

INVESTMENT WORKSHOP

MARCH – 2016

WARNING – GENERAL INFORMATION ONLY

WWW.CIFP.COM.AU

WORKSHOP AGENDA

- 1. INTRODUCTION:** CIFP HISTORY, TEAM, SERVICES, FEES
- 2. INVESTMENT OPTIONS:** CASH/FIXED INTEREST vs SHARES vs PROPERTY
- 3. TAX STRUCTURES:** INDIVIDUAL/TRUSTS vs SUPER/PENSION vs INS/ED BONDS
- 4. ECONOMIC UPDATE:** OUTLOOK FOR 2016 & BEYOND
- 5. FUND TYPES:** INDEX FUNDS vs ACTIVE FUNDS
- 6. SUPER/PENSIONS:** TAX BENEFITS, RESTRICTIONS, SMSF vs WRAPS
- 7. PROTECTION:** INCOME PROTECTION, LIFE PROTECTION
- 8. CENTRELINK:** CURRENT RULES vs NEW RULES IN 2017
- 9. AGED CARE:** BOND (RAD), ACCOMODATION FEES (DAP)
- 10. ESTATE PLANNING:** WILLS, POWER OF ATTORNEY, BENEFICIARIES, TAX

WORKSHOP OBJECTIVES

- 1. DIVERSIFICATION:** SPREAD ACROSS VARIOUS SECTORS
- 2. LEVEL OF RISK:** LEVERAGE (DEBT) ADDS TO RISK/GREED
- 3. EDUCATION:** UNDERSTAND FUNDAMENTALS
- 4. PATIENCE:** ANALYSE & TAKE YOUR TIME/OPINION
- 5. RASH DECISIONS:** DON'T PANIC & MAKE QUICK DECISIONS
- 6. SIMPLICITY:** STRATEGIES THAT YOU UNDERSTAND
- 7. STRESS CONTROL:** LIFE STRESS vs INVESTMENT STRESS

CENTRE IN FINANCE (CIFP)

- **Commenced:** 1984 with own ASIC Licence

- **Benefits of Advice:**
 - **Strategic:** Investment & Legislative management
 - **Behavioural:** Calm & informed decisions
 - **Value Add:** Ongoing advice can add additional value of 3% pa

- **Value Add Strategies (CIFP):**
 - **2003 – 2007:** Maximum exposure to growth (based on risk profile)
 - **2007 – 2008:** Transfer 50/70% to cash (index 6,000 points)
 - **2009 – 2010:** Transfer 30/50% to growth (index 3,500 points)
 - **2011 – 2012:** Locked in Term Deposit rates for 5 years at 5% pa
 - **2013 – 2015:** Selection of active fund managers with income focus

THE CFP TEAM

* **BILL ALATERAS: Director – Senior Financial Planner (32 years)**

Degree in Accounting/Finance (Melbourne), Tax/Finance Lecturer

* **VICKI ALATERAS: Director – Financial Planner (22 years)**

Degree in Social Science (Monash), Diploma of Financial Planning

* **ROBERT FARCHIONE: Financial Planner (16 years)**

Diploma of Financial Planning

* **NICOLE HADJIGEORGIOU: Financial Planner (6 years) Para Planner (10 years)**

Degree in Applied Science (Deakin), Advanced Diploma of Financial Planning

* **HELEN PESCOS: Receptionist** * **MEGAN ASHTON: Administrator**

CIFP ONGOING SERVICES

- **LMDA Services:**
 1. Re-invest term deposits upon maturity (up to 5 years)
 2. Re-balance with strategic ongoing management
 3. Review model portfolio & fund managers
- **Six-monthly portfolio review & newsletters:**
 1. Review your asset allocation with your risk profile
 2. Prepare a Record of Advice for any changes
 3. Provide a 6-monthly newsletter & updates on our website
- **Review meetings & interviews:**
 1. Meet & review objectives, strategies & updated legislation
 2. Centrelink support & nominee arrangements
 3. Assistance with Imputation Credit refunds from the ATO
 4. Estate Planning support & assistance. Anti detriment payments

CIFP SERVICES & FEES

CIFP charges a Service Fee with no commissions / bonuses.

	<u>AVERAGE FEES</u>	<u>CIFP FEES</u>
– Consultation & Interview Charges	Nil	Nil
– Preparation of Financial Plan (SOA)	1.0% - 2.0%	Nil
– Establishment Charges	1.0% - 2.0%	Nil
– Total Annual Charges from (Tax Deductible?)	1.5% - 2.5% pa	1.0% pa

(Wrap Fees, Advisor Service Fees & Fund Manager Fees)

(CIFP negotiated a wrap fee reduction of up to 70% for our clients)

<u>Account Balance</u>	<u>Normal Fees</u>	<u>CIFP Fees</u>	<u>CIFP Savings</u>	<u>Fee Reduction</u>
\$100,000	\$ 780 pa	\$ 250 pa	\$ 530 pa	70%
\$500,000	\$2,725 pa	\$1,250 pa	\$1,475 pa	50%

INVESTMENT OPTIONS

1. CASH/FIXED INTEREST:

- Cash Management / Term Deposits
- Government / Semi Government Bonds
- Corporate Bonds (Australian / Overseas)

2. PROPERTY:

- Residential (Houses / Units / Apartments)
- Commercial (Office / Retail / Industrial)
- Listed vs Unlisted (Direct)

3. SHARES:

- Industrial, Resources, Infrastructure, Property
- Blue Chip, Small Companies
- Australian (Imputation Credits)
- Overseas (Hedged / Unhedged)

TAX STRUCTURE

1. INDIVIDUAL – MARGINAL TAX & CAPITAL GAINS TAX:

- Personal Name/s – Tax up to 47%
- Investment Trust – Tax up to 47%
- Family Trust – Tax up to 47% (distribute to low income earners)

