

# Stepping back into the light



Noel Whittaker

Doom and gloom were swept aside by this year's spectacular recovery in markets everywhere.

THE end of a year is always a great time to reflect, and it's pleasing to note that we leave 2009 in a much better frame of mind than we entered it with.

The issue that really stands out in 2009 is the recovery of stockmarkets.

Last January seems a long time ago, but we entered 2009 in a fearful mood and even had to suffer many commentators hinting that far worse was yet to come.

As usually happens, the harbingers of gloom were wrong, and between March and November we saw a spectacular recovery in markets everywhere.

In the early months of the year most of the

questions I received on talkback radio were along the lines of "Do you think I should cash in my superannuation before it falls any further?" or "Do you think I should move all my superannuation to cash and then move it back when the market starts to move up again?"

My advice was to hang in there, because it has long been my belief that you should set an asset allocation and stick with it through thick and thin.

History shows it is impossible to consistently and accurately forecast market movements.

Once again, this view paid off.

The behaviour of financial markets in 2009, and the reaction by investors to the

fluctuations in the market, highlight how much the prevailing sentiment affects investor behaviour.

When markets are roaring everybody wants to invest in case they miss out on the future profits, and when the markets are going through a bad patch investors stay away in droves because they are scared that it is going to get worse.

The cost of this behaviour is highlighted when you do the sums.

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would have had \$141,594 at the end of November – that's a gain of 42 per cent.

However, if you had panicked and switched that \$100,000 to cash on January 1, then switched it back into the market on July 1, 2009, when you were convinced the market had turned the corner, you would have only \$112,931 now.

Worse still, if you still held it in cash you would have about \$103,000.

The tightening of the aged pension income test and the raising of pensionable age from 65 to 67 were not unexpected and were also

timely, but the big surprise was the halving of the amount that could be contributed to superannuation as a tax deduction.

This measure substantially reduced the effectiveness of transition-to-retirement pensions and also made it much harder for late starters to boost their superannuation prior to retirement.

It will get even tougher in 2012 when the present cap of \$50,000 for those aged 50 and over reduces to \$25,000, because the contributions tax of 15 per cent will reduce the contribution to just \$21,250.

The fact that the employer's compulsory 9 per cent is

included in the \$25,000 puts a further restriction on extra amounts that can be contributed by the employee through salary sacrifice.

The message is clear – don't leave it until the last minute to top up your superannuation.

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**Q** I turn 66 in a couple of months and hope to retire in the next 12 months. Although I have worked for 30 years, with a break for a family, I have only been able to accumulate super in the past 15 years. I have \$60,000 and plan to add some savings (currently in term deposit) to bring it to about \$100,000. Can I move savings into my superannuation now in readiness for a small allocated pension without being penalised for adding a lump sum to my super close to retirement?

**A** If you are between 65 and 75 you can contribute to super as long as you pass the work test, which involves working at least 40 hours in 30 consecutive days. Therefore, you can move your savings to super but you need to take advice as to whether superannuation is an appropriate vehicle for you. Its main purpose is to save tax but if your total financial assets are no more than \$100,000 when you retire, you will not be paying tax in any event. Certainly, salary-sacrifice your income

down to \$35,000 a year prior to retirement, but then decide whether it is better to remove all your money from super after you retire.

**Q** I am looking to buy a house which will initially be a principal place of residence, but five years later will be a rental. If I take out the loan as interest-only now, and put extra money into an offset account, when it comes time to negative gear can I gear the full amount of the loan by emptying the offset account, which I will need to do to buy the next property anyway?

**A** The strategy you suggest is the best one. This will enable you to build up equity and save interest while the house is your residence, and it will also enable you to maximise your tax deductions when you decide to move out of the property and rent it.

**Q** In reference to your recent article regarding loan flexibility, I would be interested to know if the second person

mentioned, who did not have an offset account, could increase the value of the mortgage before the primary residence becomes a rental. Our son, who is presently in this process, asked me this very question just prior to my reading your article and I thought it would be OK to do so as the bank has said OK to this. Would there be any disadvantage in doing this?

**A** The fundamental principle is that the tax deductibility for the interest on a loan depends upon the purpose of that loan. Certainly, a loan can change character as happens when a residence becomes rented out, but the scenario you mention would need to take into account the purpose of the additional loan. It would be fine if it was to do renovations to the residence because that would then be part of the original housing loan when the tenants moved in. It would also work if the redrawn loan was for investment, but that would work in any event.

## Review tackles issue of making super cheaper

By ANNETTE SAMPSON

THE former deputy chairman of the Australian Securities and Investments Commission, Jeremy Cooper, doesn't have a reputation for being mischievous. But he must have known his proposal for low-cost, simple universal super funds for most fund members would get the vested interests squawking.

Cooper made the recommendation in his preliminary report of his review into super. This review was commissioned by the Federal Government in May with a wide-ranging brief to examine the

governance, efficiency, structure and operation of Australia's super system.

That's a big ask, but Cooper and his fellow panel members haven't fallen into the easy trap of arguing that if it ain't broke, don't mess with it. The signs indicate the panel is taking a broad view indeed of our super system and finding room for improvement.

The recommendation for simpler funds for the majority of members stems from the fact that most members are disengaged with the day-to-day management of their super.

It may be that they have more pressing demands, that

the whole thing is gobbledygook to them, or that they trust the money will be there when they need it.

But the bottom line is the same. Having shown no interest in choosing the right super fund for them, their money goes into their employer's default fund.

This isn't always a bad thing. In many cases, the default fund is a large fund with a "balanced" or "balanced growth" default investment strategy that attempts to maximise your savings over the longer term.

These funds have historically returned about 3.5 per cent above inflation,

which won't sound all that flash to the thrillseekers out there, but beats hands down more conservative investments such as cash.

As Cooper sees it, thanks to the array of default funds and differing members and expectations, the report says some fund members are given a false illusion of how much protection they're getting, while others are paying for unnecessary complexity.

Instead of arguing about whose product model is best, the review wants to set rules for the funds that can be offered to different types of investors, especially those

who don't choose for themselves.

The fund would have a trustee with a fiduciary duty to act in the best interests of members. It could offer insurance, but would have few other bells and whistles. Most importantly, it wouldn't need hefty "advice" costs because no choices are actually made by the fund member.

Fund members who didn't want this simple model would still be free to choose a more sophisticated fund but the level of protection wouldn't be as high.

Full marks to Cooper & Co. Whether or not the

recommendation ever sees light of day, the report has tackled head-on the industry's reluctance to seriously address the issue of making super cheaper for the average member.

For too long, high costs have been couched in terms of offering value because they pay for unused extras such as lots of investment options and advice.

In a market where fund promoters have grown fat from the flow of compulsory super, investors need a better, cheaper, and simpler starting point. Then, if they want extras, they have the choice of paying for them. SMH