Cuffelinks
Connecting investors with ideas

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Where to for super? Murray at the Retirement Incomes Forum

Graham Hand

This week's inaugural Sustainable Retirement Incomes Forum included some of the heaviest hitters in superannuation policy, headlined by Financial System Inquiry Chairman, David Murray, and Assistant Treasurer, John Frydenberg. Although the Forum and its independent committee represent the best chance of a policy consensus emerging, it also emphasised these are strange times for the superannuation industry:

1. The Assistant Treasurer told the Forum:

   "The Government will, of course, consider good ideas put forward as part of the Tax White Paper process and any changes recommended by that process will be taken to the Australian people at the next election."

   He even expects changes to be announced soon to encourage the development of post-retirement products, which Cuffelinks will outline next week in more detail. However, the Prime Minister has repeatedly ruled out changes to super tax arrangements in this term or the next if reelected, and on the same day across Canberra, he told Parliament:

   "We do not support burdening the retirees of Australia with new taxes. That is our position. We made it very clear prior to the last election that there would be no adverse changes to superannuation in this term of parliament and that is a commitment we have abundantly kept. We have no plans for further taxes on superannuation beyond this term of parliament because we do not believe that the people's savings are a piggy bank to be raided by government whenever it is in trouble." Hansard, 3 June 2015.

2. At the Forum, Shadow Treasurer, Chris Bowen, explained the rationale for the Labor Party announcing its policy to tax earnings on super pensions over $75,000, admitting it was conventional wisdom in opposition not to foreshadow any new taxes. Politically, the Labor strategists must have

decided there is more upside in winning the 'fairness' argument than upsetting thousands of self-funded retirees with higher super balances.

3. The industry body representing large retail and industry funds, ASFA, has put out a Tax Discussion Paper recommending that:

   "There should be a ceiling on where the system should stop providing taxpayer support for accumulating retirement savings or supporting incomes in retirement. On analysis, it is ASFA's view that the ceiling today should be above $2.5 million."

   This proposal allows opponents of super concessions to argue that even a peak body representing the super industry is arguing for limited access to super concessions.

4. David Murray told the Forum that inaction on superannuation is damaging the long term confidence in the system, creating disengagement and a lack of trust. Others argued it is the ongoing tinkering that undermines confidence.

5. Also at the Forum, former senior politicians Amanda Vanstone and Craig Emerson pleaded with the industry to make superannuation far simpler to understand so that the average Australian would engage better. Emerson recited a Latin verse and said superannuation might as well be written in the classic Roman language, while Vanstone asked for an equivalent of Twinkle Twinkle Little Star rather than the current complexity.

Strange times indeed. To the Forum's great credit, there was much valuable policy debate in a high quality agenda and a Communique issued at the conclusion, signed by six industry bodies, linked here.

The following are edited highlights from David Murray's speech to the Forum. Next week we will have detailed extracts from Josh Frydenberg, including plans to encourage post-retirement products.

David Murray at the Committee for Sustainable Retirement Incomes, 2 June 2015

(Transcribed and edited with my headings for ease of reading).

On building a strong retirement system

The Financial System Inquiry wanted to put forward an approach where we would try to stem any loss of credibility in the superannuation system, which is a risk to its long term survival. So how do we maintain momentum in this debate and improvements in the system?

In our deliberations, we came across one firm whose approach was, "How can you beat the defined benefit pension system? It has all the elements that people need about security of outcome and pooling of risk. Try to make your Defined Contribution system as close as you can to the Defined Benefit system." That was really helpful.

On costs and efficiencies

We first looked at efficiency and realised the costs were too high. We thought there was no plausible explanation for the level of costs. We were mindful with this level of costs there was substantial misallocation of resources in the economy from other skilful work. We couldn't see any correlation between what was happening with the costs in the system and member benefits and outcomes.

Also, in terms of efficiencies, there was less engagement with members in the system, and that starts right at the beginning, when for the majority there is no choice up front, and no choice only exacerbates no engagement. With the information asymmetry which is a feature of any superannuation plan, that only invites more politics into the system.

On risk concentration

In the retirement phase, we looked at longevity risk and sequencing risk, and the tendency for trustees to hug the mean. Making a high-risk fund the default fund meant there was not a great incentive for trustees to look at sequencing risk as members approached retirement. They could be left in a worse position at the worst possible time. Adaptation to different classes of members was not really apparent in the system.

The emphasis on balanced funds as the default option together with the imputation system gives rise to heavy equity allocation in superannuation. That happens in a system where there are significant risk concentrations in the equity market. The top few companies comprise so much of the index, skewed towards some mining companies, banking and a bit of something else. There are concentrations in there that are not healthy from a normal portfolio perspective.

On gearing

We made some comments on gearing in the superannuation system. I can tell you that it was the fastest decision we reached. It was easy to conclude that to put gearing into both the banking system and the superannuation system is a crazy thing to do. I know plenty of lawyers and accountants and the way it works in self managed funds is not a pretty sight. The sooner it is dealt with, in my opinion, the better.

On the need for an objective

The most important observation we made was that it is impossible to make progress on the superannuation system absent a clear, single objective. In our view, superannuation, the name says it all: superannuation means an income in retirement to replace an income at work. We felt the system could only progress based on an income in retirement. Some people say it should be a retirement savings system. They're not the same thing, and this comes down to the politics and whether the age pension system and superannuation system together in managing longevity risk are substitutes or not. That's the burning question.