2. SUPERANNUATION/ALLOCATED PENSION:

- Superannuation – 15% tax on earnings & 10% tax on Capital Gains
- Allocated Pensions – 0% tax on earnings & 0% tax on Capital Gains
- Restrictions on contributions, Access, Compliance
- Contribution Tax concessions of 15% to 30%

3. INSURANCE BONDS & EDUCATION BONDS:

- 10-year investment bond – 30% tax on earnings
- 10-year education bonds – 0% tax on earnings
- Restrictions, proof of education costs

ECONOMIC UPDATE

1. **GLOBAL ECONOMY & MARKETS 2016:** [V0124 Global Update](#)
 - Commenced 2016 with high volatility
 - Rising US interest rates, falling Japan & European interest rates to negative
 - Falling unemployment
 - World growth increasing to 3.4% pa (up from 3.1% pa - down from average of 4% pa)

2. **AUSTRALIAN ECONOMY & MARKETS 2016:** [V0124 Australian Update](#)
 - Falling commodity pricing
 - Benefit from the lower Australian dollar, exports, tourism & education
 - Construction sector improving with low interest rates - hold steady during 2016
 - Australian growth increasing to 2.5% pa (down from the average trend)
 - Expect lower returns with the current level of inflation & interest rates

3. **AUSTRALIAN PROPERTY MARKET CONCERNS - OVERSUPPLY OF APARTMENTS:**
 - Low interest rates have created an apartment construction boom
 - Rental yields are falling with an oversupply of apartments (70% sold to investors)
 - Lenders are increasing requirements & reducing apartment values

www.youtube.com/watch?v=mIMGipcSAj0&ebc=ANyPxKrc2PuyX5gbElNbdp0gtbW8TtYCN0H2INqYiSA6oGIFGZuMKaalMIsW_ZHm-z2CY3VbVu88J0WgNfUI1Ry2XSSsW3RFvw

FUND TYPES

1. INDEX FUNDS:

- Invests in the various indexes (ASX 300)
- Lower costs – Wholesale (0.15% to 0.50% pa) with similar volatility to the index
- Vanguard is the largest index fund manager in the world
- Retails Funds, Wholesale Funds, Exchange Traded Funds (ETFs)




2. ACTIVE FUNDS: www.youtube.com/watch?v=lfv3Kfv2drk <http://www.montinvest.com/advisers>

- Invests in the companies (shares) for long-term growth & income
- Higher costs – Wholesale (0.75% to 1.25% pa), usually lower volatility than index
- Perpetual, Investors Mutual, Fidelity, Legg Mason, CFS, AMP, Montgomery etc.
- Retail Funds, Wholesale Funds, Listed Investment Companies (LICs)

3. INDEX vs ACTIVE FUNDS – 31/12/2015:

<u>INDEX/FUND</u>	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>	<u>Volatility</u>
ASX 200	2.60%	9.20%	7.00%	5.60%	100%
Perpetual	6.20%	14.20%	12.80%	7.60%	92%
Fidelity	6.00%	12.30%	10.00%	8.90%	96%
IML	10.00%	12.30%	11.90%	7.60%	67%
Legg Mason	14.30%	18.40%	18.80%	N/A	73%
Montgomery	19.35%	15.60%	N/A	N/A	74%

GROWING INCOME & CAPITAL

			
2005			
Investment	\$100,000	\$100,000	\$100,000
Price	\$0.32	\$4.69	\$9.09
Dividend	\$0.01	\$0.28	\$0.47 *
Yield	3.91%	5.97%	5.17%
Total Income	\$3,910	\$5,970	\$5,171
2015			
Price	\$9.63	\$5.52	\$92.44
Investment	\$3,006,250	\$117,697	\$1,016,942
Dividend	\$0.32	\$0.31	\$1.69
Yield	3.32%	5.53%	1.83%
Total Income	\$99,807.50	\$6,508.66	\$18,591.86

