



**GOLDSCHMIDT & CO**



**Chartered Accountant**  
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## NEWSLETTER JUNE 2018

I wasn't going to do a newsletter this June (we did one in May) but there's so much going on I feel I need to let you know what I think is really happening and how it affects you and me. Please be aware there are a thousand ways to look at what's happening and I've seen dozens of different opinions and viewpoints, so this is just mine.

The Royal Commission has brought to light the rorts some of the banks, insurance companies and some of their advisers have perpetrated over the years. It's not hard to understand. One of their primary motivations is to make a profit and bonuses. Banks and bankers have always tried to make money. It's not new. It highlights how cynical and careful we need to be when dealing with any institution or person we entrust our money to.

I'm not remotely condoning it. I'm hoping that one of the results of the R.C. will be much stricter penalties for those found to have acted in their own self interests in preference to their clients' best interests. Slaps on the wrists and fines don't work as it's the shareholders (us) who pay the fines. The thought of a year with a big bikie as a roommate rather than a beautiful spouse will surely concentrate minds on the need for honesty and clients' best interests.

A couple of points. I think a good result will be the banks getting out of the "vertically integrated" model of bank – bank advisers – bank product which can lead to biased advice. Probably most bank financial planners give good advice but their pay and incentive structure means they use the bank product even if they think there is a better product for the client.

We also need to be careful what we wish for. We do need strong, well-regulated banks that are profitable. Business owners need to borrow. Homebuyers need to borrow. We all need somewhere safe to look after our cash and term deposits. Banks are entitled to a fair profit matching up depositors and borrowers and taking the risk of default. Without them our economic world stops.

Investors (most of us) have also benefitted from the banks' profits by way of the lovely dividends they've paid on their shares. All our super funds, allocated pensions and investment accounts have been major beneficiaries. I need to stress that we need fair profits, not illegal or immoral profits.

And what's the alternative? Close the banks and turn over the matching of depositors and borrowers to start up street corner bucket shops? I don't think so.

It's an unfortunate fact that the banks are not alone in focussing on their profit. I have some personal experience with the disability services industry and aged care and retirement village industries, and I calculate these businesses can be **very** profitable if well run. Certainly they would make more money than I do.

Let's hope the Royal Commission will lead to a clean-up of dodgy practices that have been going on for ages. I remember going to a seminar for advisers and insurance agents put on by a now defunct insurance company back in about 1989, where the guy stood up and encouraged us to sell their 10-year insurance bond that paid an **enormous** commission and, to paraphrase his words, the fees were so cleverly hidden and opaque the clients would **never** figure them out. I shook my head as some in the audience cheered.

### FEES AND PINK PAGES

The Royal Commission hasn't really been a problem for our business so far. I believe our clients know we don't engage in the dubious practices the R.C. has highlighted. That's why we haven't been asked to appear and are unlikely to be asked.

What has been a problem has been the West Australian's pink pages (and other publications) quoting the Productivity Commission's table of super fund fees.

In the table on June 4 they listed Colonial FirstChoice Super's disclosed fees at 1.42% p.a. and on June 11 they had a Canstar list showing Colonial First State FirstChoice Wholesale at 1.39%, or \$2,506 on \$180,000. One of the more expensive.

Not surprisingly we've had a number of calls from concerned clients wondering if they're in the wrong fund. The fact is that most of my clients **don't pay** that level of fees. Most of our clients using our index fund portfolios in Colonial FirstChoice Wholesale **pay 0.54% p.a.**, which is lower than most Industry Funds fees as disclosed in their PDSs.

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You just have to be so careful taking the media at face value and believing that everything you read is applicable in all cases. The tables do try to compare oranges with oranges, but the bulk of **our** clients have **apples** and are **not** in the tables.

We do still have a few clients in retail funds that were set up a while ago before wholesale was available to amounts under \$100,000, usually because there was a reason to leave them, such as existing insurance, or they are making regular contributions or capital gains tax would become payable or they would lose their age pension incomes test grandfathering. They are usually good funds with good returns anyway. We will look at transferring those where it makes sense.

So, in summary, if you're in a Wholesale fund using index funds (most of our clients) your fees are probably close to the lowest of **all** fund fees out there (lower than many, if not all industry funds), and I don't know a better place for you. I have a lot of my and my family's money there at **exactly** the same fees as my clients. If I knew of a better fund I would have used it for myself, my wife, kids and dear old mom.

In the past 2 Mondays (at time of writing) the West Australian Your Money has had the following headlines: -

Retail Super funds rip off  
Cleaning up your mess  
Bit of skim here and there eats into savings  
Statistics a tale of poor performance  
Questions for your fund  
Don't let charges gobble up nest egg  
No better time to check super  
So, am I getting ripped off?  
And the West's page 1 headline on June 2<sup>nd</sup> -  
"The great super swindle"

And that's just in 2 weeks. Doesn't make for great reading if you're a financial planner who doesn't appreciate being tarred with that brush.

Super has been getting better though. It started off, in the main, as an arm of the life insurance industry. Hardly anyone **buys** life insurance. It has to be **sold** to them, so life insurance agents have to be excellent salespeople and took to super like ducks to water, sometimes with high hidden fees in the good old days (now past). Exit fees are a giveaway that the fees were hidden. In fairness, there will be many people today glad they started their super years ago and many funds from insurance agents had fair fees, even if high by today's standards.

Super did move on, but it was still something that people did not understand or care about and fees weren't scrutinised. Today's warnings and headlines didn't exist. In my early days, the cheapest funds I could find were a bargain at 1.8% p.a. and they are not the funds with high entry fees, exit fees and

annual fees that the royal Commission is hearing about.

The advent of industry funds and wholesale index funds has however made it far more competitive, so while the West's headlines are valid and useful, they don't apply to our clients who are in Wholesale index funds like Colonial First State with low fees.

## NO NEW CLIENTS

The projects we have on are going to take most of our spare time (we are already busy anyway) for the foreseeable future, so we are definitely not taking on any new clients. This **was** our plan, but we usually weaken when asked to advise the son/daughter/friend of a valued client who has become a friend.

Because our fees are half or less than most advisers, we have more clients than most firms our size. We manage by being efficient, having control systems and simply working hard, but the retail to wholesale project will be a challenge and we just won't have time to see your son/daughter/friend and then do the compliance that comes with advising them. Sorry. It's not personal.

## \$25,000 TAX DEDUCTION FOR SUPER

Starting this tax year, individuals can make a personal concessional (tax deductible) contribution to super if they are under 65 even if not working, or if over 65 they must work 40 hours in 30 consecutive days.

This is the **total** concessional limit, so if an employer has put in \$10,000 you are limited to \$15,000.

You **MUST** however complete a "Notice of intent to claim a tax deduction" form and give that to the applicable super fund. **Don't forget**. This applies to all personal concessional contributions.

## SCAM DETECTION AND AVOIDANCE

The ACCC has published a useful booklet on how to spot and avoid scams, so we asked if we could distribute it to our clients. Most of our clients are already aware, but it might warn a few.

Kind Regards,



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

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