JustInvest Financial Planning

Strategy. Structure. Performance...& Peace of mind

Wealth News: July 2010

"Education is the most powerful weapon which you can use to change the world".
Nelson Mandela

John's Retirement

Well the time has finally come – John has officially retired, after 43 years in the industry. He's driving into the bush with his caravan as we speak, and switching the mobile phone off for good!

All the best to John (and Fran) in retirement and we thank him for his valued work with JustInvest.

New PM, new FY, same Volatility

On 24th June, Julia Gillard was selected as Australia's new Prime Minister, as Kevin Rudd bowed to Party pressure and stood down. Her leadership begins at a time when the Australian economy is performing fairly well, but the global economic outlook is still shrouded in uncertainty.

June rounded out the financial year with a whimper — the ASX 200 ending up 347 at 4301 after starting the year at 3954. At an accumulation level, that's a return of a little over 13%, but with a lot of volatility in between! The last 12 months have delivered a number of mixed signals with the markets initially rallying 32% in July to early January, then falling 9% in three weeks, rising 11% in the following two months and then dropping 14% from mid April to 30 June.

The Australian sharemarket began June recovering from its May decline, however continued concerns over European sovereign debt and moderating growth expectations in China and the US hurt investor sentiment again. We've had conflicting views about whether China was slowing down or speeding up, plus the unexpected announcement (and adjustment) of the Resource Super Profit Tax (RSPT).

This volatile ride highlights the complexities of managing portfolios with not only the asset allocation being tricky to determine but also evaluating which managers thrive in which markets. However, as always **investors should be mindful that sticking to long terms goals brings rewards**.

In addition, the RBA left interest rates unchanged at its July policy meeting, as expected. Analysts say that the most likely scenario for official interest rates is that they will stay unchanged in the next few months. **Source: Advance 2010**

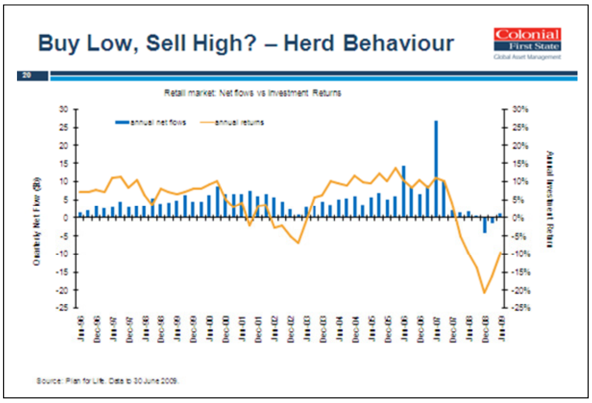
Herd Mentality: Investing

Running with the herd feels a lot safer than running against it. There is a sense of psychological security that comes from doing what others are doing – and when it came to our early human ancestors forming tribes and deciding to flee rather than fight when some imminent danger appeared, it worked well.

But as investors, the urge to run with the crowd can be costly. The performance of sharemarkets around the world in May probably has some investors thinking of hitting the flee button.

There is ample evidence from history of just how strong the investor herd mentality can be. Looking at historical net cash flow of managed funds, there is a strong correlation between stockmarket performance and cash flows.

That is, when markets rose, investors clearly got excited by the positive returns and followed the performance with more money – the 2000 'tech wreck' was the clearest example. Conversely when markets were in negative territory in 2002 and 2003 that was when more people were sellers than buyers right before the next market run up began.



Risk aversion and healthy scepticism of marketing claims are great defensive tools for investors. But just as we understand the dangers of irrational exuberance and excessive optimism there are also times when negativity can be overwhelming – when no matter how low prices fall, it seems no amount of potential return can make the risk worth taking. The fear of capital loss is paralysing. We saw that after the Lehmann collapse at the height of global financial crisis in 2008.

So perhaps the latest bout of geo-political uncertainty and Eurozone debt issues is simply a healthy albeit unsettling reminder that challenges may well lie ahead for several years, and that the optimists looking to consign the GFC to history may have a chapter or two to go before the book can be closed.

The challenge for investors is how to stand to the side of the stampeding herd – regardless of the direction it is heading.
Source: R. Bowerman, Vanguard 2010

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60 second guide to... The Cooper Review

On 5 July 2010, the Government released the final public report of the review into the governance, efficiency, structure and operation of Australia's superannuation system. This has been referred to as the 'Cooper Review'.

The Cooper Review has made a number of recommendations for reform, which are summarised into ten packages, covering the following topics:

- MYSUPER and choice architecture
- Trustee governance
- Investment governance
- Outcomes transparency
- Insurance in superannuation
- Integrity of the system
- Retirement
- Self-managed super solutions
- Superstream
- Regulatory settings

These ten packages reiterate many of the preliminary recommendations made throughout the course of the review process over the last 13 months. There is a strong focus on two major areas of reform, being:

- The introduction of a standardised "MYSUPER" fund – a low cost, low feature super offer for many members, and
- The need to introduce efficiencies through a move to e-commerce and electronic data transmission/ communication.

The Government's response
In releasing the Report, the Government has noted its support for initiatives that will move superannuation to a more efficient environment, particularly through the use of increased technology, as well as any other moves to make super more cost effective and easier to understand. Ultimately the Government is looking at those measures which will assist members to have more saved for their retirement.

Having said that, at this point in time the Government has not committed to any of the recommendations made by the Cooper Review, nor have they ruled any out. Rather, they have indicated their intention to consult closely with industry and affected parties on the range of recommendations that have been made in order to formulate those recommendations which are to be implemented.