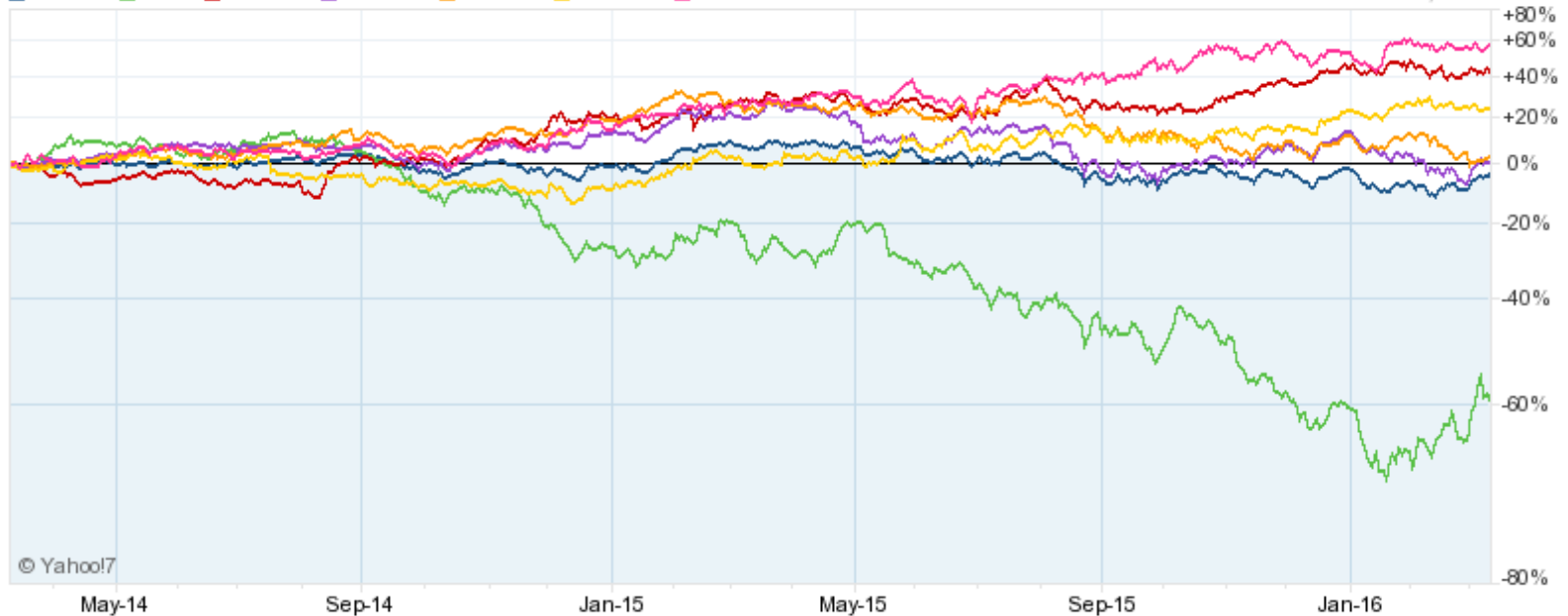
*excludes special

INDEX vs ACTIVE

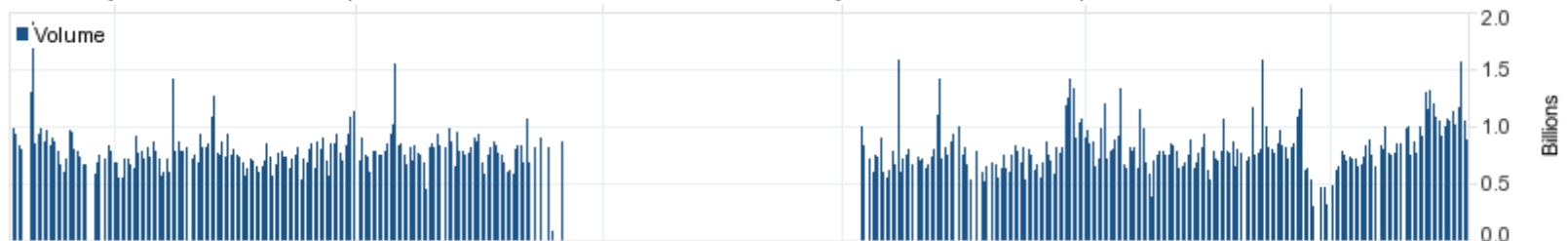
ALL ORDINARIES

■ ^AORD ■ BHP ■ CSL.AX ■ CBA.AX ■ TLS.AX ■ AGL.AX ■ SYD.AX

11 Mar, 2016



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SUPERANNUATION

1. INDUSTRY & EMPLOYER FUNDS:

- Low cost with no ongoing service – (average cost 1% pa) – extra cost for advice
- High costs for low account balances (fixed annual fees on average \$ 100 pa)
- Limited investment options & flexibility - Australian Super, Care Super, Hesta Super

2. RETAIL & MASTER FUNDS:

- Varying costs with ongoing service – (average cost 2% pa)
- Retail investment options & flexibility – CFS, AMP, MLC, BT, OnePath

3. WRAP WHOLESAL SERVICE SERVICES:

- Varying costs with ongoing service – (average cost 1% - 2% pa)
- Wholesale investment options & flexibility – FirstWrap, MLC Wrap, BT Wrap
- Direct investment options – Shares on the ASX 300

4. SELF MANAGED SUPER FUNDS (SMSFs):

- Varying costs with/without ongoing service – (average cost 1% - 2% pa)
- Investment options & flexibility – Wrap services may be used by SMSF
- Direct investment options – Shares, listed, unlisted, direct investment property.

SUPER BENEFITS

1. ACCUMULATION PHASE:

- Tax deductible contributions (15% - 30% immediate tax benefit on income over \$ 20K)
- Co-contribution benefit of up to 50% ATO refund
- Tax on earnings is 15% pa plus 10% on capital gains (avoid CGT by transfer to Pension)
- Salary Sacrifice can provide the following additional boost to wealth: (assume 5% return)

Years of Salary Sacrifice

5 years

10 years

20 years

30 years

Extra Wealth Accumulation

35%

37%

45%

50%

2. PENSION PHASE:

- No tax on earnings or capital growth with 100% refund of Imputation Credits
- Total earnings are on average 2% pa higher than accumulation phase
- Income from pension is tax free from 60 years of age
- Income may be tax free or taxable with a 15% tax offset between age 55 to 59.

3. RESTRICTIONS:

- Age, employment status between age 65 to 75, preservation age for access
- Contribution limits both concessional & non-concessional. (Tax deductible & tax free)

FAMILY PROTECTION

1. LIFE PROTECTION:

- **Death/TPD Cover:**
 - Lump Sum Payment on Death/Total Disability to cover debts & future family lifestyle.
 - Low cost cover with minimal underwriting (usually automatic cover)
 - Note definition of 'Total & Permanent Disability' (any or own occupation)
 - **Option 1:** Within super, low costs, no commission, tax deductible within super fund
 - **Option 2:** Outside super, higher costs, commission, not tax deductible
- **Income Protection/Salary Continuance Cover:**
 - Up to 75% of income continues for either 2 years or to age 65 when unable to work due to illness/accident after a waiting period of either 30 days, 60 days or 90 days.
 - Higher cost cover with additional underwriting & varies with industry classification
 - **Option 1:** Within super, lower cost, no commission, tax deductible within super fund
 - **Option 2:** Outside super, higher costs, commission, fully tax deductible against income
- **Trauma Cover:**
 - Lump Sum Payment for diagnosis of various illness such as cancer, heart attack, etc.
 - Higher cost cover with additional underwriting & varies with industry classification
 - Note definitions of the various illnesses & any exclusions
 - **Option:** Outside super only, higher costs, commission, not tax deductible

