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Planning Partners

Prosperitas

ISSUE 21 August 2016

Prosperitas: Latin for prosperity & good fortune

Political Minestrone

We finally have a Prime Minister and a Government. Our Senate has the appearance of a political minestrone soup, yet most of us continue to hold hope that our parliament will efficiently pass supply, not withstanding the requisite level of debate and cross examination, and conduct itself in the broader national interest.

In a period of constricted corporate growth and therefore lower tax revenue, we are all screaming for maximum parliamentary efficiency to ensure that every dollar is applied in a purposeful manner. We will keep our collective fingers crossed.

Further debate within the Coalition ranks surrounding elements of the budget and most particularly the superannuation proposals, will keep us all on our toes. Naturally, we will be keeping a keen eye on this and communicate the resulting strategy, opportunity and impact as it all unfolds. While our interests are vested, our preference to encourage private retirement savings within the existing superannuation constraints in our view, will provide wealth creation incentives outside of the great tax free haven that is the family home – property prices surely don't need greater stimulation than the prevailing monetary policy settings.

In this current edition of Prosperitas, we discuss the financial ins and outs that might have you considering the commercial property market, as well as providing a comparison between self-managed super funds and 'wrap' accounts. With the challenges of the current low interest rate environment we look at the suitability of term deposits and bond investments and what role they may play in the fixed income allocation of a portfolio.

We also welcome back former staff member Rebecca Thompson who is the subject of our 'player profile'. The Garden Gnome is back with some typically useful tips for the coming spring, while The Movie Buff makes a long-anticipated debut.

Do enjoy the read and we look forward to catching up for a review meeting at your convenience

Martin R McIntosh
Managing Partner

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Ground Floor, 971 Burke Road, Camberwell VIC 3124
PO Box 8192 Camberwell North VIC 3124
T 03 9830 0366 F 03 9830 7028
advice@planningpartners.com.au

SMSFs vs Super Wraps: A super heavy-weight bout?

The self managed superannuation fund (SMSF) sector has experienced extraordinary growth over the last 15 years. In March 2000, assets in small funds (less than five members) amounted to $68.7 billion. By March 2015, assets in SMSFs had grown to $594.8 billion, representing an average growth rate in excess of 15% p.a. over 15 years.

Over the same period retail superannuation funds grew at a more modest 10.3% p.a., from $126.8 billion to $550.8 billion. However, over a similar period, we have seen (within the retail sector) the birth and rapid growth of sophisticated wrap-style superannuation funds, referred to as 'Super-Wraps', which comprised approximately $254 billion by December 2014.

An SMSF can offer a wide range of investment options - potentially any investments allowed by superannuation law including real property, collectibles, certain personal use assets and privately owned companies. It can be cost effective depending on the level of funds held, the willingness and ability of trustees to perform some of the functions of the fund themselves and the cost of services out-sourced to relevant SMSF industry professionals.

On the other hand, an SMSF can be complex to run and the members of the fund bear the responsibilities of a trustee e.g. ensuring that sufficient liquidity and minimum pension payment standards are met.

An SMSF may also have a range of practical difficulties in paying and benefitting from an anti-detriment payment. Anti-detriment payments are fundamentally a compensation for contributions and earnings taxes paid since 1 July 1988. The amount payable is approximately 17.6% of the taxable component of a lump sum death benefit accrued since 1 July 1988.

An SMSF will also need assets to be available to make the anti-detriment payment and, whilst the payment can effectively be claimed back from the ATO as a tax deduction; the SMSF must make the payment at the same time as the death benefit lump sum is paid i.e. prior to recouping the payment from the ATO.

The growth and evolution of Super Wraps has narrowed the features gap between SMSFs and what's available to clients in the retail superannuation space. Most Super Wraps now offer access to ASX 300 or ASX 500 stocks and a wide range of managed funds. Super Wraps offer tax benefits e.g. individual account based tax accounting and anti-detriment payments, and a high level of estate planning certainty through binding death benefit or non-lapsing nominations and arms-length trustees. Furthermore, the cost associated with Super Wraps are competitive when an objective comparison is made between the actual costs of running an SMSF.