It's also important to remember that a Federal election is expected to be called in the second half of this year, and the outcome of that election could have a bearing on which recommendations are ultimately enacted by future Governments. **Sources: Asgard, CFS, Vanguard (2010)**

Time to Review the Mortgage?

It's important to check your existing mortgage with the current market offering, and ensure you are getting the best deal. Contact us to talk to our specialist Mortgage Brokers: clientsupport@just-invest.net

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Draw down Relief Continues

The government's draw-down relief for minimum pension payments was extended to the 2010/11 financial year at the last minute – by Wayne Swan's office on 29th June. To review your annual pension income requirements, contact us on 08 9325 2299 or clientsupport@just-invest.net

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Don't take the Bait

Promoters of some tax planning arrangements are simply fishing for your money. Their bait is the promise of high investment returns and generous tax breaks.

Take the bait, and you could be the one that's bitten. You could lose your money and you might have to pay back any missing tax, plus interest and penalties.

It can sometimes be hard to tell a good investment from a bad one. Promoters can come with convincing sales pitches, and it can be difficult to tell if you're getting sound advice. It can be confusing, with promoters offering you big tax deductions.

These are a few lines that you should be wary of:

- 'There are no risks. We guarantee the returns.'
- 'You don't need credit or asset checks'.
- 'There's no need to ask the Tax Office if it's okay.'
- 'You can get up to 100% tax deductions.'
- 'We'll put your money in a tax-free overseas account.'
- 'Trust us, the ATO is okay with it.'
- 'It is complex but you don't need to understand it

Source: ATO (2010)

Website Under Construction.....

Watch this space for the JustInvest website – sure to take the World Wide Web by storm! Being launched soon…

Industry Fund Watch: HostPlus

The Cooper review found that the Australian super system is characterised by a lack of transparency, comparability and, consequently, accountability.

Another Gold Coast signing – thanks HostPlus members!

Perhaps a case in point is HostPlus, where high profile sporting sponsorships include the AFL's Richmond and Gold Coast, and the NRL's Melbourne Storm (recently terminated).

Questions have been raised by fund members over the use of member funds for such high profile sponsorship deals, and the lack of transparency in the costs involved. Who is making the decisions on behalf of members?

The 'e'-list: ethics in question

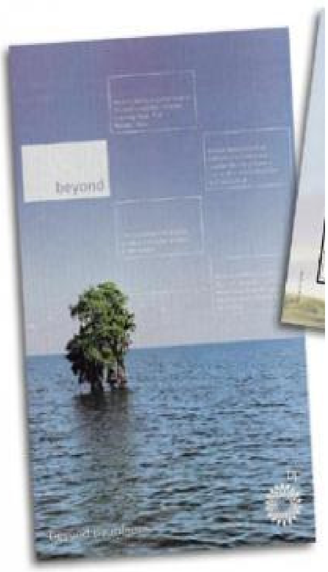
BP: Beyond Petroleum or…?

Given the environmental catastrophe unfolding in the Gulf of Mexico, this article on BP from 2000 makes interesting reading:

Recently BP, the world's second largest oil company and one of the world's largest corporations, advertised its new identity as a leader in moving the world "Beyond Petroleum." Such leadership would benefit the world's climate and many of its communities immensely, according to British Petroleum. Sound too good to be true? Let's see.

Rainforest Action Network, says their Beyond Oil campaign works to "move our societies out of our devastating dependence on fossil fuels and into renewable energy options..." BP's re-branding as the "Beyond Petroleum" company is perhaps the ultimate co-optation of environmentalists' language and message. Even apart from the twisting of language, BP's suggestion that producing more natural gas is somehow akin to global leadership is preposterous. Make that Beyond Preposterous.

BP's claim to be "the largest producer of solar energy in the world" is a little more serious. But being #1 for BP is so easy. It was achieved by spending $45 million to buy the Solarex solar energy corporation. That's a tiny fraction of the $26.5 billion it spent to buy ARCO in order to increase BP's production capacity for...oil. BP will spend $5 billion over five years for oil exploration in Alaska alone. And, according to one group of BP shareholders, BP spent more on their new eco-friendly logo last year than on renewable energy.



When a company spends more on advertising its environmental friendliness than on environmental actions, that's greenwash.

Speaking of greenwash, BP's *Herald Tribune* ad (pictured here) is a bizarre classic. It is difficult to guess what their ad firm was trying to convey with the picture of partially submerged trees. Perhaps it's just an unusual nature photo, or perhaps it's meant to remind us of the frightening potential for rising sea levels and flooding from global warming. Or perhaps it's an unintentional reminder that BP's massive fossil fuel production is responsible for a substantial portion of global carbon emissions, and therefore, climate change.

The ambiguity continues with the copy, "...starting a journey that will take the world's expectations of energy beyond what anyone can see today." Pretentious stuff for a company serving mainly oil and gas, with just a sliver of solar on the side. Make that *B*eyond *P*retentious. **Source: K. Bruno (2000)**

We Want You!

If you're happy with our service, JustInvest asks you to mention us to friends, family or colleagues who may need some advice. We don't do big advertising campaigns – we rely on our valued clients to refer like-minded individuals. Thanks for your support.

Upcoming Events Calendar

Thursday July 29th	**The Bigger Picture:** **Investing for the Long Term in a post-GFC world** with Michael Bailey  Subiaco Hotel Function Room, 6.15pm RSVP to clientsupport@just-invest.net

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Who We Are

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