CENTRELINK - ASSETS

1. AGE PENSION	<u>Date of Birth from</u>	<u>Pension Age</u>
QUALIFYING AGE 65 OR:	01/07/1952 – 31/12/1953	65.5
	01/01/1954 – 30/06/1955	66
	01/07/1955 – 31/12/1956	66.5
	01/01/1957 & onwards	67
2. HOMEOWNERS ASSET TEST:	<u>March 2016</u>	<u>January 2017</u>
– Single Pensioner:	\$ 205,500 to \$ 788,250	\$ 250,000 to \$ 549,000
– Couple Pensioners:	\$ 291,500 to \$1,170,000	\$ 375,000 to \$ 826,000
– Separated by Illness:	\$ 291,500 to \$1,447,500	\$ 375,000 to \$1,110,000
3. NON-HOMEOWNERS ASSET TEST:		
– Single Pensioner:	\$ 354,500 to \$ 937,250	\$ 450,000 to \$ 749,000
– Couple Pensioners:	\$ 440,500 to \$1,319,000	\$ 575,000 to \$1,026,000
– Separated by Illness:	\$ 440,500 to \$1,598,500	\$ 575,000 to \$1,310,000
4. ASSET TEST EXEMPTIONS:		
	<ul style="list-style-type: none"> • Superannuation in a members name who is under the pension age • Private dwelling on land up to 2 hectares (renovations to family home) • Gifting up to \$ 30,000 over 5 years (within 13 months) – Super funds for children/family • Funeral bonds of \$ 12,250 total, Burial plots (no limit) – 7.8% return for asset reduction 	

CENTRELINK - INCOME

1. INCOME TEST:

- | | | |
|-------------------------|-----------------------------|-----------------------------|
| – Single Pensioner: | Part pension if income is - | \$ 4,212 pa to \$ 49,296 pa |
| – Couple Pensioners: | Part pension if income is - | \$ 7,488 pa to \$ 75,454 pa |
| – Separated by Illness: | Part pension if income is - | \$ 7,488 pa to \$ 97,656 pa |

2. LOW INCOME HEALTH CARD (ANY AGE):

- | | | |
|------------------|------------------------|----------------------|
| – Single Income: | \$ 27,616 pa threshold | (Investments Deemed) |
| – Couple Income: | \$ 47,788 pa threshold | (Investments Deemed) |

3. COMMONWEALTH SENIORS HEALTH CARD (PENSION AGE):

- | | | |
|-------------------------|------------------------|----------------------|
| – Single Income: | \$ 52,273 pa threshold | (Investments Deemed) |
| – Couple Income: | \$ 83,636 pa threshold | (Investments Deemed) |
| – Separated by illness: | \$104,546 pa threshold | (Investments Deemed) |

4. INCOME TEST EXEMPTIONS:

- Superannuation in a members name who is under the pension age
- Allocated Pensions before 01/01/2015 (income reduced by deductible amount)
- First \$250 per fortnight of employment income

5. DEEMING RATES:

- | | | |
|----------------------|-------------------------------|-------------------------|
| – Single Pensioner: | 1.75% for the first \$ 48,600 | 3.25% for amounts above |
| – Couple Pensioners: | 1.75% for the first \$ 80,600 | 3.25% for amounts above |

AGED CARE

1. PLANNING FOR AGED CARE: (Based on 2011 Statistics)

- 70% of Women & 50% of Men will require aged care services
- 75% of Aged Care will be home services & 25% will Residential Aged Facilities

2. RESIDENTIAL AGED CARE FACILITIES: www.myagedcare.gov.au

- ACAS assessment required to obtain government subsidies
- Respite care is for temporary residential care (maximum 63 days per financial year)
- Retirement villages provide low maintenance serviced living options (not subsidised)
- Residential Aged Care Costs: (government subsidised):

– RAD (Bond):	average charge of \$ 400,000	- hardship considerations
– Basic Daily Fee:	\$47.86 per day	- \$ 17,469 pa
– Means Tested Fee:	\$70.50 per day (maximum)	- \$ 25,731 pa (\$61,754 lifetime)

3. RENT vs SALE OF FAMILY HOME:

- How to fund the RAD (Bond), the basic daily fee & means tested daily fee
- Rent out the family home or sell the family home to pay the RAD
- Pay part RAD & make a daily payment (DAP) for the balance owing (6.20% interest)
- Consider the funding options for the daily fees
- 2 year exemption before the family home is counted as an asset for Centrelink
- Centrelink classify all Aged Care Residents as non-home owners

ESTATE PLANNING

1. WILLS:

- Ensure you have a valid & up-to-date will
- Consider a Testamentary Trust to protect assets from the estate

2. POWER OF ATTORNEY:

- Ensure you have valid enduring power of attorney's to assist beneficiaries to act for you

3. ESTATE TAX:

- Capital Gains Tax Liability on Shares & Investment Property – transferred to beneficiaries
- Minimise tax transferred to beneficiaries as follows:
 - Gradually offset capital gains against capital losses during retirement
 - 3 year option to wind up estate & utilise 3 financial years of tax-free thresholds
- Tax on Super/Pensions paid to non-dependants of up to 17% the taxable component:
 - Anti-Detriment payments are paid by some super funds (not SMSFs) to children (15%)
 - Anti-Detriment payments may be reviewed in the Federal Budget 2016
- CIFP strategies to minimise tax:
 - Transfer shares to the investment fund to manage capital gains & annual income tax
 - Offset fees against taxable income to reduce tax & reduce Centrelink income
 - Anti-Detriment payments to beneficiaries
 - Transfer of super/pension account assets (in-specie) to existing investment fund

CONCLUSION

- 1. DIVERSIFICATION:** SPREAD ACROSS VARIOUS INVESTMENT SECTORS
- 2. LEVEL OF RISK:** LEVERAGE (DEBT) ADDS TO RISK/GREED
- 3. EDUCATION:** UNDERSTAND FUNDAMENTALS/VESTED INTEREST
- 4. PATIENCE:** ANALYSE & TAKE YOUR TIME/SECOND OPINION
- 5. RASH DECISIONS:** DON'T PANIC & MAKE QUICK DECISIONS
- 6. SIMPLICITY:** STRATEGIES/STRUCTURES THAT YOU UNDERSTAND
- 7. LEVEL OF STRESS:** LIFE STRESS vs INVESTMENT STRESS
- 8. RESEARCH LINKS:** RISK/GREED/VESTED INTEREST
www.youtube.com/watch?v=vggG3ITMv1Q
2012 INVESTORS OF THE YEAR GO BUST
www.youtube.com/watch?v=j_ktN_h7-J4

