per cent, an annual profit of \$1m and pays out 100 per cent of its earnings to investors. The second business also achieves a return on equity of 20 per cent, also has an annual profit of \$1m but instead reinvests all its earnings (thus paying no dividends) in its operations at returns of 20 per cent.

If we look to the future, the second company after a decade of growth will produce earnings almost 6.2 times greater than it does today, that is, \$6.2 million annually. Whilst the first company provided its investors with a regular and stable dividend cheque of \$1 million, it lacked capital to reinvest and expand its profits. Investors weren't served either as it would have been difficult for them to find similar opportunities to reinvest their dividends at 20 per cent returns....

Investing in the second company hasn't produced any income but when management decide to start doing so, there is a lot more able to be distributed than the first company. More importantly, the second company share price will have reflected its ability to reinvest growing profits at 20 per cent. If we assume the P/E ratio remains the same, the share price will have also grown six-fold. Its highly likely however that the market will have expanded the price earnings ratio it is willing to pay for the share of the second company, so it's reasonable to expect the share price will have appreciated much more than 620%.

So the downside of high-growth companies paying out part of their earnings is that the shareholders cannot generally earn that 20 per cent after tax on their incremental earnings. Accordingly, why not leave all retained earnings inside the company and let it compound over a long period of time? Management should retain as much profit as possible while they can redeploy profits at high rates of return. When the business matures and returns fatten, the much larger profits and accumulated franking credits can be distributed. If an investor needs some income, they can always sell a few shares or ensure they have investments in other income producing assets (that aren't going to protect purchasing power).

Finally, I asked the team at Montgomery to provide a list of examples that might provide value investors with an acceptable forecast return on equity, solid growth prospects, a good balance sheet and a reasonable prospective dividend yield:

Company	ASX Code	Price (20/6/14)	Forecast ROE (%)	EPS growth p.a. F'16/ F'13 (%)	Forecast net debt / equity (%)	Forecast Dividend Yield (%)
Reef Casino	RCT	\$4.05	108	9	(2)	7.8
Westpac	WBC	\$34.15	16	6	-	5.4
Infomedia	IFM	\$0.74	29	15	(27)	5.3
Platinum Asset Management	PTM	\$6.15	54	21	(91)	5.1
Commonwealth Bank	CBA	\$81.42	18	6	-	4.9
Nick Scali	NCK	\$2.58	36	12	(53)	4.8
Iress	IRE	\$8.13	20	83	32	4.8
Hansen Technologies	HSN	\$1.34	21	20	(22)	4.5

Roger Montgomery is the Chief Investment officer at The Montgomery Fund. To apply to invest visit [www.montinvest.com](http://www.montinvest.com)

## STOCKMARKET ANALYSIS SHOW

WATCH ALAN ON YOUR PC, TABLET OR SMARTPHONE FROM ANYWHERE IN THE WORLD



Alan Hull is a share trader and best selling author of Active Investing, Invest My Way and Trade My Way... You can now watch Alan's new weekly Stockmarket analysis show, available every Monday evening. Each week Alan shows you the shares he likes and the shares he doesn't like.

So to see a sample video of ALAN HULL TV and to download a subscription form go to... [www.alanhull.com/ahtv.html](http://www.alanhull.com/ahtv.html)

The information contained in this ad is general information only. Any advice is general advice only. Neither your personal objectives, financial situation or needs have not been taken into consideration. Accordingly you should consider how appropriate the advice (if any) is to those objectives, financial situation and needs, before acting on the advice. ActVest Pty Ltd (CAR No.306718) is a corporate authorised representative of Avestra Capital Pty Ltd (AFSL No. 292464).