On politics and the need for change

There was a great economist who said, "That which is unsustainable will change." If we think about how we're going to move from here, we can give up on this system, but that would be a big move. But if we don't do anything, we're going to keep a system in which member disengagement keeps feeding on itself. In financial systems where there's always this problem of informational asymmetry, disengagement breeds lack of trust and lack of confidence, which can bring down systems. If we keep going this way, disengagement makes politicisation of the system all the more attractive for the political process, it drives more constant change, which feeds on itself and grows more disengagement. In fact, we've got to go the other way.

The recommendations within the super system in my view go a long way to helping to do that. If we go down that path, we can demonstrate to people that you can have little gains for the benefit of people who own the money in the system, not a shared community asset. It's individual property of individual people. If we want to really help the members of the superannuation system more, we should make continuing changes which take into account the superannuation system, the tax system, the housing system and the pension system. That is the only way we can fix the value shortfall that we identified in our report.

David Murray has not approved this transcript, taken from a recording at the event. Graham Hand is Editor of Cuffelinks and was a guest of the Committee for Sustainable Retirement Incomes.

Survey of attitudes to taxing pension earnings

Jonathan Hoyle

Shadow Treasurer, Chris Bowen, has laid down the gauntlet by making the introduction of superannuation earnings tax for pensioners a key electoral issue. The Liberals have responded in kind by declaring they will not fiddle with super if re-elected. Why has this seemingly trivial issue gained so much attention and which side will emerge victorious?

The increasing role of 'fairness'

Arriving in this country nine years ago, superannuation was explained to me thus: 'a system whereby the government forcibly confiscates 9% of your income, deposits the cash in a faraway place for an indeterminate amount of time (assume no less than four decades), under a set of rules that are likely to change every few years. Oh, and it's very popular.'

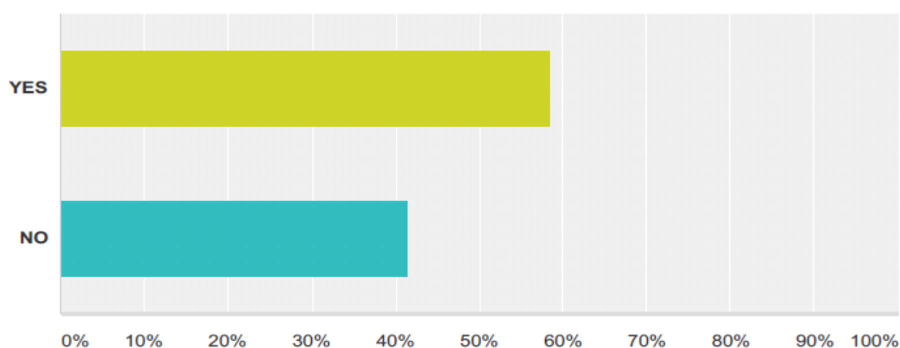
One of the most delightful local expressions, for which there is no English equivalent, is the phrase '*unAustralian*'. For instance, it is unAustralian to describe *The Castle* as unwatchable dirge (surely *Kenny* is a more entertaining representation of the Aussie battler class than those halfwits from Bonneydoon). Most unAustralian of all is to ignore the right to 'a fair go'. Fairness is the one cultural value that unites all Australians.

Fairness is a highly subjective concept and exists largely in the eye of the beholder; one person's equity is another's tyranny. But fairness has been in the news a lot recently. When the government released its discussion paper on tax it repeated ad nauseum the phrase 'lower, simpler, fairer.' Chris Bowen prefaced his super reform plans by declaring that 'an important criterion for a well-functioning tax system is fairness'. Peter Costello somewhat resignedly responded by remarking that *'once upon a time, fairer taxes meant lower taxes.'* Clearly, not any more.

Survey of high net worth clients

So what to make of Labor's plans to introduce superannuation earnings tax in the pension phase? We posed this question to some 400 of our high net worth clients, most of whom will be negatively impacted by Labor's proposals, either now or in the future.

'*Labor has proposed introducing a 15% tax on superannuation earnings that are in pension phase, subject to a tax-free threshold of $75,000. Currently, those in pension phase pay no earnings tax. Under this proposal, an individual would need a Super Fund balance in excess of $1.875 million before they would be eligible for earnings tax (assuming an earnings rate of 4%). An individual with a Superannuation balance of $3 million would be liable for $6,750 tax. Do you think this is fair?'*



The results, shown below, were surprising to us. They showed a consistent 60% or so in favour of a pension tax. The comments were even more revealing (a selection is attached at the end). Though the

majority accepted the need for the wealthy to contribute their fair share, there was a universal fear that 15% would become 20% and that inflation would quickly erode the exemption via bracket creep (the 9th Wonder of the World). Others pointed to the need to differentiate between super monies that have already been fully taxed (non-concessional contributions) versus lightly-taxed (concessional contributions) – a valid point. Finally, many pointed to the need for politicians to lead by example and switch their lucrative defined benefit pension arrangements to the more frugal defined contribution scheme. It is hard to lead with any moral authority when you are fattening the cat.

If even wealthy Mosman families have little argument, a pensions earnings tax is a racing certainty. We hope that it is accompanied by the indexing of the tax-free threshold (given that Bill Shorten first flagged $100,000 as the tax-free threshold three years ago, Chris Bowen's version with a $75,000 exemption is the first tax in living memory to be increased before its introduction!), we would urge the current assets test home exemption to be reviewed and we would dance naked in the streets if Canberra led by example. The Liberals are on an electoral hiding to nothing by dogmatically ruling out further pension changes. Politicians rarely stick with unpopular plans and hence we believe that pension earnings tax, equitable or despotic, is coming. Tax-fee retirement, Tony? Tell 'im he's dreamin'!