CIFP ASSISTANCE

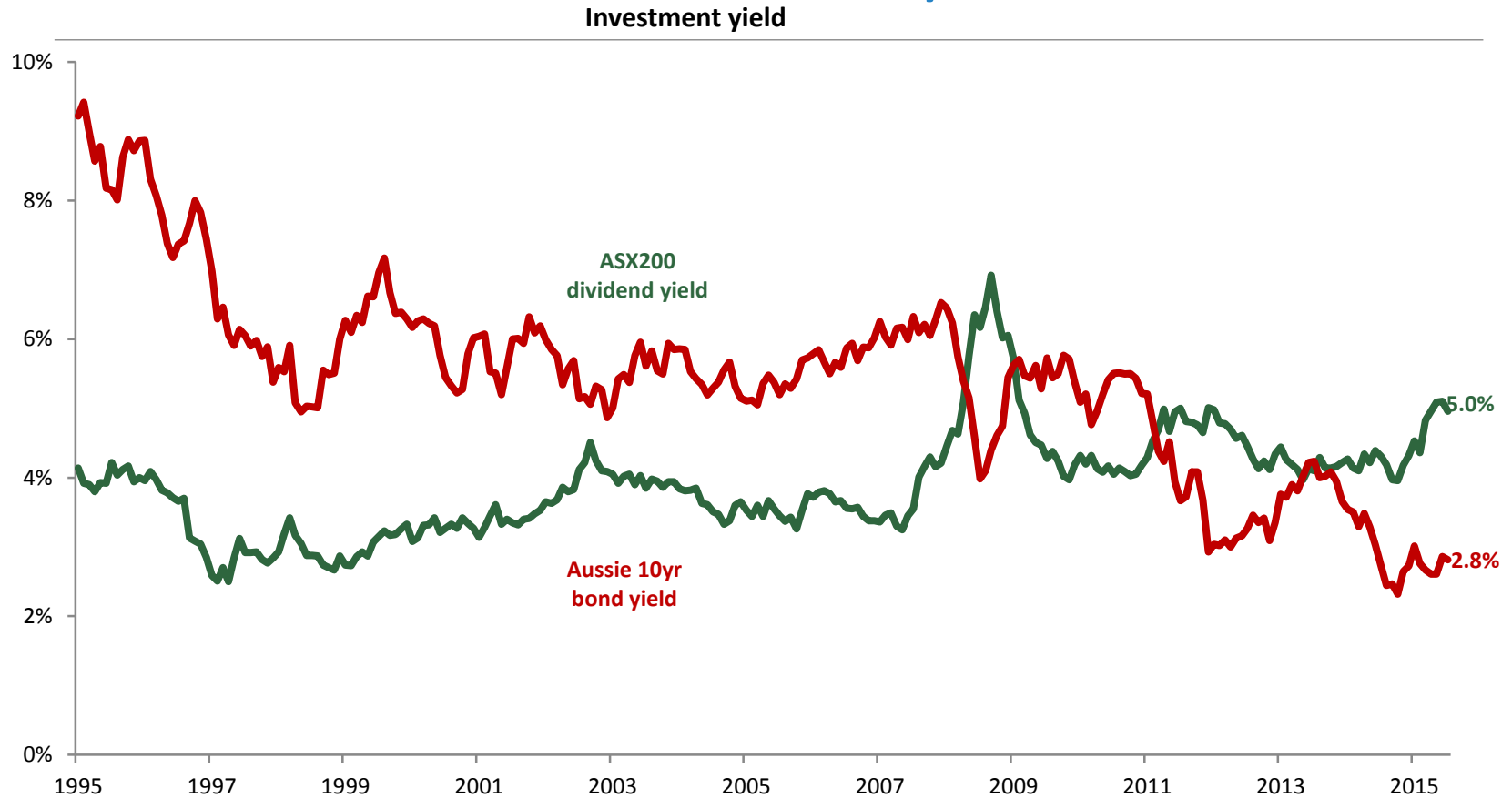
- 1. STRATEGIES:** DESIGNED TO SUIT YOUR OBJECTIVES
- 2. RISK PROFILE:** LEVEL OF COMFORTABLE RISK vs RETURN
- 3. SECOND OPINION:** ANALYZE, EXPLAIN & COMPARE
- 4. FAMILY:** SERVICES AVAILABLE TO FAMILY & FRIENDS
- 5. FINANCIAL CHECK:** FREE FINANCIAL HEALTH CHECK FOR FAMILIES
- 6. UPDATES - WEBSITE:** [WWW.CIFP.COM.AU](http://www.cifp.com.au)

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APPENDIX

1. **FUTURE CHALLENGE – WHERE TO EARN INCOME/YIELD**
2. **DIVIDENDS FROM VARIOUS MARKETS**
3. **CONTROL MARKET VOLATILITY**
4. **COMPARE RISK vs RETURN**
5. **INDEX vs ACTIVE FUNDS**
6. **PROVIDE INCOME BY COMPROMISING GROWTH**
7. **COMPARE WITH ALTERNATIVE MANAGERS**
8. **ACTIVE FUND PORTFOLIO**
9. **COMPARE BLUE CHIP (?) AUSTRALIAN SHARES**

Investment Challenge – Where is the yield?