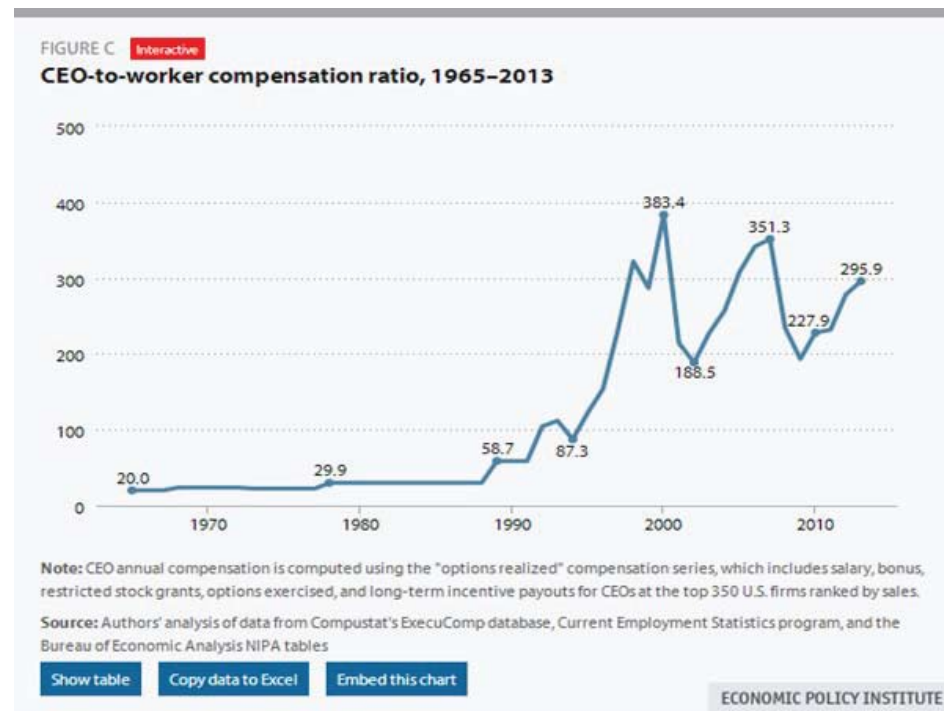
# HIGH PRICED MANAGEMENT or low cost founders?

Jason Sedawie, Decisive Asset Management

New research has found that the highest paid CEOs have some of the worst performing stocks. The firms that paid their CEOs in the top 10% of pay earned negative returns over the next three years of approximately 8%. It seems getting paid a lot of money made these CEOs overconfident which led to large acquisitions that performed poorly afterwards. This is known as agency risk. It is the risk that company management will use the company to serve their own interests rather than shareholders.

## The average CEO earned 296 times more than you

The chart below shows the CEO to worker pay ratio calculated from the largest 350 firms. These wages include stock and options whose valuations caused CEO pay to tumble in the aftermath of the dot com boom in 2000 and GFC in 2007. The average CEO earned \$15.2 million versus the average worker of \$52 thousand. With management you don't always get what you pay for.



## You might be earning more than the boss? \$1 CEOs

There is a happier trend for investors and that is the rise of the \$1 CEO. Compensation searches on Bloomberg come up with a number of these CEOs. Before you can say you finally earn more than the boss they are all multi-millionaires and billionaires because of their shareholdings. Some of these executives include:

- Google's Larry Page and co-founder Sergey Brin;
- Take Two Interactive (maker of Grand Theft Auto) Strauss Zelnick;
- Facebook's Mark Zuckerberg;
- Kinder Morgan's Richard Kinder;
- Urban outfitters Richard Hayne;
- Fossil Kosta Kartotis is paid \$0;
- Whole Foods Co-CEO John Mackey.

**Investors are always on the lookout for quality companies with growing cash flows but you need to be certain that these benefits will flow to shareholders**

Elon Musk of Tesla is also a \$1 CEO but in annual disclosures he is entitled to \$33,280 the minimum wage requirement under California law. Talk about red tape, don't worry he is billionaire shareholder. This compares to Ford's CEO who was paid \$23.2 million with a base salary of \$2 million. Investors have got to pay more for Warren Buffett's services of \$100,000 which is an absolute bargain given his track record especially when the average hedge fund manager charges 20% of the profits. What all these CEOs have in common is that they are founders of their own firms.

The solution is to invest with founders To reduce agency risk we like to invest alongside the people above, that is founder led firms. Having the right incentive structure is important but what is more important is motivation. For founders these companies are their life, they are not like professional managers jumping from job to job every five years. A study conducted by The Wharton School (Founder CEOs and Stock Market performance) showed that an equal weighted investment in founder led firms earned above average market returns.

Founder led firms tend to be more focused on the longer term, they are more willing to invest in future growth opportunities at the expense of short term margins. They also tend to do more focused acquisitions, no empire builders here. This tends to add up to better long term share performance. Anyone with their own business would understand why for these managers it's not a job it's their life.

Investors are always on the lookout for quality companies with growing cash flows but you need to be certain that these benefits will flow to shareholders. In our opinion the best way to get paid is to invest alongside founders or owner oriented management that have material shareholdings. What's best for them tends to be best for you.

Jason Sedawie is a portfolio manager for Decisive Asset Management. He can be contacted at Jason@decisiveassetmanagement.com

## SMSF XTRAS 4 GEN X & WHY 4 GEN Y

Shane Ellis

## PART 1

"What's the point? All superannuation is the same."  
"Superannuation is just for old folks!"  
"Why bother when I can't gain access to my funds for so long...?"

