

NEWSLETTER DECEMBER 2018

ECONOMICS

If it wasn't for the fact that my birthday is in October I would have the month banned. Our sharemarket has fallen over 10% from early September until late November.

In fairness, it's the 4th fall over 10% since the GFC nine years ago. The other 3 were bigger and who remembers them now? During that time our market has gone from a low of 3110 to 5750, so an 85% increase after this recent fall. To that you can add dividends in excess of 4% p.a.

It is still way off the November 2007 high of 6853 though, so it's pretty much on trend, not cheap but not expensive either.

WHAT'S HAPPENING WITH COLONIAL FIRST STATE?

Keep in mind that when we use Colonial First State our clients' money is invested with Colonial First State Investments, which has not been sold. Commonwealth Bank is not going to sell Colonial First State Investments. They do however want to divest (give up ownership) themselves of Colonial First State Investments, given the flack they took over their vertically integrated structure. The plan is to list them separately on the Australian stockmarket sometime between mid to late 2019. The mechanism will be similar to the way Wesfarmers split with Coles. We do not believe that this will have anything but a good outcome for our clients.

I must say I'm happy with that. I first started using Colonial First State when they were First State Investments, but because they were so good they were bought by Colonial and then by Commonwealth Bank. It seemed like a good idea as they then had a big, wealthy parent who was unlikely to go broke. Commonwealth Bank has however copped a hiding at the Royal Commission, and what seemed like a blessing has become a curse.

I need to say though that the criticism levelled at CBA's vertically integrated model does not apply to us. I use CFS because I want to, not because I have to or would earn any more from them.

90% of our clients with CFS are in their wholesale accounts with very low fees and a set fee for us that is visible to our clients.

Our standard balanced portfolio has a CFS fee of 0.53%, to which is added our fee of 0.5% (or 0.3% for larger clients). If you check the website PDS of Cbus Super (the one mentioned in Scott Pape's "The Barefoot Investor") their MySuper option has all up fees of 1.07% on a balance of \$50 000 and advice would be on top of that. It's a very good fund, but it shows that our total fees are more than competitive.

I registered my interest in the Slater and Gordon "Get your super back" site so I could keep informed on the class action. I was sent an email saying it applied to those in "FirstChoice FirstRate Saver or FirstRate Saver Select" investment option.

We have hardly anybody in the Saver option (most are in the Cash option) so I needed to find out if the class action applies only to the saver option or to the Cash option also. I called their helpline as indicated and spoke to a lovely young lady who didn't appear to know what I was talking about and couldn't enlighten me, so I gave up and sent an email on 10 October, but haven't had a reply as yet. I suspect it doesn't apply to cash but can't be certain. I have contacted them again and am awaiting a reply.

LABOR'S FRANKING CREDITS REFUND POLICY AND PENSIONERS

Labor have announced that, should they get into government next year, they will abolish refunds of franking credits. Taxpayers can still use their credits to reduce tax payable, but limited to the amount of tax. No refunds.

There was a backdown that pensioners will still receive a refund. Yet another reason to try and get some pension, but without being stupid about it.

A home owning couple who are just above the upper asset limit of \$848 000 (\$564 000 for a home owning single) should consider some home renovations (solar power is a winner) if they have direct or managed shares. Not only will they receive a bit of pension but will continue to get their franking credits refunded (and lower power bills and a greener planet).

PRACTICAL ESTATE PLANNING

We're all going to die. We just don't know when. It therefore makes sense to have some preparation to help those who will be left to tidy up. Anyone who doesn't have a will because they don't want to "tempt fate" is just being stupid. Fate will go its own merry way and doesn't need to be tempted.

If anyone hasn't got around to making or updating a will just call us and we'll give you the name of a mobile solicitor who will come to you. He/she has fees, but they are reasonable and a lot cheaper than the Public Trustee's fees to wind up an intestate estate.

I have a file at home labelled "originals". It has all our original documents (birth certificates, wills, marriage certificate etc.), plus a list of our current investments and bank accounts in the front. I update it probably once a year or before an overseas holiday. It is likely my executor will be able to find everything quickly.

I'm sure some clients have similar or better systems, but if you want advice on how to set it up just call. You are also welcome to consult with us on more detail such as who the beneficiaries of your super should be and is your insurance adequate.

Also, to delay the day that your will is needed, don't be shy about having medical check-ups. It's better to be thought of as a hypochondriac than hear the words "if only you'd come in 6 months ago we could have saved you".

COMMONWEALTH SENIORS HEALTH CARD

Anyone who is of age pension age but doesn't get the pension or hold the pensioner's concession card may be entitled to have the CSHC.

There is no asset test and the incomes test is \$53 799 for singles and \$86 076 for a couple.

This card gives you access to discounted medical care and equipment and medication. Together with the WA Seniors card there are also many other discounts on WA Government services and entry fees to places like the Art Gallery.

Certainly worth applying for if you are entitled.

RETAIL TRAIL BROKERAGE

We still have a relatively small amount of money in retail funds that pay a trail brokerage. Less than 10% of the funds we manage. These funds were set up quite a long time ago before the wholesale fee based funds became available.

Some of these retail funds have been left in place because a change to investment accounts would usually realise a taxable capital gain, or cancel insurance within super accounts or lose Centrelink's

incomes test grandfathering for allocated pensions, so it is not as straight forward as one would think it should be.

Most of these were set up in the good old days when there was normally an "entry fee" of 5%. We did not charge that 5% but relied on the trail fee, usually 0.5%-0.6%, to provide ongoing service. The extra 5% in our clients' accounts would have come close to paying the trail brokerage.

The financial world is changing and our style of low fee, low touch advising may not be politically correct eventually. We'll see. That's life and maybe the way it should be. The World changes and eventually I'll have to wear a shirt to work that isn't white.

ASSET ALLOCATION CHANGES

We have now received recommendations from the asset allocation specialist we engaged.

His essential advice is that we reduce our Australian share percentages by 15%, increase our Global share percentages by 15% and keep our fixed interest / cash component the same but shift about 10% of the cash to fixed interest. This is for our balanced risk level 3 funds.

We respect his expertise so will change our model portfolios when the timing appears suitable. We will write to each client individually detailing proposals.

SCARY PHONE CALLS

You may receive a phone call threatening you with arrest over an unpaid tax bill. Tell him or her to go away (your choice of wording) and hang up. The real ATO will never do this. Scams are getting cleverer and cleverer and many now work on frightening people with threats of arrest or having a supervisor call you. Don't get caught!

The office will be closed for Christmas lunchtime, Friday 21st December and will reopen on Monday 7th January 2019.

As another year concludes, we would like to extend our very best "Season's Greetings" to our clients, their families and friends. Let's hope that 2019 will be a happy and healthy year for all of us.

Kind Regards,



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

Disclaimer

Every care has been taken to assemble the information in this client newsletter. We believe it to be accurate and not misleading, but can give no warranty or guarantee thereto. Goldschmidt & Co, its directors and employees expressly disclaim all liability for any loss or damage, which may arise from any person acting on such statements, to the extent permitted by law. The comments are of a general nature and have not taken your objectives, financial situation or needs into consideration. Therefore, you should seek advice on your specific situation prior to acting on the comments in the newsletter.