Source: Factset as at 31 December 2015

Dividends – Australia, the lucky country when it comes to yield

Market	Yield
ASX	5.0%
MSCI	2.7%
S&P500	2.2%
FTSE	4.6%
DAX	2.0%

Source: Factset aggregates, MSCI as at 31 December 2015

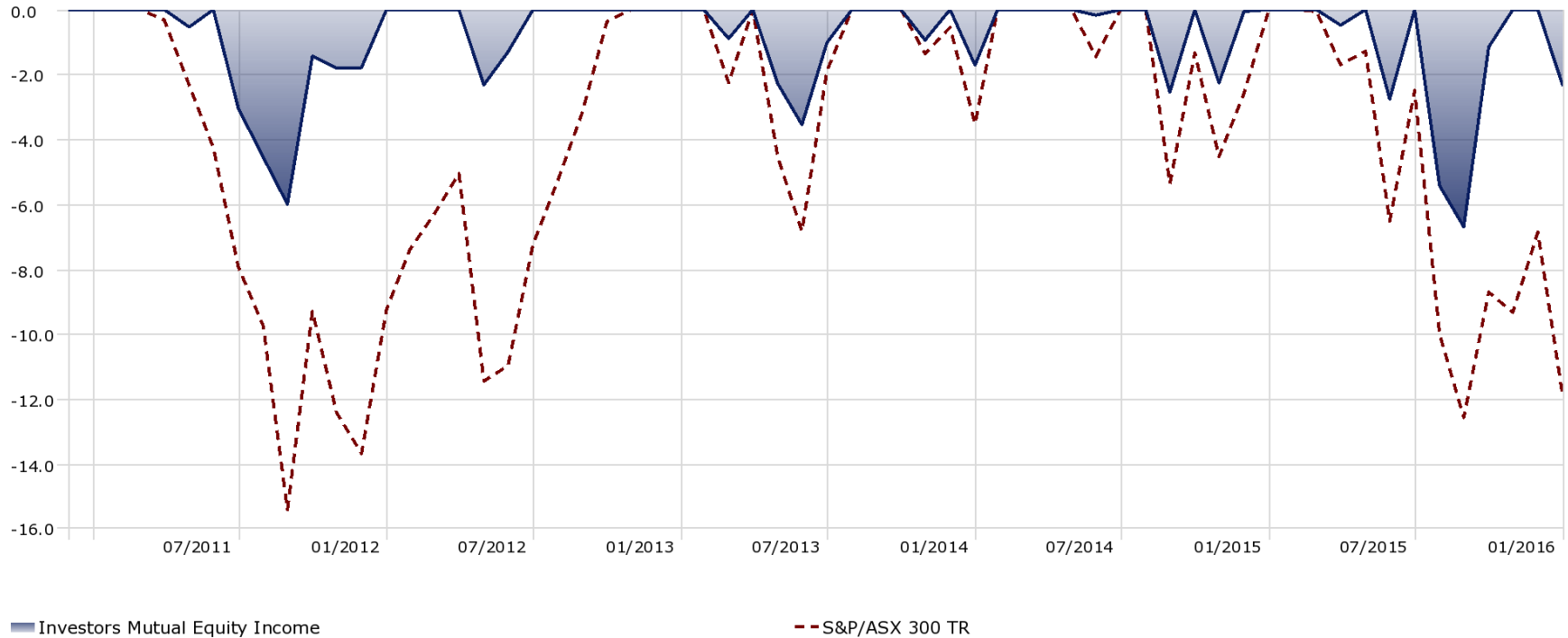
IML Equity Income Fund – Delivering downside protection

