

Prospering in a world of change



Noel Whittaker

New markets rapidly emerging as part of the global village mean that investors must quickly adjust to a 'new normal'.

THIS week MLC investment strategist Brian Parker and I have been on the speaking circuit trying to help investors make sense of the current investment scene. I have been focusing on issues arising from the Henry tax review and the Cooper superannuation review, which I have covered at length in previous articles. Brian has been talking from a worldwide perspective and after hearing many comments such as "you need to write about this" I have decided to give you an overview of his presentation today.

His main premise is that we need to adjust to "a new normal". The developed world is going through a deleveraging process, which means people are saving more or borrowing less, at the same time as governments are being forced to cut spending as they struggle to pay back the debts they took on to get through the global financial crisis. This means reduced economic activity and reduced profits, which should translate to lower investment returns than we have experienced for the past 20 years.

The best returns are likely to come from emerging markets such as China, India, Korea and Brazil, because they are not loaded with debt and they have relatively poor but aspirational citizens, who are desperately trying to improve their standard of living. Their people are savers, not spenders, and value education above everything else.

Even in these economies the leading indicators are pointing to slower growth, but the potential for productivity

gains is enormous. For example, productivity per worker in China has doubled in the past 10 years, but is still light years behind the US.

Australia has come out of the global financial crisis in good shape, but this is due to a unique combination of factors. We can thank the Keating government for deregulating the financial system and floating the dollar, the Howard government for leaving the economy in very good shape and the present government for taking appropriate stimulatory action when it was needed. In addition, China kept buying our exports, bumper seasons gave us an agricultural boom, and our well-run and tightly regulated banks did not make the mistakes many of their overseas counterparts did.

It was one of those times when the planets all aligned and we truly earned our reputation as the lucky country.

Brian completed his talk by giving some fundamental rules that we need to understand if we are going to prosper in the world of the new normal. The first is to understand the trade-off between risk and return. The adage "the higher the return the higher the risk" is as true now as it ever was, and investors should always ask what is the worst that can happen if their investment goes belly up.

Then there is the need to diversify and, as he pointed out, diversification is not having a portfolio that consists only of your home plus a couple of investment properties. The world is now a global village and there is a huge range of investment opportunities available.

Make sure you explore all of them.

A good phrase to remember is "rear view mirrors are not as important as windscreens". The reason most investors get burnt is because they look at what a market has been doing and jump in late so they won't miss out on a piece of the action. Every product disclosure statement contains the phrase "past returns are not necessarily a guide to future performance" and that is not just in there because ASIC demands it. It is a timely reminder that the past is history and future potential, not past performance, should be the major factor in deciding where to invest.

I appreciate this column contains a number of phrases that are known to you all. But the reality is that terms like "there is no such thing as a free lunch" or "if it sounds too good to be true it probably is" have stood us in good stead for hundreds of years because they are true. Brian concluded with another one: "free advice is usually worth what you pay for it".

The financial world, and the products available, are getting more and more complex - if you want to build wealth in the most tax-efficient manner you need to seek out good advice. And be prepared to pay for it.

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GROWTH: Shanghai's Oriental Pearl Tower is a symbol of China's rapid modernisation.

Q How difficult is it to start your own super fund and are there substantial savings to be enjoyed?

A It is a very simple matter to start your own self-managed super fund but it is wise to consult a firm that specialises in self-managed super administration because it is vital that documents such as the trust deed are drawn up correctly. Also, as it will probably cost at least \$3000 a year in various fees you will really need at least \$250,000 in funds to make it worthwhile. Be very clear in your mind as to the reason you are starting your own fund because as trustee you will have responsibility for the investment decisions. You will need to draw up an investment strategy for your fund and will still need to decide whether you will invest directly or use managed funds where decisions are made by full-time fund managers.

Q I make \$95,000,000 a year, am not 50 and salary sacrifice. My employer puts in a matching 17 per cent super with my 4 per cent. I have been advised next year I will go over the \$25,000 concessional super contribution and be heavily taxed as a result. I am no high income earner; which party's policy will undo this mess?

