



Former Bank of England governor Mervyn King says bullion earns its place in central bank portfolios. 'Gold is a means of payment that everyone is always prepared to accept'

Gold returns to winner's enclosure

TIM TREADGOLD

There's two things you must know immediately about gold:

• First, it's been going up well before Brexit came to pass ... in fact, in Australian dollar terms it is the outstanding investment class of the year;

• Second, there is every reason to believe the factors pushing up the price of the yellow metal remain in place to push it higher.

Think, for example, of the potential election of president Trump in the US, a possibility which cannot be discounted despite the latest opinion polls. This would be a financial markets event like Brexit, on steroids.

Further falls in European interest rates, which are already in negative territory, would add to gold's allure as a haven, and even a decision by the US Federal Reserve to keep interest rates at a record low level would encourage American investors to boost their gold exposure.

Since the start of calendar 2016 gold has been the best performing asset worldwide thanks to it being in a class of its own — one that

even the heads of central banks recognise (more on that later).

The gold price, which top investment banks such as Goldman Sachs had been tipping to fall below \$US1000 an ounce, has gone the other way, rising by about 20 per cent from its first 2016 trades at \$US1072 an ounce to its latest price of \$US1324 an ounce.

In Australian dollar terms, thanks to an unexpected rise in the local currency, gold is "only" up by 15 per cent over the past six months, from \$A1488-\$A1786 an ounce.

On the stockmarket, goldminers have been the stars of 2016 (and 2015) even with reports of big investors taking profits by trimming their exposure to sector leaders such as St Barbara Mines and Saracen Mineral Holdings.

• Since early 2016 St Barbara (SBM) has more than doubled from \$1.38 to \$3.29, a strong upward move albeit still down on its highest high of \$3.36 reached on June 9;

• Saracen is up by 150 per cent this year to \$1.48;

• Even Newcrest, a perennial

Gold index doubles in a year



laggard, has been joining in with a jump of more than 70 per cent to \$23.84.

Britain itself — now in political and economic turmoil — is a good place to see how gold performs in a crisis. In pounds, gold has soared over the year from £724 an ounce to £940, a move that reflects the higher US dollar price and falling pound.

British investors, concerned about what comes after the Brexit vote, have been rushing into gold with activity on a trading platform

operated by the Royal Mint up by a third this month compared with May. Indeed the 32 per cent rise in gold sales at the Mint has boosted the historic institution's revenue by 150 per cent.

Bullion Vault, which also operates gold-trading opportunities for investors, reported an 85 per cent increase in its number of British accounts.

An even bigger rush into gold by British investors now would have a meaningful effect on gold supplies, but a much more important factor could be the reaction of

Further falls in European interest rates, which are already in negative territory, would add to gold's allure

European investors fearful that a British exit would be a precursor to a wholesale break-up of the European Union, and collapse of the common currency, the euro.

Analysed any way you like the next six months are critical for politics and financial markets, and gold will be a big winner as each crisis develops.

After Britain and its new relationship with the wider EU there is Australia's federal election on July 2, an important local event but not one which is likely to affect gold.

More important developments include a possible re-run of the Greek debt crisis, routine meetings of the committee that sets official US interest rates (and therefore the value of the US dollar), and the aforementioned US presidential election — including

the ebb and flow of news during the campaign leading up to the vote on November 8.

Mervyn King, a former governor of the Bank of England, deserves a final word on gold thanks to his status as a man who was deputy governor of the bank when it sold the lion's share of its gold at rock bottom prices in the late 1990s, but who now sees gold as a critical asset.

Writing earlier this month for the World Gold Council, an industry lobby group, Lord King said he was "very struck" by the fact that central banks, governments and individuals have always, despite the protestations of economists, held some gold in their portfolio.

"Obviously, there is no high running return (yield), but when unexpected things happen, particularly when governments rise and fall, then gold is a means of payment that everyone is always prepared to accept," he wrote.

"And I think that's why even central banks have always had a role in their portfolios for gold."

This is an edited version of a feature first published in www.eurekareport.com.au

Packer's Crown moves remained undervalued

DAVID WALKER

It took a while but Crown Resorts directors eventually acted on James Packer's long-held conviction the sharemarket had substantially undervalued the gaming conglomerate due to the downturn in the Macau gaming industry.

The recent announcement of initiatives to increase shareholder value sent the shares to 10-month highs around \$13 before the subsequent fall in the broader post-Brexit panic — it is currently trading at about \$12.06.

And yet we still see value in the stock and have not sold any shares from our model portfolio.

Here are the key elements of Crown's three-way restructure:

- Demerge the following assets into a new, separately listed holding company: the 27.4 per cent stake in Macau's Melco Crown casino consortium, the Alon development site in Las Vegas, the 50 per cent interest in British casino group Aspers and the 20 per cent interest in Japanese restaurant brand Nobu.

- Float a 49 per cent interest in a property trust that would own Crown's Australian hotels.

- Move to pay out all earnings from the remaining Crown business as dividends (a 100 per cent dividend payout ratio).

The market sent Crown higher after the announcement of this new structure because the greater transparency will make it easier to value the various components. The former consolidated structure arguably hides the value of these components.