These are some of the standard misconceptions expressed by some of the young people who are NOT in the "know" when it comes to investing via Self Managed Superannuation Funds (SMSFs), whereas, wise superannuation investment is an integral part of how the wealthiest Australian families have become so wealthy, and have stayed so wealthy. These wealthy families teach financial wisdom to their kids so that they can take control of their financial affairs from a young age, and then retain sovereignty of their financial affairs right throughout their lives.

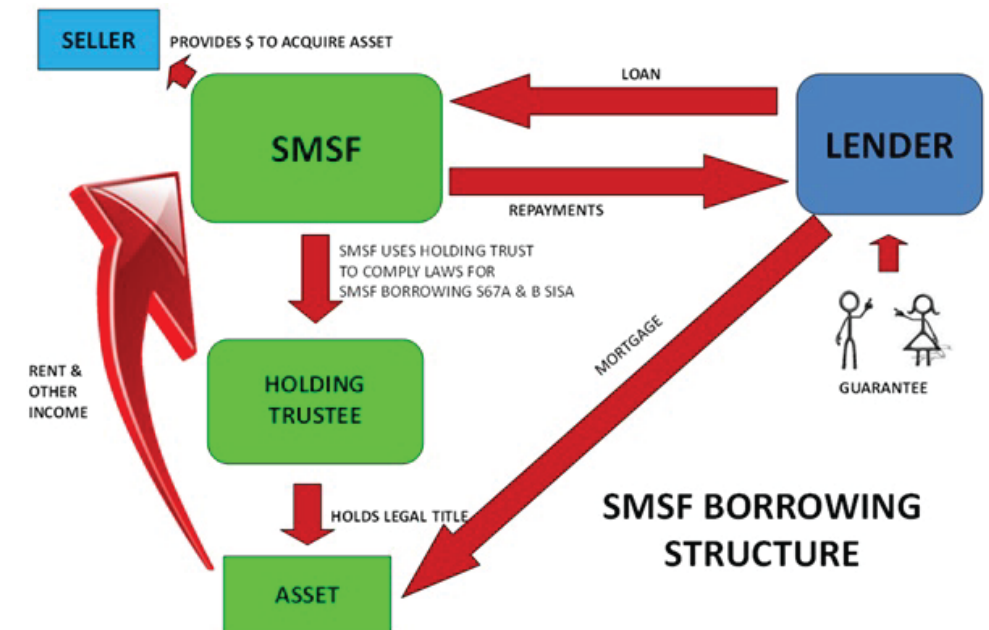
Let's have a closer look at some of the strategies these "wise ones" may very well teach their young'uns at an early stage of their financial development, so their kids better understand about the major benefits of SMSF >>>

### STRATEGY No 1- "LOAN SOME"

At a young age, access to your superannuation seems like a million years away! So what's the point of starting it now?

The simple answer to that very simple question is, that "if you're in now you win, and if you snooze now you lose!"

The first Universal rule that the wise apply, is that if you are personally involved or fully engaged with anything in life, including your investments, you will get much better results. If you are unengaged or lacklustre in your involvement, or off snoozing and playing whilst other people waste your money due to poor investments, then you get what you deserve. Your superannuation, is your retirement investment vehicle, it is quite likely to have a diminishing return (lose \$\$\$) if it is not kept a close eye on. Those who are engaged in what they do will prosper (make \$\$\$ in their SMSF which is a low or no tax environment). So, whilst the author agrees that healthy young'uns may not be able to access their SMSF benefits for some time the author says, "so what?!" Wealth is predominantly built over time.



The diagram above depicts the word "Lender" not the word "bank" because anyone can make loans to a SMSF as long as the laws are complied with, and as long as the Lender is being paid rates of interest that are no more than standard rates of return on commercial loan facilities.

What is even better is that the rates of loan interest charged to the SMSF don't have to be at a commercial rate at all. This means that the SMSF by agreement with the lender, may actually pay a rate of interest that is less than the standard commercial rates. If you don't believe me look at the ATO interpretative decision on point; the National Tax Liaison Group minutes, and the March 2014 interview with ATO Director of Tax and Regulatory Risks, Nathan Burgess. In this interview, Mr Burgess noted that a more favourable than commercial rate of interest to the SMSF on the loan could be fine, and although it is arguable that a "0" rate of interest was okay at law, it is advisable to be careful.

As such, a wise Gen X or Gen Y person will make loans to their SMSF to acquire single acquirable assets (such as real properties or parcels of the same listed shares) with lower than commercial rates of interest payable by the SMSF. They lock the income from the investment into their SMSF as well as any capital gain. The added benefit is that if the Gen X or Gen Y Lender needs their capital back they simply call for its return under the terms of their loan agreement. As long as they comply with the SMSF loan laws they can make as many loans to their SMSFs as they wish to, and as often as they wish to. That is what Strategy No1 is all about!