Jonathan Hoyle is Chief Executive Officer at Stanford Brown. Any advice contained in this article is general advice only and does not take into consideration the reader's personal circumstances.

Response	Comments (unedited)
NO	Altering long term arrangements amounts to retrospective taxation. I sold a family home to put money into super. That property may have doubled at this point of time. Can the labour party reverse that!
NO	Any changes in super should not retrospective.
YES	As long as the figure is indexed, $75k is ok now but in 10 years it may need to be higher etc.
YES	As long as there was some method of ensuring it didn't become 20% or 25% etc!
NO	Because with inflation more and more retirees will be taxed.
NO	I am opposed on principle because people with 3 Mill Super Balances are not on the Pension, and cost very little to the Govt to support. I also believe that this style of tax may raise far less income than they expect. Additionally, how many times can I expect my savings to be taxed, and what is the community (cost) trade off for people who will fall back into the pension? It would be far more equitable to raise the GST by 2% and revue items that are fundamental to sustain a basic lifestyle. This tax would hit the richer in the community as they always purchase more than those not so fortunate.
NO	I can't believe that this is an election issue. Would it raise any more than 0.5billion?
NO	I feel a bit torn on how to answer this. Personally I prefer to direct my money to causes I feel strongly about and know it is well spent. Then again I think more wealthy Australians should give something back. Perhaps tax those who dont give x amount philanthropically?
NO	I have been working since I was 15 years old (47 years) and are no different to anyone else that has been trying to accumulate enough money so they have the ability to maintain the life style we have become accustomed to without having to dependence heavily on the pension If need. We haven`t just picked this this money of the local money tree. We have built businesses, employed people with substantial risk to our personal assets and families. Small Business have paid our fair sharegh.
NO	I think that anybody who is not accessing any government benefits of any sort (i.e. are truly self funding their retirements) should not be taxed at all. Why? Because we have already been taxed on the money that has gone into the fund!
YES	I think that the tax amount is quite reasonable and that without this tax on super the country will not be able to provide adequate health and welfare services for the community as a whole.
YES	If my fund was earning $100,000 per year I would pay $3,750 in tax. An effective tax rate of 3.75% in exchange for healthcare, roads, defence and of course the safety net of an old age pension should my investment be wiped out. Sounds like a great deal to me.
NO	It is grossly unreasonable for any government to have encouraged and structured long term retirement savings plans for over 20 years, then subsequently reduce the value of those savings to their owners. Regardless of the social equity (or other) debates which may emerge, this system was created on the trust that the Australian people have in their government and cannot be changed without destroying that trust.

NO	My answer is a "qualified 'no!' The qualification relates to the threshold number at which the tax is levied. My view is that it should be $4m and the earnings rate 5%; that is the tax would start when the earnings exceeded $200,000. With my proposal someone earning $250,000, taxed at the Labor rate of 15% would pay $7.5k. That would catch the truly 'fat cats!' and the amount earned by the ATO would drop by a small amount compared with the Labor proposal.
YES	not a question of fairness but probably what needs to be done. the worry is that the 15% would then become 20% & so on & on!! not and incentive for anyone to create a worthwhile Super account for themselves
YES	Not a question of fairness, but necessity given Australia's circumstances, and the better off can more easily shoulder the burden.
NO	Not while politicians exempt themselves from similar tax treatment.
NO	Pensioners have already paid tax and shouldn't pay anymore, it's not fair.
NO	People with Super have worked and earned their super one way or another & have already paid taxes. Even though this may not seem a lot of tax for a whole lot of people it takes away incentive for people to put money into Super. Ask someone below 40 about Super and its a necessary evil but ask someone who is 60 and its a necessity. More encouragement is required for people to invest in Super or the government will be supporting the nation with pensions. LEAVE SUPER ALONE!
YES	So long as the 75k threshold only related to income from super not income derived from outside super
YES	Something has to be done to redress the imbalance between advantages of super for the rich, vs the poor. This is at least a starting point (there could be others).
YES	Tax is required to provide services for all - including those in retirement. And we could be in retirement for many years. So yes some contribution to the services that we use in this stage of our lives is merited.
	As most people in Australia wont be above tax free threshold I imagine that most would say it's fair. The issue is complex but that is the Australian political style...simplify it and dumb it down. Bill vs Tony. Should this happen? Probably no given that the rules were set a long time ago and are being changed because of the Iron Ore Price.
YES	We all pay tax on income during our working lives including income from investments. Paying a small tax on our retirement income is a natural extension of this. I am sure most retirees know they are currently gwtting a very gwnerous concession at present even if they worked and saved to accumulate all their super... which probably includes family inheritences which are also tax free.
YES	We cannot have one third of the population not paying tax. Abbott's argument about taxing the income of wealthy pensioners is ideologically driven and is, as usual completely illogical
NO	When the Federal Government first urged the working citizen to start his or her own superannuation fund it was represented that they would not tax a person's saving!
NO	Why should those who have studied, worked hard and been responsible spenders and many of whom have contributed large amounts of tax for the benefit of others be asked to pay more We seem to want to encourage laziness and mediocrity
NO	Without all the facts, it seems in good return years I will pass this threshold with as little as $400,000 @ 20%. Yes only two years in ten on average. With it comes 1 -30% return do I get to carry the loss forward, I take the risk and ATO take the cream this isn't fair it's about normal.
YES	Yes but I'm tempted to answer no as it doesn't go far enough. We haven't earned the right to live for 30 years after retirement without contributing to the cost of society.