It is expected that an SMSF may suit certain clients while a Super Wrap will be more appropriate for other clients. So it is important to compare and contrast the features of both structures prior to identifying which clients are best suited to each option.

Source: Macquarie Technical

Yield: What is

For anyone considering investing in commercial real estate, one of the first questions you will want to ask is: what return on investment will I get from this property or, in other words, what is its yield?

Article is courtesy of RealCommercial.com.au

it & what drives it in commercial real estate?

Yield is an important way of measuring the future income on an investment. It is particularly important in commercial real estate as capital growth rates are not usually as high as the residential market. So the return you get now and in the future is a key factor in working out whether to invest.

Yield is calculated as a percentage, based on the property's cost or market value, annual income and running costs. It does not take into account how much the property increases in value over time (i.e. the capital growth).

When calculating yield, it's important to know if you are calculating 'gross yield' or 'net yield'. Gross yield is everything before expenses, whereas net yield takes into account running expenses such as management fees, maintenance costs, stamp duty and vacancy costs.

Commercial properties typically return a much higher yield than residential, generating yields upwards of 7% compared to yields of 4-5% in residential.

What drives yield?

Yield, business confidence and occupancy rates are the top three drivers of the commercial real estate market.

All three are affected by consumer confidence, politics and the economy. Commercial property yields are more susceptible to market conditions than residential properties as people will always need somewhere to live, whereas business can, and do, go out of business. This risk is reflected in the higher yields that commercial property attract.

The demand for property is one of the key drivers of yield. When demand is high, the cost of buying an investment property increases. The more you pay, the less yield you get (unless rental income increases in proportion to the purchase price). When yields are decreasing this is often referred to as 'hardening yields'.

The opposite is also true. When demand for property is down, prices fall and yields can increase. When the rent-to-value ratio increases it is referred to as 'softening yields'.

It is important to note that yields are a measurement of expected return on your investment and not a guarantee. Potential investors need to take into account all the other factors, such as likelihood of finding and retaining a good, long-term tenant, maintenance and infrastructure costs, suitability and location of a property and all the other factors that can impact on your ability to achieve your expected yield.

Bonds vs Term Deposits: Tackling the misconceptions

Historical levels of achievable income have plummeted in recent years as official interest rates have been slashed in the wake of the global financial crisis. Replacing those once-healthy cash flows is set to become a major challenge for investors as the highly levered global economy ensures interest rates stay lower for longer.

Many investors are still trying to generate lifestyle-supporting levels of income by parking their funds in low-interest-bearing term deposits. It is a strategy with its own peculiar set of risks and one which bypasses the far larger and more diverse bond market.

For investors with short time frames - less than 12 months- term deposits may be a good match, but those with longer investment horizons may want to consider bonds, which can offer higher yields than term deposits and significantly lower volatility than equities.

Average five-year term deposit rates of 7.5 per cent- 8 per cent (which investors were receiving as recently as 2010) have become a relic. Investors rolling out of term deposits are now faced with the stark reality of rates around half those levels.

Many are sitting on the sidelines of the fixed income market due to concerns about low bond yields and the impact of potentially rising interest rates. While we believe that interest rates will remain low to support the global economy for an extended period, a skilled active bond manager can deliver above-average returns through the market and interest rate cycle while lowering overall portfolio risk.

When interest rates rise, the capital value (or price) of fixed interest securities typically falls. However, history tells us that a well-diversified bond portfolio can actually provide positive returns for clients in such an environment. Additionally, active bond managers can generate income above typical cash and term-deposit levels by adjusting a number of levers.

These include shifting the portfolio into parts of the bond market less affected by rising interest rates. This can mean investing in different sectors, such as corporate bonds or the mortgage sector, and investing in bonds from regions where rates are less likely to rise, such as Europe or Australia.

Bond managers can also reduce a bond portfolio's sensitivity to changes in interest rates, or its duration. One way of reducing duration is to increase a bond portfolio's allocation to shorter-term debt securities.

Another way to adapt to rising interest rates is to invest in credit sectors, such as corporate bonds, or in countries where interest rates are not expected to rise. Active investing such as this may support income levels when rates do rise. Active managers with expertise in risk management instruments, such as interest rate swaps, can also use these tools to protect a bond portfolio from the impact of rising rates.