A It is absolutely essential that you do not exceed the \$25,000 a year as there are heavy penalties if you do. This might be a good issue to canvas with your local federal member prior to the election.

Q I have just turned 55, am healthy and enjoy work. I have a house worth \$1 million on which \$300,000 is owing. I also have a negatively geared property worth about \$200,000, on which \$180,000 is owed. I have just over \$500,000 in super. I hope to work for another

five years. How should I plan for the future?

A At this stage in your life you should have a solid relationship with a financial adviser and know exactly when you want to retire, and how much you anticipate your annual expenditure will be then. As a rough rule of thumb investment assets 12 times your expected expenditure is a good guide. For example, if you need \$80,000 a year you would be looking to accumulate at least \$960,000. You have a net worth of around \$1.2 million now but the bulk of this is in your home which you may not wish to sell when you stop work so you should be making every effort to boost your superannuation in the five years you have left. Obviously the best way to do this is by salary sacrifice.

Send your questions to noel.whittaker@whittakermacnaught.com.au.

Tick, tock, keep watch on online-deposit offers

By JOHN KAVANAGH

COMPETITION in the online deposit market became even more intense last month when Virgin Money entered the fray. It is offering a market-leading introductory rate of 6.75 per cent on Virgin Saver. A number of institutions are now offering at-call rates above 6 per cent.

But there are other trends that are not so good for savers. There is a widening gap between introductory or bonus rates and the base rates that apply when the introductory period ends. And introductory periods are getting shorter, falling from six months to four.

Virgin Saver's 6.75 per cent

variable rate applies for four months, after which it reverts to 5.35 per cent. Savers need to compare base rates as well as introductory rates as they are more important in the long run.

Last month, credit union CUA added a four-month introductory rate of 6.3 per cent (base rate is 4.9 per cent) to its eSaver account. The rate is available to new customers as well as on new money deposited by existing customers.

ING Direct has reintroduced an introductory rate. It is paying 6.25 per cent for four months with a base rate of 4.9 per cent. Some longer introductory periods are still available. Bankwest offers 6.15 per cent for 12 months and a base rate of 4.5 per cent.

Until Virgin's entry into the market, the price leader was UBank, which put the bonus rate on its USaver account up to 6.51 per cent at the end of June. The bonus rate is paid when the customer deposits a minimum of \$200 a month. Otherwise a base rate of 6.01 per cent applies.

UBank (the online banking arm of NAB) put up its bonus rate by 0.3 of a percentage point in June. The base rate moved too but not as much. It went up a total of 0.16 of a percentage point, only half the rate of increase of the bonus rate.

Citibank put its six-month introductory rate up from 6.25 per cent to 6.35 per cent early in June but left the base rate unchanged at 5.25 per cent.

For a long time the online banker RaboDirect (which changed its name from RaboPlus in June) did not offer an introductory or bonus rate but when the bank was relaunched it added an introductory rate to its RaboDirect Savings Account. New deposits will earn 6.4 per cent up to the end of December. The base rate is 5 per cent.

RaboDirect general manager Greg McAweeney has been a critic of introductory rates saying the offers can be for periods that are not meaningful or come with conditions that are not always clearly spelt out. But at the time of the relaunch McAweeney said he had to accept that special offers were an established part of the market.

"One thing that is common to

promotional rates is that they are available only to new customers," he says. "Our introductory rate is also available on new deposits from established customers."

RaboDirect's introductory rate has attracted plenty of new business. According to Australian Prudential Regulation Authority figures, RaboDirect's deposits increased by 28 per cent in June, compared to a 0.9 per cent increase in the overall retail deposit market.

Only a handful of institutions do not offer an introductory or bonus rate. Notably, Hunter United Credit Union offers a rate of 6.15 per cent, the highest base rate on offer. ME Bank, which offers 5.6 per cent, has the third-highest base rate in the market.

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