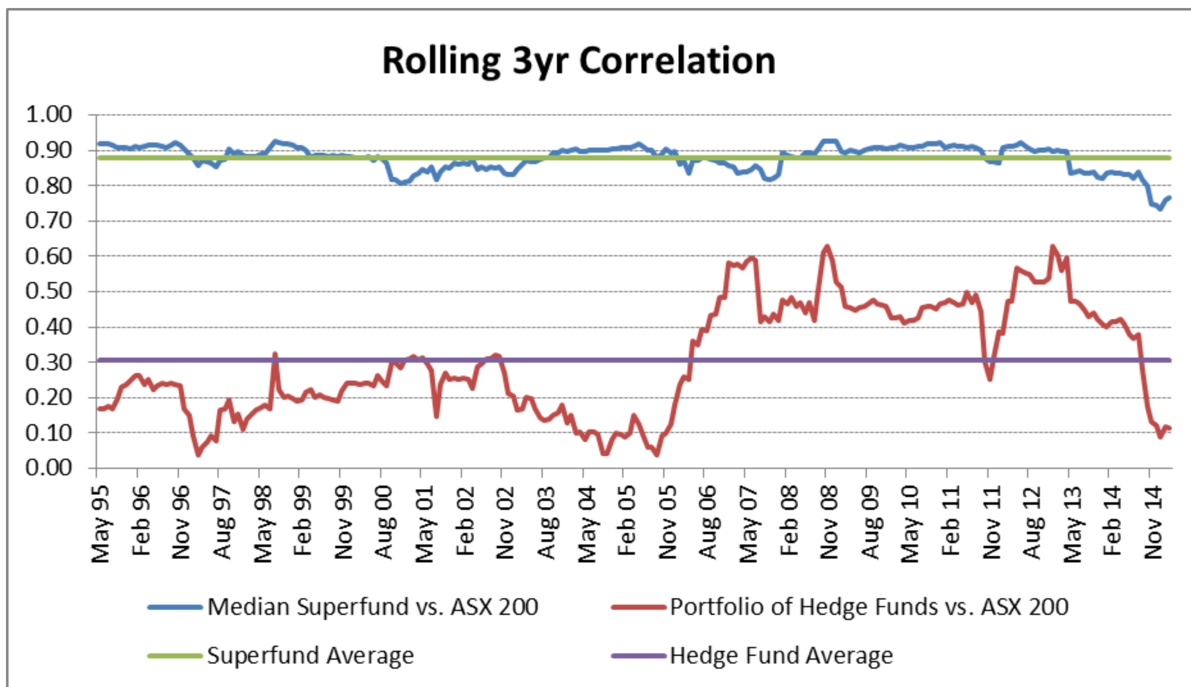
The long and short of hedge funds, Part 2

Craig Stanford

In Part 1, we looked at some of the potential benefits of hedge funds, while Part 2 focusses on the criticisms. Investing in hedge funds is one of the more polarising topics in the investment world. The advocates of hedge fund investing paint a rosy picture without acknowledging the negative aspects, while the critics paint the opposing view without acknowledging the potential benefits. There are also many different types of 'hedge' funds and these comments apply to a general portfolio of hedge funds.

Diversification

As mentioned in Part 1, a hedge fund can sometimes produce a return stream that has a low level of correlation with the general risk assets like equities, although the relationship is variable.



It pays to be careful when interpreting correlation statistics, because correlation is not the same as causation. With this in mind, this figure shows a standard measure of correlation between the ASX 200, the median superfund and the portfolio of hedge funds. The correlation levels for superfunds and equities are extremely high, indicating that equities are probably driving more of a diversified portfolio's risk than is generally recognised. It also shows that hedge funds show lower levels of correlation but with considerable variation. Despite a recent period of higher correlations for hedge funds and equities, this has reduced to more normal levels.

Not all hedge funds are created equal

Notwithstanding the positive attributes mentioned in Part 1, we also believe that not all hedge funds are created equal, and factors involved in selecting hedge funds should be left to experienced, competent professionals.

The first factor is an understanding of the hedge fund manager's advantage, expertise, and ability. It's important to be able to understand why a particular manager is able to execute a strategy better than competitors, and determine how durable any advantage may be.

Another key factor is integrity, probably best summarised by Warren Buffett when he commented: "Somebody once said that in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you. You think about it; it's true. If you hire somebody without (integrity), you really want them to be dumb and lazy."

Alignment of interests is also important. Hedge funds generally charge a performance fee, which allows the manager to earn a significant percentage of any gains without having to give back a similar percentage of any losses. This asymmetric fee structure means that there is always the risk that the manager may be tempted to act in their own best interests, instead of those of the investor.

A final key aspect of hedge fund assessment is operational capability. A number of hedge fund failures can be traced to deficiencies on the operational side of the business, so an institutional-grade infrastructure and competence are critical to helping minimise this risk.

Fees

The high fees charged by hedge funds are often cited as a reason not to use them, to the point where the risk-adjusted returns after fees are not even considered. There are a small number of hedge funds that

are worth paying higher fees for, although we also recognise that the vast majority will not generate returns that justify their higher fees. We don't think that paying higher fees is necessarily a bad idea if it results in a better investment outcome (higher net returns), and it makes little sense to make fee minimisation the focus of an investment program at the expense of a good investment outcome. What seems cheap initially could be expensive in the long run.