IML Equity Income Fund Analysis

IML INVESTORS
MUTUAL LTD

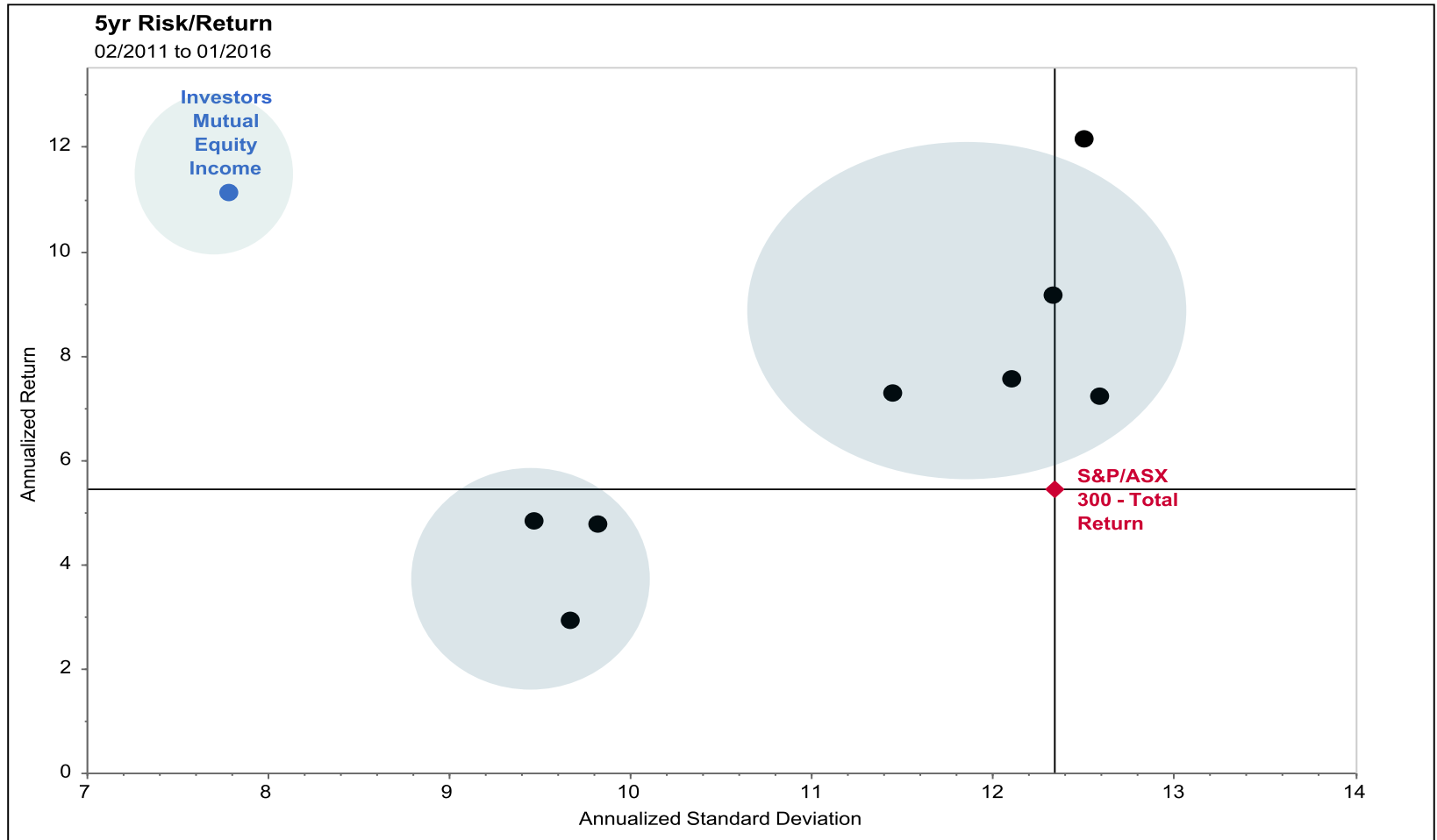
Drawdown

Time Period: 1/01/2011 to 31/01/2016



Source: Morningstar as at 31 January 2016

IML Equity Income Fund – Lower volatility keeps investors invested



Source: Factset. As at 30 September 2015

IML Equity Income Fund – Performance

	IML Equity Income Fund	ASX300 Acc. Index	Outperformance
1 year	+6.44%	-5.83%	+12.27%
3 Years p.a.	+10.27%	+5.28%	+4.99%
5 Years p.a.	11.12%	+5.46%	+5.66%
Since Inception p.a.	+11.13%	+5.39%	+5.74%
Inception Date		31-Dec-10	

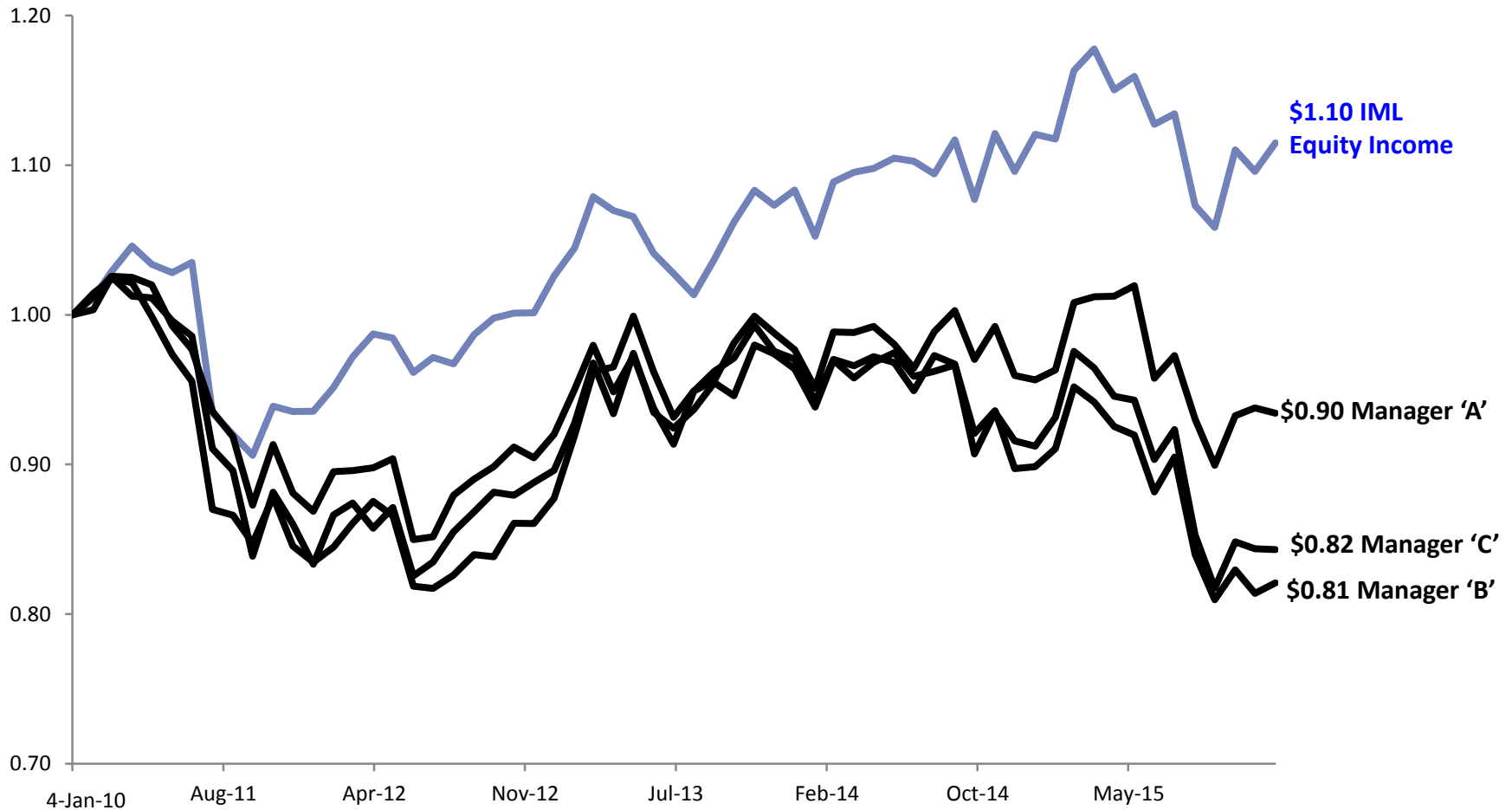
Total return – Income & growth splits

Jan 2011 – Jan 2016	Income p.a. (pre-franking)	Growth p.a.	Net Return p.a. (pre-franking)
IML Equity Income	+9.3%	+1.8%	+11.1%
Manager 'A'	+7.2%	-2.2%	+5.0%
Manager 'B'	+8.2%	-5.1%	+3.1%
Manager 'C'	+9.0%	-4.2%	+4.8%
ASX300	+4.6%	+0.8%	+5.4%