SUMMARY: Wise Gen X and Gen Y's make measured contributions to their SMSFs other than their SGC. They take more notice of their contributions as they get nearer to retirement age and then ramp them up considerably the closer they get. They make loans to their SMSF to acquire single acquirable assets regularly!!! Stay tuned for Strategy 2, 3 and 4!

**At a young age, access to your superannuation seems like a million years away!**



# Calendar of Events

Date	Event	Time	Venue
SEPTEMBER			
2/09/2014	Perth Information Meeting	7.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah Streets, Wembley Downs WA
2/09/2014	Adelaide Information Group	7.00pm	German Club, 223 Flinders St, Adelaide (Senatorum Room) SA
2/09/2014	Geelong Discussion Group	7.00pm	St George Workers Club, 212 Pakington Street, Geelong West VIC
3/09/2014	Brisbane Information Meeting	1.00pm	Broncos Leagues Club, Fulcher Rd, Red Hill QLD
8/09/2014	Canberra Discussion Group	7.30pm	Canberra Labor Club, Chandler Street, Belconnen ACT
10/09/2014	Sydney South Discussion Group	7.30pm	Miranda Community Centre, Wattle Room, 93 Karimbla Road, Miranda NSW
10/09/2014	Frankston Discussion Group	1.00pm	Private address, please contact event coordinator Bill Shirley, E: aiavic@investors.asn.au
16/09/2014	Perth Equities Discussion Group	7.30pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs WA
16/09/2014	Brisbane Investment Management Discussion Group	6.30pm	Carindale Library, Carindale Shopping Centre, 1161 Creek Road, Carindale QLD
17/09/2014	Brisbane Share Investments Discussion Group	6.30pm	Carindale Library, Carindale Shopping Centre, 1161 Creek Road, Carindale QLD
15/09/2014	Chermside Equities Discussion Group	7.00pm	Chermside Library, Hamilton Road, Chermside QLD
24/09/2014	Kew Discussion Group	7.00pm	Phyllis Hore Room, Kew Library, Corner Cotham & Civic Drive, Kew VIC
25/09/2014	Bayside Discussion Group	4.00pm	Contact Coordinator Kevin Macdonald for details Tel: 0417 328 748 Email: km.macdonald@bigpond.com Hampton VIC
OCTOBER			
1/10/2014	Sydney South Discussion Group	7.30pm	Miranda Community Centre, Wattle Room, 93 Karimbla Road, Miranda NSW
1/10/2014	Brisbane Information Meeting	1.00pm	Broncos Leagues Club, Fulcher Rd, Red Hill QLD
1/10/2014	Sydney Hills District Discussion Group	7.00pm	B Davis & Associates, Suite 17, 35 Old Northern Road, Baulkham Hills NSW
1/10/2014	Blackburn Discussion Group	7.15pm	Naturalist Club of Victoria, 1 Gardenia Street, Blackburn VIC
7/10/2014	Perth Information Meeting	7.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs WA
7/10/2014	Melbourne Information Meeting	6.30pm	Telstra Conference Centre, Room 1, Level 1, 242 Exhibition St, Melbourne
8/10/2014	Sydney North Shore Information Meeting	7.00pm	The Chatswood Club, 11 Help St, Chatswood NSW
13/10/2014	Canberra Discussion Group	7.30pm	Canberra Labor Club, Chandler Street, Belconnen ACT
15/10/2014	Brisbane Share Investments Discussion Group	6.30pm	Carindale Library, Carindale Shopping Centre, 1161 Creek Road, Carindale QLD
16/10/2014	Adelaide Information Group	7.00pm	German Club, 223 Flinders St, Adelaide (Senatorum Room) SA
20/10/2014	Chermside Equities Discussion Group	7.00pm	Chermside Library, Hamilton Road, Chermside QLD
21/10/2014	Perth Equities Discussion Group + 2014 AGM	7.30pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs WA
21/10/2014	Brisbane Investment Management Discussion Group	6.30pm	Carindale Library, Carindale Shopping Centre, 1161 Creek Road, Carindale QLD
21/10/2014	Gold Coast Information Meeting	9.30am	Robina Community Centre, Robina Town Centre Drive, Robina QLD
NOVEMBER			
4/11/2014	Perth Information Meeting	7.00pm	Wembley Downs Tennis Club, Cnr Morden & Ednah Streets, Wembley Downs WA
5/11/2014	Brisbane Information Meeting	1.00pm	Broncos Leagues Club, Fulcher Rd, Red Hill QLD
5/11/2014	Sydney South Discussion Group	7.30pm	Miranda Community Centre, Wattle Room, 93 Karimbla Road, Miranda NSW
5/11/2014	Frankston Discussion Group	1.00pm	Private address, please contact event coordinator Bill Shirley, E: aiavic@investors.asn.au
10/11/2014	Canberra Discussion Group	7.30pm	Canberra Labor Club, Chandler Street, Belconnen ACT
11/11/2014	Adelaide Information Group	7.00pm	German Club, 223 Flinders St, Adelaide (Senatorum Room) SA
11/11/2014	Geelong Discussion Group	7.00pm	St George Workers Club, 212 Pakington Street, Geelong West VIC
12/11/2014	Sydney North Shore Information Meeting	7.00pm	The Chatswood Club, 11 Help St, Chatswood NSW
17/11/2014	Chermside Equities Discussion Group	7.00pm	Chermside Library, Hamilton Road, Chermside QLD
18/11/2014	Perth Equities Discussion Group	7.30pm	Wembley Downs Tennis Club, Cnr Morden & Ednah St, Wembley Downs WA
18/11/2014	Brisbane Investment Management Discussion Group	6.30pm	Carindale Library, Carindale Shopping Centre, 1161 Creek Road, Carindale QLD
19/11/2014	Brisbane Share Investments Discussion Group	6.30pm	Carindale Library, Carindale Shopping Centre, 1161 Creek Road, Carindale QLD
26/11/2014	Kew Discussion Group	7.00pm	Phyllis Hore Room, Kew Library, Corner Cotham & Civic Drive, Kew VIC
27/11/2014	Bayside Discussion Group	4.00pm	Contact Coordinator Kevin Macdonald for details Tel: 0417 328 748 Email: km.macdonald@bigpond.com Hampton VIC