Liquidity

Two aspects to liquidity are worth considering. The first is the liquidity offered through a fund's normal redemption cycle. The second and more problematic is the ability or willingness of a fund to abide by its normal redemption terms during stress environments such as 2008.

We don't think of the normal redemption terms as a constraint, since they're known in advance and can generally be planned for, although we expect to earn a return premium for the lower level of liquidity. In any case, the majority of investments in diversified portfolios offer daily liquidity, so having a small portion that offers monthly or quarterly liquidity should have little noticeable impact on total portfolio liquidity.

The second aspect of not abiding by the normal redemption terms is a concern, and was poorly-handled by some hedge funds in 2008 when they used various methods to prevent clients from redeeming. To manage this risk, we compare the redemption terms of each hedge fund to the liquidity of its underlying investments and ensure that these are appropriate.

Transparency

Portfolio transparency can be considered on a number of levels, but the key for most investors is the need to understand how the fund's portfolio is constructed, and what it contains.

Most hedge fund managers we have encountered are comfortable discussing their portfolio and distributing useful summaries of the portfolio's salient features on a regular basis. This information can also be cross-referenced with the fund's audited accounts and administrator.

One touted solution to the transparency issue is the use of separately managed accounts (SMAs), although these come with both advantages and disadvantages. Use of an SMA gives an investor greater security, because the investor owns the underlying assets directly and appoints an investment manager to manage the assets on their behalf. Contrast this with a traditional co-mingled structure where the investor owns units, along with other investors, in a vehicle over which the investment manager has far greater control. One of the key disadvantages we find with SMAs is that the better managers do not offer them, so the choice of funds will be curtailed and the performance outcome could be affected.

Implementation

This is absolutely critical to a good outcome, but is also an area where we have seen corners cut which has resulted in a poor outcome. An unfortunate by-product is that hedge funds are often blamed for the poor outcome, when it was really the investor's implementation that was flawed.

Experience tells us that the better hedge funds do not offer daily liquidity and do not have the lowest fees. Some lower their fees and offer daily liquidity to raise assets, but finding a great fund with low fees and daily liquidity is rare. When leverage and illiquid assets are combined, the outcome can be disastrous. Once again, it would be incorrect to blame this outcome on hedge funds. It is the investor who chooses to lever into the funds.

High investor losses

In the case of hedge fund frauds, there were often a number of red flags which were ignored, or exceptions to the due diligence process were made. The best defence against a fraudulent fund, as we have alluded to previously, is a strong due diligence process implemented by experienced professional investors.

Experiencing trading losses is an unavoidable part of investing, and George Soros perhaps put it best when he said: "It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." It's important to understand how each hedge fund manager thinks about and manages risk, in order to gauge how much they may lose if they're wrong.

Conclusion

One of the key tenets of our investment philosophy is that generating and preserving wealth over time depends on the ability to compound wealth steadily and avoid large losses. We believe it makes sense to allocate some capital (say 5% to 20% of a 'typical' diverse portfolio) to hedge funds that are active risk managers with the ability to protect capital in negative market environments. From a portfolio construction sense, it also helps if the hedge fund's returns are driven by factors that are different to the drivers of return in most diversified portfolios, in particular, traditional equities and fixed income investments.

Craig Stanford is Head of Alternative Investments at Ibbotson Associates and is Chair of the Investor Education Committee for the Alternative Investment Management Association in Australia. Ibbotson Associates Australia is a Morningstar company and part of Morningstar's investment management division. Information provided is for general information only, and individuals should seek personal advice before making investment decisions. The objectives of any individual have not been considered in this article.

Making the most of tax loss selling

Marcus Padley

We are coming into the end of the financial year. This is a good time to assess your capital gains tax situation for the year so far and work out if you have a net capital gain from stocks sold. If so, you should also be looking through the portfolio for any stocks with losses attached that you could sell and crystallise a loss to offset paying any tax on the gains.

You know the stocks, those crappy little holdings you didn't sell when it was obvious you should sell. Those stocks that you shut your eyes to and hoped against hope they would rebound miraculously … but they kept falling. Those stocks. Those small illiquid cock-ups that shout "Idiot, idiot!" every time you see them in your 'portfolio'. All those short term trades that became long term 'investments'. Yes them … the crap.

Now is the time to think about selling them, especially the illiquid ones because by the time everyone else wakes up to their capital gains tax situation in the last two weeks of June these stocks will have been pumped already making your emotional turmoil even harder to squeeze a trade out of. So better you assess and sell now before the bloodbath starts, which it does every year, in every small trading stock that has gone down this year.

Selection is personal

I have had an email asking which stocks are likely to be most affected by tax loss selling, From your point of view, it is simply which stocks are in your portfolio, have not performed well this year and are small and illiquid and likely to get sold off by tax loss sellers. There are no 'good' stocks to take a loss on generally … just your own stocks. The stocks to sell are staring you in the face.

I could print you a list of the worst performers this year but it wouldn't help. It's personal. What do you hold that you could sell and what do you hold that other people will sell?

The only ‘game’ to play here is as a trader buying stocks that are small illiquid bad performers if they have been pummelled running into the last week of June. Stocks that are trading favourites always have a lot of stale holders. They are killed in June and often resurrect in July. There's a trade in there for the brave.

