

The five biggest SMSF concerns

ELIZABETH MORAN
SMART INCOME



On occasion it comes about that SMSF trustees take on the burden of investing on behalf of their members, which can be a worry.

Travelling around the country, I meet a lot of trustees who raise many of the same concerns. I thought I would share some of their concerns with you and provide a few suggestions to help deal with them. These are the five concerns that appear to be outstanding among private investors:

1. I'm holding too much cash, which doesn't pay enough. How can I get better returns without investing in shares?

Deposits offer low returns because they are low risk. Deposits under \$250,000 are government guaranteed, so offer a lot of certainty. Any other investments offering higher returns will have higher risk and the better returns are compensation for that increased risk to your capital.

Bonds are generally slightly higher risk than deposits, so pay higher returns. Bond yields currently range from 4 per cent per annum to 7 per cent per annum. They have set interest payment dates and capital is returned at maturity. While bond prices fluctuate, they are much more stable than shares. We refer to them as "sleep at night" investments.

2. I'm worried that my spouse/partner doesn't understand financial markets and won't know how to manage their finances if I pass away first.

If you're worried about your spouse not fully understanding investment markets, find an investment group that will help educate them. Try the Australian Investor's Association, the Australian Shareholder's Association or the Association of Independent Retirees. They have groups all over the country that educate and discuss various investment options.

If your spouse is really not interested, consider enlisting some professional help. The SMSF Association and the Financial Planning Association list accredited professionals and can help you find someone to help manage your investments.

If neither of these options suits, invest conservatively in cash, corporate bonds (which will always have a positive return if held to maturity) and limit investments in growth assets — such as shares — that need decisions to sell to maximise returns or limit losses.

3. How quickly can I get my money back if I need it?

Liquidity (the ability to buy and sell an investment easily) is a common concern across many investment classes, particularly for those with large exposures to property, which is seen as "lumpy"; that is, you must sell the entire property or not, you can't partially do a deal. For this reason



AFP

Long-dated infrastructure bond returns offer a good way to keep pace with inflation

it's important to hold assets that have different maturity dates and preferably a range of them, say one a year to make sure you can cover unexpected expenses.

A secondary consideration is how easy it is to sell investments to recoup capital. Many fixed-term or longer-term deposits can no longer be broken (you can't change your mind and take

money out), with some exceptions of bona fide hardship conditions. Other deposits that were set up some time ago may be accessed in an emergency, but typically there are penalties involved.

Government bonds are very liquid, while investment-grade corporate bonds are generally liquid and can be sold on a trade plus 3-day settlement term, the

same as applies to shares. Read the fine print of managed funds and unit trusts so you know the redemption terms.

4. What is the most effective way to leave some money to care for my children and grandchildren?

Paying for your children or grandchildren's education is a common goal for many. However,

the cost of many items such as education will frequently rise by more than the rate of inflation. Any investment that doesn't keep pace with inflation will reduce the buying power of that investment in the future.

Rather than investing in growth assets, which have a higher risk profile, long-dated infrastructure and inflation-linked bond returns are estimated at the outset and I believe they are among the best investment choices if you want to try to keep pace with inflation. You can look for bonds to mature prior to when funds are needed or bonds that repay principal and interest quarterly over a long period to provide a constant cashflow.

Some infrastructure bonds have up to 20 years until maturity.

5. I don't want to run out of money or be a burden and am worried about health and aged-care costs.

Obviously, this issue — in common with all the questions featured here — can be complex and there are a range of individual circumstances. But as part of any solution I would recommend long-dated infrastructure bonds, which are linked to inflation, offer stability and known cashflows over longer term. This helps provide confidence to SMSF trustees that their money will last and they will be able to cover medical costs.

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Upturn in credit points to better times

DON STAMMER



For much of this year, investors have taken a highly negative view on the outlook for the Australian economy and sharemarket.

They've worried about three major headwinds.

- The sharp decline in mining investment, which needs to be offset by increases in other forms of spending.

- A much-feared hard landing in China, the destination for a third of Australia's exports.

- The potential for a bubble, and then a collapse, in housing prices that would destabilise the economy, in part by weakening the banks.

In my view, these concerns have been taken to exaggerated levels. In coming months, investors can expect to find opportunity — and fun — in spotting the green shoots of the next economic upswing. The transition to non-mining growth has received short-term help from the cyclical pick-up in home building.

However, with pent-up housing demand now being satisfied, bank lending for investment housing slowing and rental returns falling, we should see house construction likely to plateau in 2016.

