Euro fall windfall

Neale Prior

Investment chiefs at Swiss giant UBS are advising well-heeled Australian clients to look at the industrial and engineering powerhouses of Europe if they want to ride Asian growth.

As our home-State miners suffer what many fear is a structural downturn in iron-ore prices, UBS suggests the industrial giants of countries such as Germany and France could capitalise on the next wave of Asia's development.

While moving to curb rampant growth in its domestic economy and limit credit to unprofitable steel mills, the Chinese Government is looking to grow its regional influence through the Asian Infrastructure Investment Bank.

Australia, France, Germany and Italy last month signed on to participate in the $60 billion-plus infrastructure fund, which is China's answer to the US-dominated World Bank and the Japanese-influenced Asian Development Bank.

UBS' Singapore-based chief investment officer Kelvin Tay said there were limited opportunities among Australian-listed companies to become involved as suppliers to projects that are bankrolled by the Asian Infrastructure Investment Bank.

However, Mr Tay said European companies with their highly developed telecommunications, manufacturing and engineering sectors could be well positioned to capitalise on the demand for high-end equipment and advice.

"The opportunities are largely in Europe because the European countries have an edge, especially the German companies," Mr Tay said. "The Germans have a very good relationship with the Chinese."

The Singapore-based analyst said their potential would be boosted by what is expected to be a fall in the euro against the US dollar as the Federal Reserve began hiking interest rates, and problems in fiscally-troubled eurozone countries, particularly Greece.

UBS chief Australian strategist David Sokulsky said Germany was benefiting greatly from Greece's problems because the ongoing debt woes were helping keep European interest rates low and holding the euro far lower than it would be if Germany had a domestic currency.

"Germany kicks up a lot of fuss about the Greeks and how they should be austere but the Germans don't want anything to change," he said.

The two senior executives have been speaking to UBS clients around Australia explaining their decision in December to recommend a boost in European holdings.

European markets have since risen about 15 per cent but the UBS analysts are tipping that rally to continue until at least early in 2016, when the European Central Bank is expected to begin easing off on the quantitative easing stimulatory program.

The UBS team argue that ongoing weakness in the euro will boost exports from Germany and France as well as other major eurozone exporters including the Netherlands, Czech Republic, Italy and Spain.

Britain could also enjoy a boost in exports to Asia thanks, in part, to it signing on to the Asian Infrastructure Investment Bank. Their outlook for Europe is somewhat in contrast to their concerns about Australia, where mining stocks are under pressure after more than a decade of booming growth from China.

Mr Sokulsky said dividend franking for Australian shares had blinded some investors to opportunities around the world and made people forget you could also lose capital when buying shares.

"You might get another 2 per cent in franking credits, but if you see the structural decline really hit the equities markets and you see the price go down, the capital you lose is not going to be made up by the imputation credits" he said.

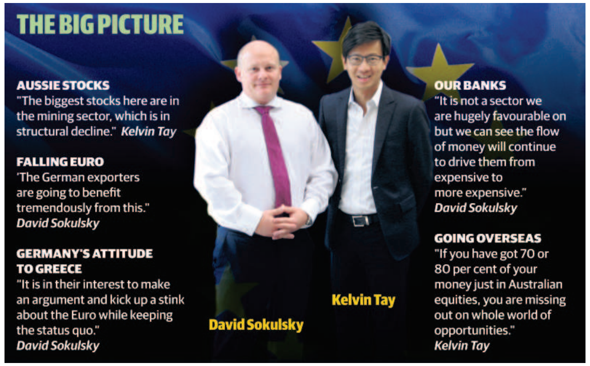
Mr Tay said Australia could well be in a structural decline because of what appears to be the end of a commodities supercycle, which was being reflected in rising unemployment.

He said it would be unwise for investors to be overly invested in Australian banks and could find better value in European banks, as well as solid dividend yields.

However, Mr Sokulsky said investor funds would continue to flow towards banking stocks in a low interest rate environment, but we had to be constantly alert for events that could send cash flowing the other way.

"Whenever you buy something that is expensive and you expect it to be more expensive, there is obviously a risk," he said. "It is not something you can allocate to and then set aside and leave.

"It is not something where we would say 'this is a five-year trade and you can put it in the bottom drawer'."



Deadline looms for action on those little SMSF luxuries

DIY SUPER

Monica Rule

If you bought fine wine, a vintage car, a jetski, or artwork for your self-managed superannuation fund, it must have seemed like a dream come true.

After all, there were few times in your life you could invest in your passion through a structure that had the tax advantages of your own super fund and then enjoy your investment.

Sadly, the dream is over. In less than 15 months your investment is something you can no longer enjoy. The superannuation law was tightened from July 1, 2011, so that any collectables and personal-use assets acquired by an SMSF from this date onwards cannot be used by members or leased to members of the SMSF.

Not only that, these assets cannot be stored in a private residence of the members. The trustees of the SMSF must document their decision on where the assets are stored and keep their that decision for 10 years.

On top of that, trustees have to take out insurance for these assets within seven days of their SMSF acquiring them.

This crackdown might have ended a dream, but it was with the reasoning behind the government providing generous concessions to superannuation.

The sole purpose of superannuation is to provide retirement and ancillary benefits to members. By acquiring and enjoying a collectable or personal-use asset, SMSF members gain a pre-retirement benefit against the spirit of the sole-purpose test. However in its crackdown, the Government did provide a five-year transitional period for SMSFs that acquired these assets before July 1, 2011.

These SMSFs do not have to comply with the new restrictions until July 1, 2016. What this means is that if you are enjoying these items, come July 1 next year, you will have to comply with the new requirements of storing the items somewhere else apart from your residence and take out insurance on them, if you haven't already done so. You can also no longer lease them from your SMSF.

What happens if you don't comply with the new restrictions? Non-compliance with the law is an offence that can result in a fine of $1700. The tax office can also take other compliance actions on you and your SMSF.

So don't leave things to the last minute. You need to start thinking about whether you want to put plans in place to comply with the superannuation law requirements or sell these assets.

If you decide to purchase these assets from your SMSF yourself, then you will need to do so at the market rate before July 1, 2016. If you purchase them from your SMSF on or after that date then you will need to have them independently valued before the purchase.

Monica Rule is an SMSF Specialist and author of The Self Managed Super Handbook www.monicarule.com.au