Hints for taking a loss

One of the hardest things for a broker to convince himself, let alone a novice trader, is to take a loss. To help with the process, we have developed arguments to persuade you (they don’t seem to work on ourselves). If you are having trouble taking a loss, not enjoying your trading or the stock is still in your possession … read this list. You will put the sell order on before you get to the end:

- If a stock is going down it is more likely to continue going down than it is to turn on a sixpence to suit you.
- The further a stock falls the more intense the selling becomes as higher losses cause more selling decisions, so sell early - an early loss is the smallest loss.
- If you sell 10 falling stocks, it will be the right thing to do in nine cases, but you will only remember the other one.
- If you sell now, you are no longer exposed, and all you have to do is come to terms with the loss.
- If you sell now you can always buy it back - you might even buy it back lower than you sold it.
- If you sell now, you enter the eye of the storm and all becomes calm. You have a moment to think and you can watch from a distance. You can always choose to enter the storm again and you will be thinking more clearly and be armed with a plan.
- If you are making a loss on a stock, think to yourself … if I had cash would I buy this stock now at this price? If the answer is ‘No’, then why are you holding it? Sell it. Most people begin to ‘hate’ the stocks they lose money in … so this argument always works.
- Your state of mind has a value. What would your spouse pay (or you pay) to have you carefree at the weekend instead of ripping the heads off the kids. Look after yourself. There are not that many weekends in the year or your life. Don’t ruin too many of them by keeping risky loss making positions until Monday because you didn’t have the guts to sell them on Friday.
- Averaging down is a mug’s game. If you have money to invest you should be putting it in the best investment in the whole world. Do you really think that will be the very same stock you have already bought at a higher price and that is falling. Very unlikely. Averaging down is what broker’s advise you to do to distract you from the fact that they have put you in something that has lost you money. The quickest way to become a long term investor is to make a short term trade and get it wrong.
- There is no logic in being emotional about losses. Most brokers a spreadsheet linked to live prices monitoring all their holdings and what they are worth. At the bottom of the page is a total showing what the shares are worth. If it’s gone it’s gone. It is no more likely to come back because you paid a higher price. (There are still clients who will tell you they have $50,000 in Telstra when the holding is worth $25,000. They do not have $50,000 in Telstra, they have $25,000).
- If in doubt, sell it. It crystallises a capital loss for this tax year. Why wait until the last few days of the year to take your losses?

Hopefully you hold good long term stocks and won’t have to take a loss, but when you do, read this again and see if you can get to the bottom of the list before you have put on the order to sell.

Marcus Padley is a stockbroker and founder of the Marcus Today share market newsletter. He has been advising institutional clients and a private client base for over 32 years.

Allocating investments in the year ahead

Morningstar

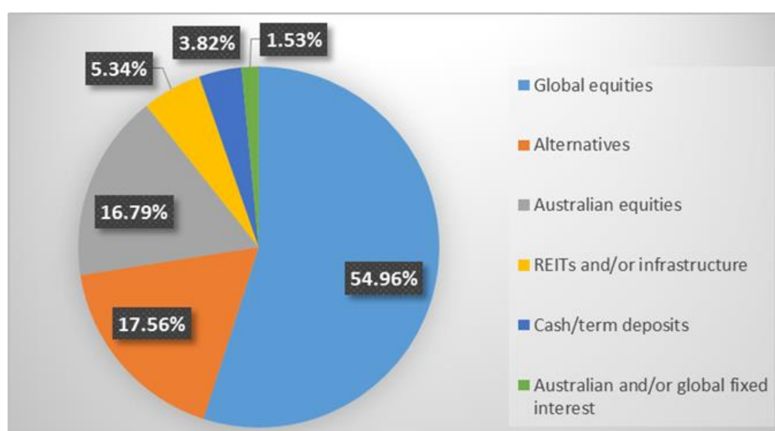
At the Morningstar Investment Conference 2015 in Sydney on 21 May 2015, delegates were asked a series of questions prior to each session, and the results were presented. They provide a valuable insight into how financial advisers and other market professionals currently view opportunities in the market.

Here is a summary of each session, along with the results of each feedback question:

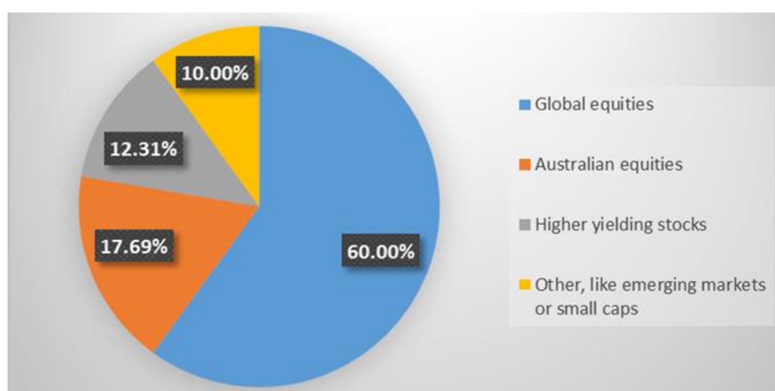
Asset allocation – Good value is even harder to find

Session introduction: While the global economy in aggregate is ticking along, economic growth has been varied – the United States has been leading the charge, and China slowing down, against a backdrop of benign inflation and very accommodative policy settings. Valuations across many asset classes look expensive when set against the expected outlook. The discussion centred on how much to allocate to Australian equities, the appropriate balance between cash and fixed interest, and where value can be found in what have been strongly-performing markets.

