



NEWSLETTER MARCH 2018

WHY NOT BE OPTIMISTIC?

Sometimes it worries me that I don't worry about our sharemarket. Maybe I should. Certainly the media encourage us to worry, with tales of gloom and doom and imminent destruction, but I'm still an optimist.

I think Australia just has so much going for it. We have an excellent education system which is generously funded by State and Federal governments. Our universities are essentially government funded, even if a HECS debt has to be repaid, it is only a fraction of the full cost, so we have a highly educated population. We are becoming ever more popular with overseas students, so a great source of income for us.

We have plenty of natural resources to use and export. That won't last forever, but it will be fun while it lasts.

Our superannuation system is beginning to mature and is one of the best in the world. It still enjoys generous tax advantages and will eventually take some strain off age pension payments and provide local private funding for business, industry and infrastructure financing.

Our social security system is better than most countries and allows people to pay their way and still be consumers, benefitting our economy.

We have the second highest GDP per capita in the world. Only Switzerland is higher, and that's probably because it's a millionaires' hideout. Their tennis players alone earn more than most small countries. Our high GDP per capita also allows us to consume, to the great joy of avocado growers and baristas.

Our health care system is world class and we punch above our weight in medical research and medical equipment design and manufacture.

We have inexhaustible sunshine, wind and waves, so as the capital cost of installing solar, wind and wave power decreases we will increasingly have access to cheaper renewable energy sources that don't pollute.

It seems to me that we are as well placed as anywhere in the world to benefit from the coming technological changes such as robotics and artificial intelligence (A.I.), so it will be something to welcome rather than be scared of. We'll see.

Given all that, and many other positives, I cannot bring myself to be pessimistic about the long term direction of our sharemarket. Sure, there will be downturns, and plenty of them, along the way, but since I know I will not be able to forecast the downturns in advance, I would rather be in our sharemarket than out of it.

DOWNSIZER SUPER CONTRIBUTIONS

If you sell your home after 1 July 2018 and you are over 65 you will be able to contribute \$300 000 each to super without the usual contribution rules such as work test and super balance.

This will be useful for those who would otherwise have to pay tax on investment or work income.

There are various tests, such as you have to have owned the home for at least 10 years, so don't proceed with this until you have received professional advice.

DEATH AND TAXES

I regularly warn in my newsletter that if someone dies with an allocated pension and does not have a dependent to leave it to (major kids are not dependents) then there is a 15% exit tax. Somehow this comes as news to some of my clients even if they promise they read my newsletter from cover to cover religiously.

There is a solution. If the doctor say your tests have come back and you'd better enjoy your last 3 months, then you get over here quickly and we'll take your money out of allocated pensions tax free and the proceeds will go to your non-dependent heirs tax free.

THE YOUNG SHOULD GO FOR IT RETIREES SHOULD SORT OF

People in their 30s and 40s now probably won't be able to access their super until 65 or 70, so they really should be aggressive in their choice of investments. Risk and return are usually related in the long term, so the higher the risk they take the higher the likely return. It will go down at times, but since they can't

access it anyway who cares? It's just a figure on a piece of paper to them until they retire. It wouldn't surprise me if the rules changed so that they never have access – it will have to be taken as a type of lifetime annuity, so they might as well wear the paper losses at times to maximise the end figure.

Retirees on the other hand are reverse dollar cost averaging. They are drawing on their earnings and capital, so it is important they have a decent percentage in cash so they could endure a 4 or 5-year downturn without having to encash shares. That period should normally be enough to allow the shares to recover. This is the strategy we generally use for our retired clients, even if cash rates are low. It's the price we pay for the security of getting through the downturns unscathed.

That said, I believe the long term returns of income and capital growth from shares are so likely to outperform cash deposits that it would be foolish not to have a reasonable percentage (we currently have 64% for our retired clients) in shares. \$1 000 000 in cash alone will yield \$30 000 per year. A retired couple with no assets get more age pension than that.

PASSIVE INVESTING

As you know, we mostly use passive investments such as share index funds. This is because of our belief that most (but not all) active managers do not beat the Index after their fees. Index funds have low fees.

Warren Buffett has just released his latest newsletter. Amongst his various pearls of wisdom, he mentions that 10 years ago he took a \$2.2 million bet with someone who selected 5 "Fund of Funds" that they would not beat the index over 10 years.

The Index (The US S & P 500 index) went up 8.5% p.a. over that period, while the 5 funds made 2.0%, 3.6% 6.5%, 0.3% and 2.4% p.a. after fees averaging 2.5% p.a.

Apparently he gave the \$2.2 million to a local girls' school as he doesn't exactly need the money.

SYSTEM & STRATEGY

Following on from that, can I disclose again the basis of the system and strategy we use for clients. In a sense, we are specialists. We only use a system that is simple and low cost. That is because I have found that complexity increases risk and cost and not of necessity returns. My clients are likely aware that our returns have been above average. Not the absolute best because there will always be someone who jags it, but there would have been a lot more funds that did worse, often because of high fees.

Our system and advice does not suit people who quite legitimately believe that complexity will make more.

The foundation of our system to keep things simple and low cost is that we use index funds in the Colonial First State platform. We are independent, but we could not provide the service we do if we used multiple managers and platforms. I have the bulk of my personal money invested with Colonial First State with exactly the same fees as my clients (but without an adviser fee).

Where we add value is to give our clients technically correct advice that is solely in their best interests (not ours or any fund manager's) as best as we can based on my 30-years experience.

That's actually why clients pay us fees. What we do for them is not hard, but it's knowing what to do and ensuring that the advice is tailored exactly to them without mistakes is why we are here and why our fees are worth paying.

LILA'S RETIRING

After 24 years Lila is retiring to spend more time with her grandkids.

She is however going to fill in for Denise when Denise is away and also some afternoons, so she is not lost to us and our clients.

Not many private companies are so fortunate to have such loyalty, hard work, unfailing good nature and friendliness to us and our clients as we have had from Lila.

We wish her well, thank her for her years of service to our clients and look forward to still seeing her on her fill-in days.

Kind Regards,



**DAVID GOLDSCHMIDT A.C.A.
Director**

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