Bond portfolios can offer a low-risk alternative for investors seeking higher returns. When invested across the variety of fixed income sectors that make up the US $100 trillion-plus global bond market, a bond allocation can provide an attractive, low-risk anchor for a portfolio, supporting capital preservation and income.

Article is courtesy of PIMCO Australia

Bec Thompson

Interview with Rebecca (Bec) Thompson

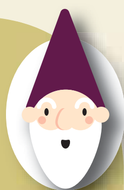
In 2002 John Farnham announced his retirement and embarked on his 'The Last Time Tour'. Coincidentally, this was the same year that Bec started at Planning Partners only to 'retire' 18 months later with a view to exploring opportunities in London. Bec's role was in the Client Services Division managing the day-to-day requirements of clients.

As Farnesy continued to tour for the last time, Bec returned in 2005 and was welcomed back to Planning Partners with open arms. This stint was spent within the Insurance division, where Bec experienced the unique work environment of Gavin including late starts and extended holidays. Despite this, Bec manage to beat her previous record at Planning Partners when she left after 3 years to pursue a fashion career with Witchery.

A review of her own Insurance cover led her back into the offices of Planning Partners whereby she was offered a role in client services. She was thrilled, surprised and happy to come back while the rest of us were just surprised. Management thought her request on her second day back to have her various working stints amalgamated for long service leave was a little rich at best.

Bec is a mother to 5 year old Zara and wife to Tim. When not assisting clients, Bec coaches the Waverley Women's Firsts Hockey side having previously represented the club for a long time in a playing capacity.

Garden Clippings



It's time to draw out the pitch fork and commence garden preparation for warmer months.

Most of Eastern Australia is enjoying much needed rain but this is not an excuse to rest by the fire on your gardening laurels, there is much to be achieved;

- Clean up fallen leaves from deciduous fruit trees and compost for the coming season.
- Trim back the grapevine if you have been procrastinating. Be nice and aggressive with the younger vine which will encourage a stronger plant in maturity.
- Potted plants should be watered with a slightly tepid water to avoid shocking the roots.
- Remain vigilant to caterpillars, particularly around citrus tress. Use an oil based pest deterrent or particularly well trained kookaburra as required.
- Winter is a great time to transplant shrubs and deciduous trees – prepare holes by digging compost and well aged manure into the soil.

Good luck and enjoy every moment

GG

The Movie Buff

The Big Lebowski (1998)

★ Buff Rating: Watch, Enjoy…Repeat

Of all the Coen Brothers films, this ranks as The Movie Buff's favourite. The plot - involving a man, his rug, mistaken identity, kidnapping, and tenpin bowling - plays second fiddle to a character-driven movie that has spawned its own cult, Dudeism.

Jeff Bridges plays Jeffrey Lebowski (#1), AKA The Dude, or El Duderino "if you're not into the whole brevity thing". He likes nothing more than drinking White Russians and "rolling" with his bowling partners, Vietnam vet Walter (John Goodman) and the naïve Donny (Steve Buscemi).

But one night The Dude gets ambushed in his home and has his rug soiled by two thugs mistaking him for the other Jeffrey Lebowski, the eponymous "Big"; a wheelchair-bound philanthropist with a mean temper and a trophy wife, Bunny (Tara Reid). After The Dude successfully seeks compensation from the Big Lebowski for his much loved rug, he is contacted by Big's faithful servant Brandt (Philip Seymour Hoffman) and used as a pawn to recover Bunny, who has since been kidnapped.

We then meet Nihilists, a maniacal artist, a Pomeranian, and a taxi driver who loves The Eagles. And it is narrated by the deep voiced Stranger (Sam Elliott) who sports one of cinema's great moustaches.

A classic indeed and 18 years later it can safely be said that The Dude still abides. If you think differently, then, as the man himself says, "Yeah well, that's just, like, your opinion man".

Ground Floor, 971 Burke Road,
Camberwell VIC 3124

PO Box 8192 Camberwell North VIC 3124

T 03 9830 0366 F 03 9830 7028

advice@planningpartners.com.au

www.planningpartners.com.au

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