**As AIA events are confirmed, details are posted to the AIA website [www.investors.asn.au](http://www.investors.asn.au). Please note topic is subject to change.**



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.

## National Council

William Shirley  
Graeme Bottrill  
Jolyon Forsyth  
Russell Lees  
Brian Spies  
John Venn  
Adrian Vorbach  
Jon Kalkman

**President**  
**Vice President**  
**Treasurer & Company Secretary**

## Editorial

Rosemary O'Connor  
Chris Kesting  
Donna Meadows

**Editor**  
**Office Administrator**  
**Events and Member Services Coordinator**  
**Advertising Enquiries phone 07 5538 8074**

## Lifetime Members

Bob Andrew  
Bruce McBryde

PO Box 7439, Gold Coast MC Qld 9726  
Telephone | 1300 555 061  
Facsimile | 07 5538 8376  
Email | [aia@investors.asn.au](mailto:aia@investors.asn.au)  
Website | [www.investors.asn.au](http://www.investors.asn.au)

This Disclaimer is made for the purposes of the Corporations Act 2001 as amended by the Financial Services Reform Act 2001 ('the Acts').

## The Australian Investors Association Ltd

The Australian Investors Association Ltd ABN 75 052 411 999 ('AIA') is a non-profit association that aims to assist investors become more knowledgeable and independent. In furthering its aims the AIA offers general information through its publications. The AIA has no Australian Financial Services Licence ('AFSL') under Part 7 of the Corporations Act 2001 as amended.

## Does not contravene the Acts

The AIA, its officers, agents, representatives, and employees do not hold an AFSL and does not purport to give advice or operate in any way in contravention of the Acts. The AIA, its officers, agents, representatives, and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this publication to the full extent permitted by law. The AIA has a policy that does not permit the endorsement or recommendation of any product or service regulated by the Acts.

## Provides information only

This publication has been prepared as an information publication without consideration of any reader's specific investment objectives, personal financial situations or needs. Because of this, no reader should rely upon the information and/or recommendations contained in this publication. Readers should, before acting on any information contained herein, consider the appropriateness of the information, having regard to their objectives, financial situations and needs.

The AIA believes that the material contained in the publication is based on the information from sources that are considered reliable and is accurate when issued. However, the AIA does not warrant its accuracy or reliability. All views and information expressed by the AIA, its officers, agents, representatives, and employees are for the purposes of discussion only.

If this publication, or any information, relates to the acquisition, or possible acquisition, of a particular financial product, the reader should obtain a product disclosure statement relating to the product and consider that statement, and should consult a licensed person before making any decision about whether to acquire the product.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the AIA.

**Copyright:** All rights reserved. No re-publication or copying in any way, including electronic means, may be made without prior written consent of the AIA.