Public spending on infrastructure will be boosted, particularly as funds from the privatisation of government-owned "poles and wires" in NSW are spent.

And the marked fall in value of the Australian dollar — in two years it has declined by more than a fifth against the US dollar and Chinese currencies — is helping to lift economic activity.

What's also needed is a good increase in investment by non-mining companies.

Maybe, the unexpected rise of 1.2 per cent in business credit in September — the fastest increase since 2008 — is the first green shoot of that recovery.

Of course, one month's figure can't be relied on as a predictor of a turning point in the economic cycle. In coffee shop chatter, the lift in business credit in September is attributed to the "Turnbull effect", or to the accelerated depreciation allowance for small business included in the May budget, or to other causes — no one is sure.

As Hugh Harley, financial services Asia leader at PricewaterhouseCooper, puts it: "The strong growth in business credit in September certainly warrants attention. The optimists will say it is a precursor to a sustained

pick-up in business investment; the pessimists will ask whether it reflects an unexpected run down in working capital."

But I like the way Tapas Strickland, an economist at National Australia Bank, relates the strong figure for business credit to signs of the better business conditions the bank has been finding in its monthly surveys.

He writes: "The pick-up in business credit is consistent with above average business conditions recorded in the NAB survey. If business credit continues to print at these rates, it would underpin a prospective recovery in non-mining business investment which remains the missing piece in the (Reserve Bank's) transition story to non-mining led growth."

Investors should keep a close watch on monthly figures for business credit (they're readily available in the financial aggregates table on the RBA's website). The stronger the growth in business credit, the brighter the outlook for the economy, and the sharemarket.

Investors can expect to find opportunity — and fun — spotting green shoots

Where should investors look for other possible sightings of the green shoots of recovery? In the next few months, some monthly statistics are likely to dispel fears of a hard landing for the Chinese economy. Among other consequences, this will make it clear the low commodity prices we're experiencing are more the result of increased global production, and owe less to China's growth slowdown than is usually claimed.

I'm encouraged by the increasing number of comments along the lines of "China has hit the cyclical trough. We expect further improvement in coming months." The words I've quoted are from a report released by Danske Bank. This point of view is catching on.

The third area of concern is fear of boom-bust in house prices. In Australia, "unsustainable" increases in average house prices are usually corrected via prices making a lengthy sideways move rather than by collapsing. Several quarters of near-stability in average house prices would be good for confidence.

Don Stammer chairs QV Equities, is a director of IPE, and is an adviser to the Third Link Growth Fund and to Altius Asset Management. The views expressed are his alone.

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Choice of pension matters for fund operator's estate planning

MONICA RULE



Have you considered commencing a reversionary pension or a non-reversionary pension as part of your estate planning?

Both pensions can be paid from a self-managed superannuation fund provided the SMSF's trust deed allows for these benefits. Understanding the differences between the two pensions is important as it could have implications for your estate planning.

A non-reversionary pension is a pension that ceases upon the member's death. Because the pension stops, the deceased's superannuation will need to be paid from the SMSF as either a lump-sum death benefit and/or a pension death benefit to the deceased's beneficiaries as soon as practicable.

If a lump-sum death benefit is payable, assets may need to be sold to make a cash payment. If a new pension is to commence, the percentages of the tax-free and taxable components of the pension will need to be calculated for the new pension.

A reversionary pension is a pension that, upon the member's death, continues to be paid to the nominated reversionary beneficiary. Unlike a non-reversionary pension, the pension does not cease and it continues to be paid to

the reversionary pensioner as though the reversionary pensioner was the original pensioner. The reversionary pensioner retains the same percentages of the tax-free and the taxable components of the deceased's pension account calculated at the beginning of the pension.

Therefore, if the deceased pension account commenced with a 100 per cent tax-free component, then the pension will continue as 100 per cent tax-free regardless of the investment earnings added to the account since the pension's commencement. Other benefits of a reversionary pension are:

- Insurance proceeds: If insurance proceeds from the deceased member's life insurance policy are paid to the reversionary beneficiary, then the proceeds also retain the tax-free and taxable components of the reversionary pension. The components are not recalculated despite the insurance proceeds having a taxable component. Whereas, if the pension was a non-reversionary pension, then the insurance proceeds are added to the taxable component of the new pension. This may make a difference to the amount of tax payable by the deceased's beneficiary if they are under the age of 60.