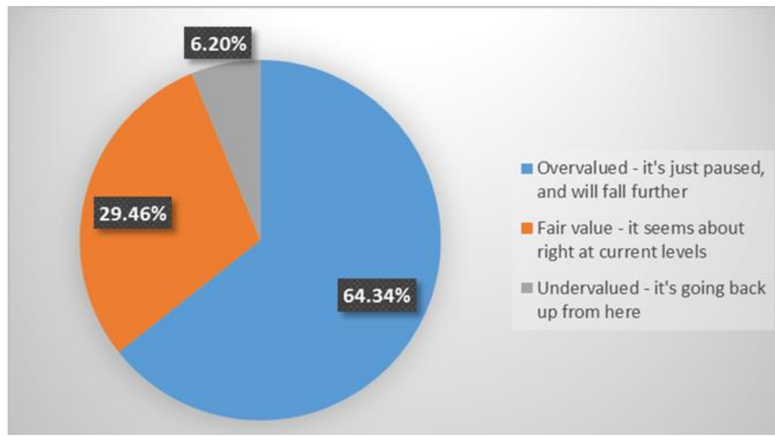
The asset class that represents the best opportunity for my clients currently is:



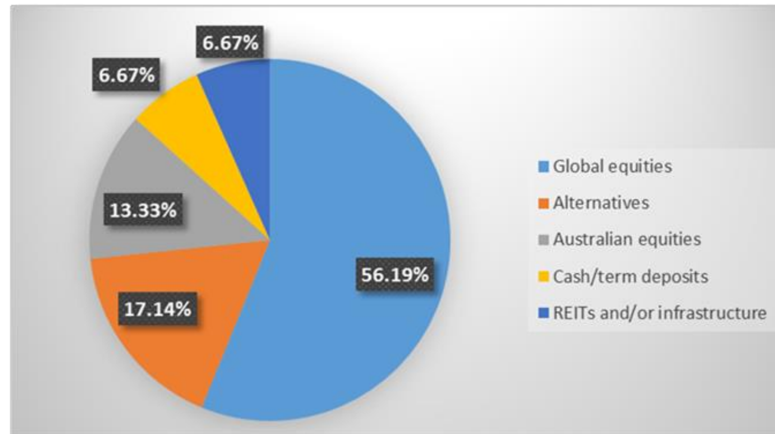
Within equities, in the last 12 months for my clients I have preferred:



What's your view on the Australian dollar?



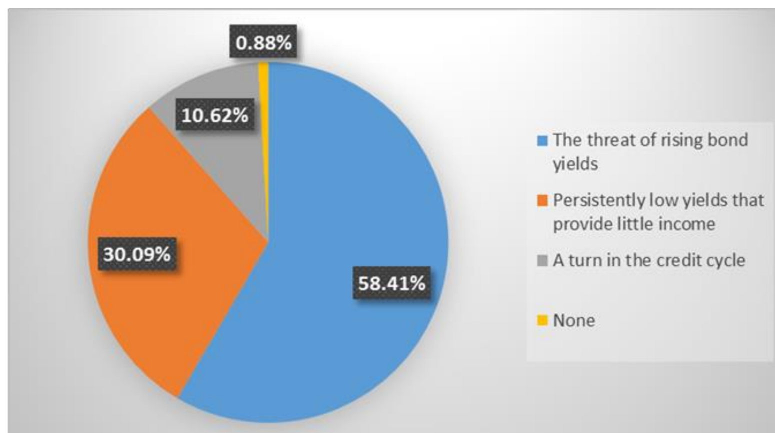
The asset class that represents the best opportunity for my clients currently is:



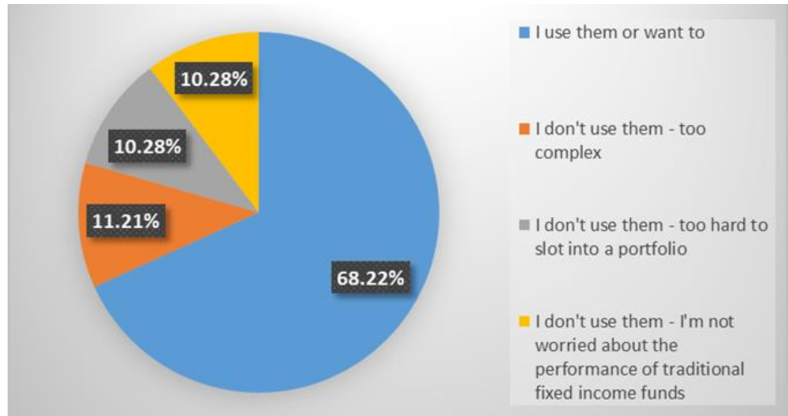
Fund investing stream – Fixed interest: haven't we been here before?

Many investors were caught off-guard as global bond yields reversed course and fell after the taper-induced jitters of 2013. Developed market government bond yields plumbed new depths, policy rates remain ultra-accommodative, and unconventional monetary stimulus is back in the headlines. Fixed income investors are again left wondering where to find value and how best to manage risk under these conditions. This session discussed fixed income markets and the implications for investors' portfolios.

