



GOLDSCHMIDT & CO



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NEWSLETTER MAY 2018

This newsletter is a bit earlier than usual as there have been a couple of things happening that I would like to address with my clients.

The evidence given at the Royal Commission in relation to Financial Planning has been saddening and infuriating but not unexpected to those who know the industry. There are always going to be those who place their income ahead of their clients' best interests, particularly in an industry that deals in money.

What has become clearer is that in a large organisation like AMP or the Banks part of the problem was that some managers who were supposed to control those under them were also remunerated based on volume, not quality, so their personal incentive was to also keep the money coming in, no matter how.

I know that over the years I've lost plenty of clients to the big banks. It must have seemed a good idea to rather deal with an organisation with lots of checks and balances who won't go broke overnight – ironic because my clients have performed better than average because of low fees and advice that was in their best interests.

I'm not sure how to react. Emotionally I'm tempted to retire in disgust, sell my business and go and play more golf, but practically I think it's important that people are told that there are thousands of financial advisers (not just me) who are providing sound financial advice for a fair fee in their clients' best interests, but these advisers are obviously not pulled in front of the Royal Commission, so they don't seem to exist as far as the media reporting goes.

Many people are in need of good financial advice and access to someone who can help them avoid mistakes, but it seems a matter of pure luck that they are referred to someone like me (I've met plenty of really good, honest advisers) or to someone who now needs to confess to a Royal Commission that they've systematically ripped clients off with poor advice and high fees.

On that basis, I don't want to desert the clients who rely on me for good advice.

The fact is that there are dodgy lawyers who encourage litigation to make a dollar. Dodgy doctors

who commit Medicare fraud or prescribe an unnecessary procedure. Dodgy accountants who get a kickback from a developer to advise clients to buy the developer's property in their SMSF. It happens, but the majority of those professionals are doing a good, honest job of looking after clients' needs, and financial planners are no different.

MANAGED ACCOUNTS

I study the future of financial advice as best I can and there is no doubt that, no matter how old fashioned I consider myself to be, technology is changing the way we do things and needs to be used to improve performance and the service our clients receive.

Our company is still growing even though we have never advertised as we work just off referrals from our many happy clients.

What does bother me though is whilst we encourage pension payments and withdrawals to come out of our clients' cash component, this often results in our clients' share component of their portfolio increasing to a higher risk level than they started with.

Colonial First State are going to offer us a facility called "Managed Accounts" which will rebalance all accounts quarterly and I can also reweight all clients in a particular asset allocation model by pressing 1 button and the computers do the work for everyone.

The fees are going to be the same as wholesale but less than Asgard, IOOF and CFS retail. I then will have the security of knowing that my clients' portfolios will not become unbalanced because the sharemarket has gone up or they've drawn a large amount for a new car or big holiday, I can also tweak the asset allocation more easily when I feel a bit of profit taking is in order or I consider another asset class should be increased etc.

Making this change is in itself an enormous amount of work, so we will roll it out over the next few months. Please bear with us. We're pulling Lila out of retirement to do it as a project. Each client will be individually assessed and transferred if they agree.

I am putting in writing that this change will be in our clients' best interests. It will reduce our income, and increase our (short term) workload, but once complete will allow us to give better service with the

security of knowing that all our clients are being looked after as best we can.

MISTAKES PEOPLE MAKE

Over the years I've seen clients making mistakes in their personal lives that have nothing to do with me, but I'll give you my observation of a few;

1. People leaving downsizing or going into a retirement village too late. At say 75 most clients are still physically and mentally quite capable of moving, making new friends and doing new activities. At 85 they're not nearly as physically and mentally capable. It becomes an incredible effort that they can't really manage properly or they have to rely on children who have their own busy lives to cope with, and it's not fair to them.

So, unless you are living somewhere easy to manage where you're happy to leave feet first, then my advice is that sooner is better than later.

2. Lending/giving material amounts to kids often ends badly. Not all the time I must say, and maybe I don't hear about the good ones (a bit like the Royal Commission) but I see my fair share of bad ones where siblings fall out because of what they perceive to be unfair treatment, or divorcing partners of children are given their share of his/her parents money, or investments or a business goes badly and junior simply cannot repay, with some financial discomfort to the parents and the total annoyance of any sibling who did not receive any benefit.

If I can't persuade you not to (and usually I can't) think very carefully about the "what ifs" and how to protect yourself and your total family from the unexpected.

3. Spending too much too soon. I know I've got clients who are going to run out of money before they run out of life. It won't be fun to watch a couple used to spending \$80 000 per year (it's the absolute minimum because I don't fit into an economy class seat) trying to get by on the \$36 000 per year pension. They won't be flying, even economy.

LOSS OF FRANKING CREDITS

Labor has proposed scrapping the refund of franking credits to low or no-tax paying individuals and entities. This includes allocated pensions as they pay no tax.

After the initial uproar, they said they would exempt age pensioners. How they will do this I have no idea. I will find myself advising clients who are just over the assets test to waste money to get the pension. Something I've never done or want to do. It's early days and it might not happen. If it does, we will work on strategies to make the best of it.

SEQUENCING RISK

Most of my clients have done well in the years they've been with me. Virtually all will have comfortably beaten term deposit rates. Most have seen their capital actually go up after drawings unless they've had some big withdrawals.

There is a thing called "sequencing risk". Clients who started with me in 2007 in the year before the GFC are only now getting an annual return of 3% to 4%. This is not as much as the minimum allocated pension withdrawal, so they've got less than they started with.

Put simply, if you start with \$100 000 and lose 20%, you now have \$80 000. To get back to \$100 000 you have to earn 25%, which is not easy.

On the other hand, those who invested in 2009, after the GFC, are receiving annual returns just over or under 10%. Same adviser, same investments, just lucky with sequencing risk.

It's a challenge for an adviser to counter this risk. Should one start with a lower risk weighting compared to existing investors, but what if the next 3 years are brilliant and they miss out?

My solution is to start with our current best educated guess and allocation. We are currently a bit underweighted to Global shares (scared of the U.S.) and overweighted to Australian shares because I think they are fair value even after 9 good years, since the GFC was such a big reduction.

SUPER CONTRIBUTIONS

Please remember that the limit for **total** deductible (concessional) contributions this year is \$25 000 and must be received by your super fund by 29th June latest, as the 30th is a Saturday. Keep in mind that individuals can put in personal deductible contributions even if receiving employer SGC. They must however complete a "notice of intention to claim a tax deduction" form to their super fund.

DON'T BE A STRANGER

Please come in and see us if you need any financial advice.

Kind Regards,



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Director

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