- Estate security: Upon the death of an SMSF member who was in receipt of a reversionary pension, the trustee is not required to make a determination as to who should receive the deceased's superannuation as the pension will revert to the nominated beneficiary. This provides some level of certainty to the member as to whom their benefit

will go to once they die. If the deceased member has a binding death benefit nomination, the nomination would need to state that the nominated reversionary pensioner is entitled to the receipt of the deceased's pension.

- Assets can be retained in the SMSF: As the reversionary pension automatically reverts to the nominated beneficiary, there is no need to sell assets to pay out a lump sum death benefit.

Of course there are disadvantages to reversionary pensions. A major disadvantage in receiving a reversionary pension is in situations where a member divorces or separates from the reversionary beneficiary. In these circumstances, the member will need to commute the pension and start a new one with new terms and conditions (i.e. such as naming a new beneficiary).

ATO officials were asked at a technical meeting in March 2013 whether it was possible to change a non-reversionary pension to a reversionary pension. The ATO representatives said it was possible to change the pension as long as the terms under which the pension was payable and the SMSF's deed allowed for it. However, they said a pension cannot be changed after the death of the pensioner.

As the ATO has not made their view widely public, I would suggest you seek the ATO's approval if you intend to change your non-reversionary pension to a reversionary pension.

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Under pressure leisure play opens window of opportunity

DIVIDEND
DETECTIVE

Ardent Leisure Group

ASX CODE: AAD
SHARE PRICE: \$2.52
INDUSTRY: Consumer services
FORECAST FY2016
DISTRIBUTION: 13.5c

ADRIAN EZQUERRO

Volatility in the sharemarket has become an unfortunate hallmark of 2015, with the ASX 200 trading in a peak-to-trough range of nearly 20 per cent over the past 12 months.

Some argue this simply reflects a market that has become excessively focused on short-term outcomes. I suspect trading in Ardent Leisure Group is symptomatic of this recent phenomenon. Despite being well placed to grow earnings over the medium term, ADD has come under pressure following its AGM update. This situation may have opened a window of opportunity for investors seeking a solid mix of regular income and long-term growth potential.

AAD is a specialist operator of leisure and entertainment assets across Australia and the US. The group operates the Dreamworld and WhiteWater World theme parks, SkyPoint, AMF and Kingpin bowling centres, d'Albora Marinas and the Goodlife health club business across Australia. AAD also operates the Main



ADAM YIP

Deborah Thomas, CEO of Ardent Leisure Group

Event family entertainment centres in the US.

The group continues to deliver growth across most business divisions, with first-quarter revenues up 19 per cent to \$166 million and divisional EBITDA up 9 per cent to \$37.2m. The stand-out business unit in terms of growth is AAD's US business, Main Event, which delivered earnings growth of 28 per cent when compared to the prior corresponding period.

Of greater importance to the long-term value of AAD is the significant potential to expand the Main Event business in the US over coming years. Management remains intent on expanding the centre footprint from the existing base of 20 centres to 35 over the next two years.

This looks likely to occur concurrently with an increasing average per centre earnings run rate. In aggregate, this bodes well for earnings and distribution growth over the medium term.

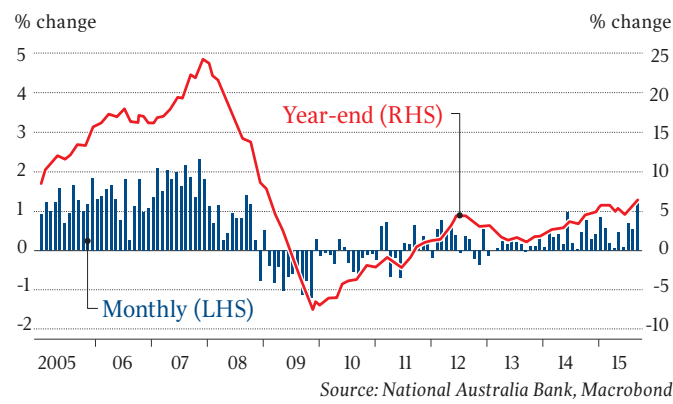
The group is also well positioned to benefit from the continuing depreciation of the dollar. This not only delivers a translational benefit from its growing US dollar earnings base but also supports increased visitation for its core domestic tourism-focused businesses.

Importantly for income-focused investors, AAD has developed a strong track record of paying out distributions on a consistent basis, having delivered bi-annual distributions to owners since listing in 1998.

AAD will probably go ex-distribution next month. It is expected to declare a distribution of about 7c per security. With a solid yield of 5.4 per cent and a potentially long growth runway, this is worth consideration for long-term investors.

Adrian Ezquerro is a senior analyst at Clime Investment Management. He owns AAD securities.

Business credit



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