* Comparisons are made with funds using options to generate income and/or manage risk

Source: Morningstar

Important to grow the capital base



* Comparisons are made with funds using options to generate income and/or manage risk

Source: Morningstar

Portfolio Positioning end December 2015

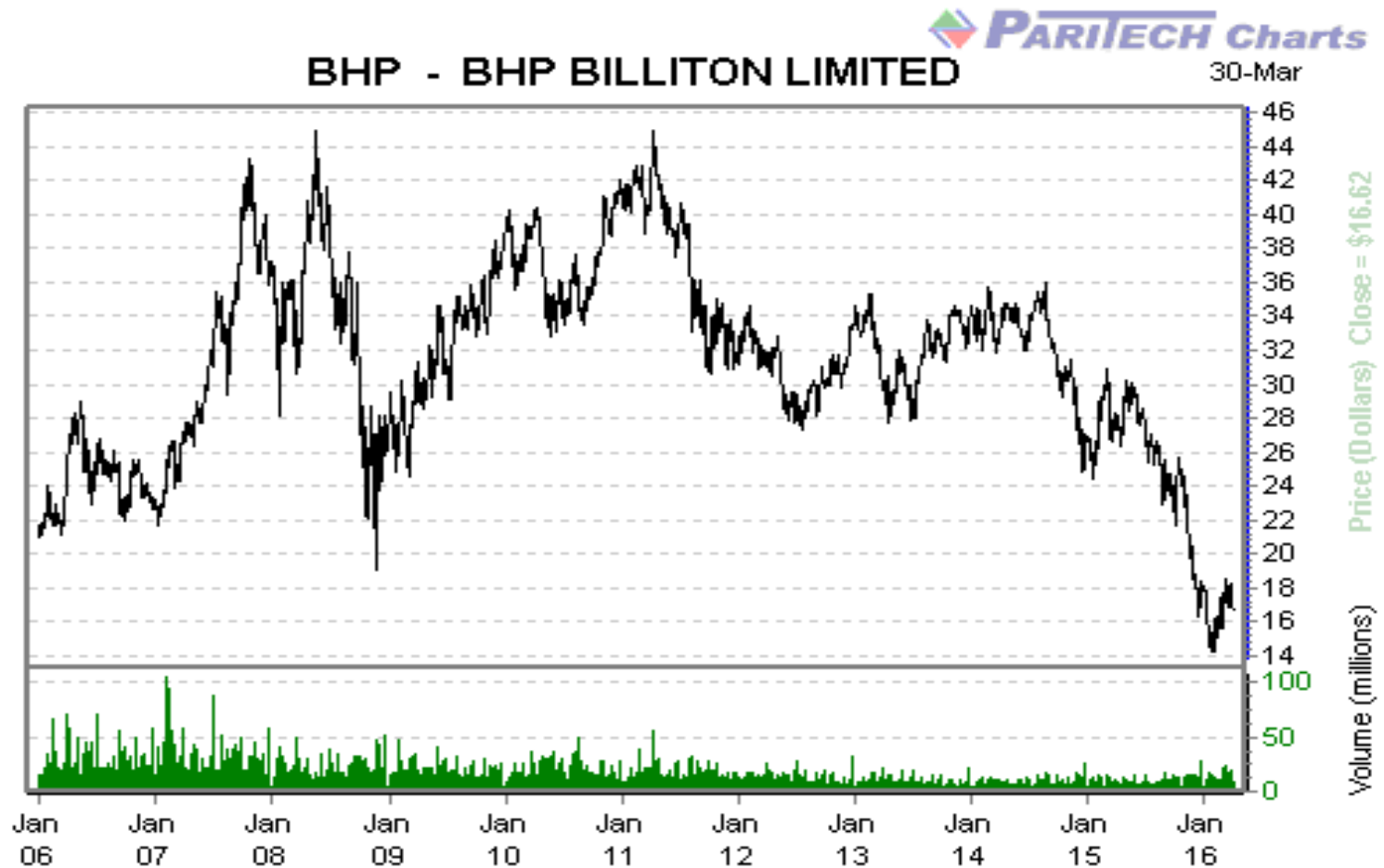
TOP COMPLETED HOLDINGS*

(at 31 January 2016, out of 28 holdings)

COMPANY NAME	Q & P SCORE	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Challenger Ltd	A3	12.7	n/a	11.9	4.36
Henderson Group	A2	17.1	-8.4	14.7	4.20
Resmed	A2	23.1	-26.2	21.0	4.15
Commonwealth Bank of Australia	A1	17.8	n/a	13.9	3.99
CSL Ltd	A2	46.7	62.8	25.8	3.98
BT Investment Management Ltd	A2	18.0	-19.5	18.9	3.86
REA Group Ltd	A2	37.0	-14.1	27.4	3.73
Westpac Banking Corp Ltd	A2	14.7	n/a	11.9	3.72
M2 Group	B3	21.2	135.9	23.1	3.68
Magellan Financial Group	A1	68.4	-31.0	18.9	3.60
TCH AVERAGE		27.7	14.2	18.7	
MARKET AVERAGE		15.7	72.9	19.6	
Total equity weighting					76.98
Total cash weighting					23.02

*Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.

Blue Chip Shares – BHP?



Blue Chip Shares – ANZ?



Blue Chip Shares – NAB?



Blue Chip Shares – WESTPAC?



Blue Chip Shares – CBA?



Blue Chip Shares – CSL?



ASX 300 INDEX RETURNS?

