GOLDSCHMIDT & CO

Chartered Accountant
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NEWSLETTER SEPTEMBER 2018

DON'T BE A STRANGER

In the light of all the bad press we don't want our Clients worrying about their investments. Please come in to see us to check your situation if you're not sure or are concerned. A checkup is good.

INSURANCE

You would be, or certainly should be, aware that we do not set up insurance for our clients. That is because we are not experts, but do believe clients should have adequate cover for their needs.

We do know ethical insurance advisers, so please call us if you are not sure if you have adequate cover and we will give you a referral.

TIDYING UP AND REBALANCING

We are in the process of reducing the funds in our Approved Products List (APL) and taking off some of the old funds that do not meet current criteria, so you may see some changes, but we will usually send these to clients for approval and signature.

Some of our clients' asset allocations have also become unbalanced, as we set up a system of only drawing from cash to allow the sharemarkets to pick up. The strategy has actually worked very well as sharemarkets have done better than cash, but now is likely to be a good time to rebalance. We are paying an asset consultant to come in and advise us on current best practice and will then commence doing it, but it is quite a lot of work so will take a month or two.

SLATER & GORDON CLASS ACTION

As I write this there has been an announcement that law firm Slater and Gordon are proposing a legal Class Action against Colonial First State and others on the basis that they did not pay a market rate on clients' cash holdings. I need to say that there is currently <u>no</u> detail on this <u>at all</u> yet, so we cannot currently advise, but a couple of points:

Firstly, we work for our clients only, not for any fund manager. Not for Colonial First State. Not for Asgard. Not for IOOF. Our advice, when we have more detail, will be based solely in our clients' best interests, and if that is to join the Class Action then that is what our advice will be. We will give every assistance.

Secondly, Commonwealth Bank is the sole owner of Colonial First State, so any compensation is likely to come from CBA, so I don't foresee any possibility of loss to my clients' investments. The share price of banks will probably go down if it looks like the settlement will be large, so our share funds might lose a bit, but probably not a material amount. The share price hasn't gone down so far, which indicates the professionals don't think it's a problem. We will advise further once the situation is clear.

I must admit that I'm upset by this, but the fact is that because we have set up our clients' accounts logically and cheaply our clients have done better than average anyway, and we have benefitted from the best administration system of all the fund managers we use, so we are not currently considering any changes. There may be further revelations that cause us to reconsider this.

WE GET TOO SOON OLD AND TOO LATE SMART

I've become more convinced as I, and my clients, get older that there is a lot of benefit in tidying up our lives before we become unable to do it properly ourselves.

Virtually every client who has downsized to an apartment or retirement village has commented that they regret not doing it sooner. There is also the opportunity to add $300,000 to Super upon downsizing, which is not to be sneezed at. We've also had to help clients tidy up their aged parents' affairs which are in a mess and could have, and should have, been sorted out and simplified by their parents while they were still capable and had the knowledge of what they had. It's hours of hit and miss guessing and research by their busy adult children and myself.

If anyone wants a review and help with tidying investments and accounts, we are happy to help.

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PERSONAL DEDUCTIBLE CONTRIBUTIONS TO SUPER

If anyone makes a personal (not employer or salary sacrifice) contribution to Super for which they want to claim a tax deduction, they MUST supply the Super fund with a form "Notice of Intention to Claim a Tax Deduction". Don't forget.

AGED CARE BLUES

I see that ScoMo has announced a Royal Commission into aged care.

I've had some dealings with the aged care industry and one needs to appreciate that they make a profit when their income for providing services exceeds their costs of providing that service. Their income is relatively fixed, so they are highly motivated to keep the costs of providing the services as low as possible.

This can result in them having less care staff than would be ideal and paying the lowest rate they can get away with. Usually all within the law.

It needs to be said that the majority of carers I've met have been super considerate, caring and with patience that I don't have, but some of the owners/managers are probably working to a different agenda. I've no doubt that the Royal Commission will uncover some horror stories, just as the Royal Commission digging into financial services has. There must be plenty of aged care facilities doing a great job, but their stories are likely to also be ignored. That's the way it is.

The problem is, how do you build a better system? Does the Government step in and take over? They simply can't afford it and in any case the move is for Government to outsource as much as possible, not take it on. Do they set up minimum patient/staff ratios? The problem becomes that if aged care becomes unprofitable the owners will take their capital and invest it elsewhere (I bet they won't put it into financial services though) and there just won't be enough places. Be careful what you wish for.

I have a 29 year old autistic son and I've learned first hand that disability care is just a business for many providers, so I understand what is happening with aged care. The carers themselves try their best, but at the end of the day they're not family and they're spread very thinly.

It will be interesting to see what the Aged Care Services Royal Commission comes up with. It's hard to control human greed, as we've seen at the Financial Services Royal Commission (FSRC) and there can be unintended consequences. I suspect when the FSRC recommendations, and then legislation, comes out it will make financial services better, but more expensive to average wealth people who want personalised service.

VALUE vs GROWTH

There are many 'styles' of investing in shares, two of which are 'value' and 'growth'.

Value style tries to identify shares that are unpopular and undervalued while growth identifies shares that are popular and have momentum.

We generally use both, as they have different cycles, so having both should give a steadier return with less volatility.

The Value Manager we mostly use is Realindex. The main growth fund is Colonial First State Share Index Fund.

In the long term value funds have done slightly better, but for the past two years growth has been the winner. That does not mean I recommend changing as the pendulum will swing across again in the not too distant future.

RATE OF RETURN COMPARISONS

Something uncovered in last week's pink pages, which I had long suspected anyway, was that some Super funds who compare their 'balanced' funds to other managers' 'balanced' funds might be totally unbalanced and in fact be 'growth' funds.

They get away with this by classifying some property and infrastructure investments as 'defensive' assets because they produce income, so they have very little cash and bonds, but still call themselves 'balanced'.

We currently have quite a large holding in cash and bonds. That's our definition of balanced and even so, our clients' performance would have been above average this past year, as those who have been in for a review will attest.

Property and infrastructure are <u>not</u> risk free, far from it. One of these days the tide will go out and we'll see who's been swimming without a costume. Not sure what we'll compare to what then.

Kind Regards,

David Goldschmidt.

DAVID GOLDSCHMIDT A.C.A.
Director

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