My colleague Stephen Wood of Clime Asset Management estimates the value accretion from the restructure at up to 70c per share and values Crown at \$14.30 post-restructure — well above its current share price. This is why I'm holding on to Crown in our model portfolio.

Crown's traditional share-price premium to our view of what the business was actually worth evaporated in 2015 as the Macau downturn set in and dogged the earnings from Crown's Macau partner Melco. This deterioration was

compounded by increased debt leverage (60 per cent net debt to equity) to fund an ambitious \$3 billion development pipeline including Sydney's Barangaroo project. The market was deterred by project funding pressures on cashflow and slippages in the opening date for Sydney.

But the former share-price premium reflected the high quality of the domestic business, which has some of the best casino assets in the world owing to legislated monopolies in Melbourne and Perth, and exclusive VIP gaming licences for Crown Sydney once it opens in 2020.

These casino properties capitalise on surging inbound tourism from Asia, especially China. In 2015, Chinese tourist

Transparency will make it easier to value the various components

numbers increased by 20 per cent and their expenditure increased by 45 per cent to over \$8 billion. Under the current structure the market values Crown's Australian operations at a discount to competitors Star Entertainment and Sky City but once the property assets and international operations are housed elsewhere the Australian operations as a stand-alone should attract a premium once more.

The 100 per cent fully franked dividend payout ratio (previously 65 per cent) lifts the dividend from 52c to 70c.

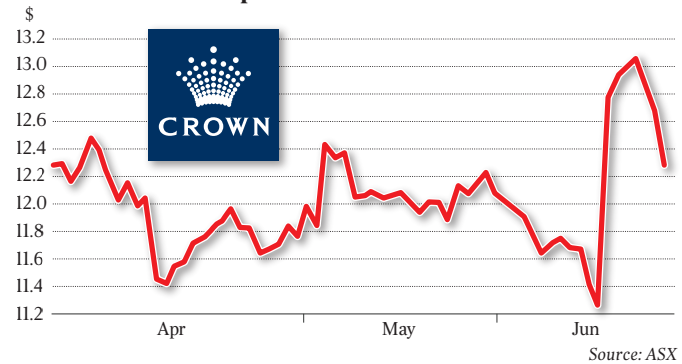
The announcement also deals with an issue of concern to some fund managers: Packer's pay packet.

There was speculation he would be paid \$10 million a year but under a proposed services agreement he will not be engaged as a senior executive and no salary will be paid.

His returns from the restructure are restricted to the uplift in shareholder value we explain above ... and that is an attractive alignment of interests.

David Walker is senior analyst at StocksInValue.com.au

Three month share price for Crown



Reserving strategy – your last-minute chance to avoid super contributions caps

MONICA RULE

The contribution reserving strategy enables self-managed superannuation fund members to claim a larger tax deduction while disregarding the annual concessional contributions cap.

Members implement the strategy by making contributions during the year up to their concessional contributions cap and a further contribution in the month

of June — if you're considering this possibility, you've got until close of business this Thursday, June 30.

The strategy involves an SMSF trustee allocating the member's June contribution to a reserve, and claiming a larger tax deduction based on the total contributions received that year.

The June contribution is then allocated from the reserve to the member's account in July.

This means the member does

not exceed their contributions cap in the financial year the deduction was claimed, as the June contribution counts towards the member's concessional contribution cap in the following financial year.

Obviously, this move has to be done carefully and you must be sure to allow for late moves you may have made this financial year when you get to the same stage in June 2017.

The strategy is possible because

of the way income tax law and super law work together. Under the income tax law, a tax deduction is claimable by an eligible individual when a contribution is made to a complying superannuation fund. The tax deduction is not limited to the member's concessional contributions cap.

Under superannuation law, a trustee must allocate a contribution to a member's account within 28 days after the month in which the contribution was

received. Therefore, it is possible to make a number of contributions in one financial year to claim a larger tax deduction, but not allocate the June contribution until the following year for contribution cap purposes.

If you want to read further, the Australian Taxation Office publication, TD 2013/22, supports the contribution reserving strategy.

Most SMSF members use the strategy for concessional contributions made in the month of

June, but the strategy can also be used for non-concessional contributions. However, SMSF members need to ensure that when transferring business real property as an in specie contribution they do not exceed the fund-capped contribution limit.

Under current rules, super law prohibits an SMSF from accepting a fund-capped contribution in excess of \$540,000 for members aged less than 65 and \$180,000 for members aged 65 to 74 in a finan-

cial year. The super law also treats the contribution as a single contribution so members would not be able to split an asset by using a contribution reserving strategy.

To prevent the ATO from incorrectly assessing an excess concessional contribution, SMSF members should lodge form "NAT 74851" at the time their SMSF's annual tax return and their personal income tax return is lodged.

Unfortunately, the form cannot be used for non-concessional

contributions. Where the strategy is used for non-concessional contributions, the member will need to wait for the commissioner to issue an excess non-concessional contribution assessment, and then object to the assessment, to have the non-concessional contributions allocated to the correct financial year.

Monica Rule is the author of *The Self Managed Super Handbook*. www.monicarule.com.au

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