My biggest concern about fixed interest at the moment is:



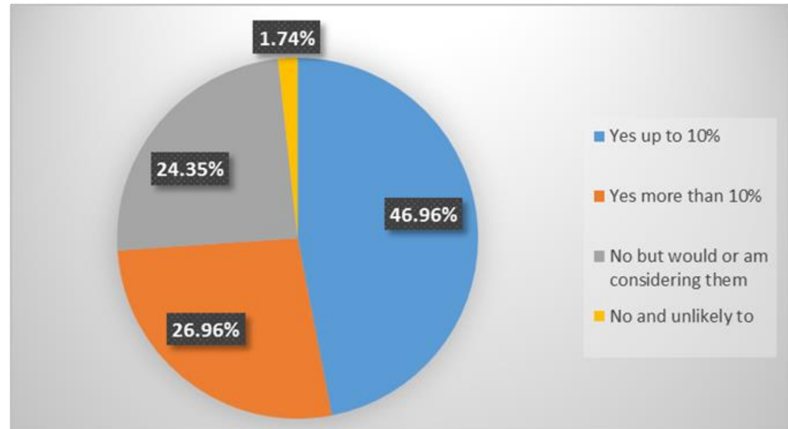
Regarding flexible, relatively unconstrained fixed income funds:



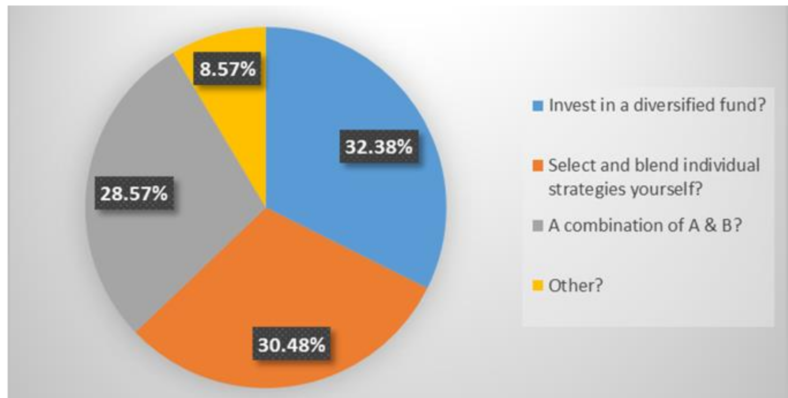
Fund investing stream – Exploring the case for alternatives

Alternatives are frequently touted as an effective portfolio diversification strategy, but how does this stack up? The session explored the case for using alternatives in client portfolios, what to look for and to avoid, how to build an alternatives portfolio allocation, and analyse current market trends.

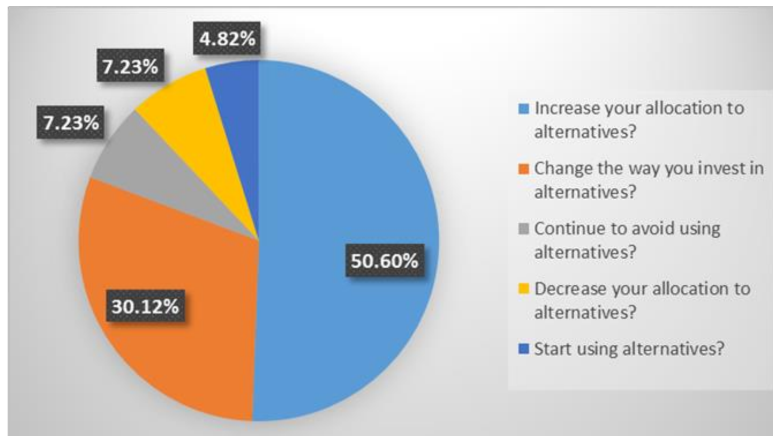
Do you invest in alternatives for your clients' portfolios?



Assuming you invest in alternatives, do you:



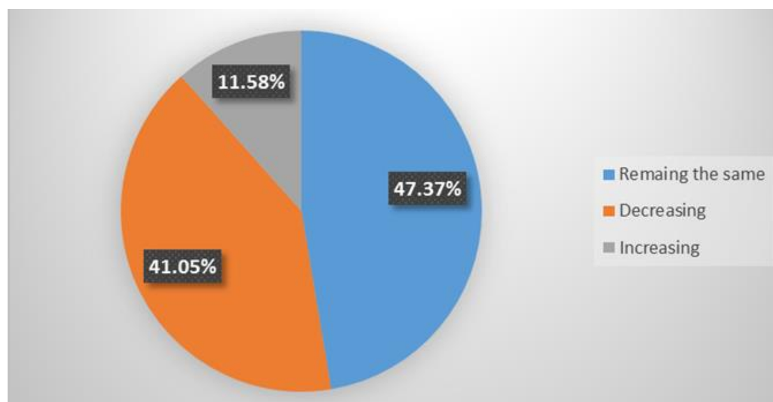
As a result of today's session are you likely to:



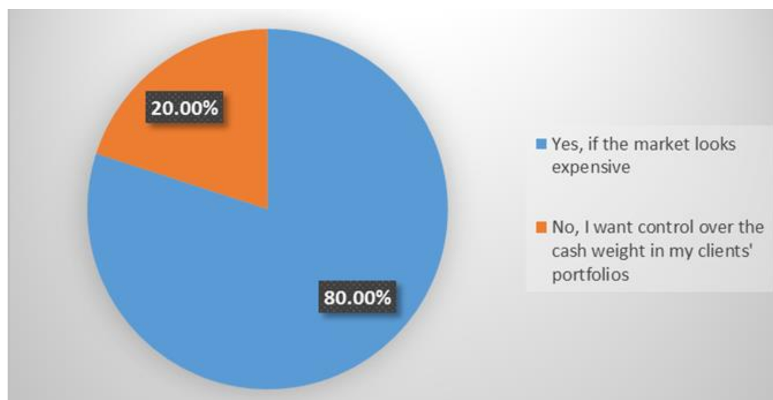
Australian equities – What's next for Australian equities?

The Australian sharemarket got the year off to a flying start in the first quarter of 2015. More strong returns from high-yielding stocks help compound the great returns of the last three years – but can this continue? Is it time to increase your clients' exposure for the next leg-up, or are we due a pullback?

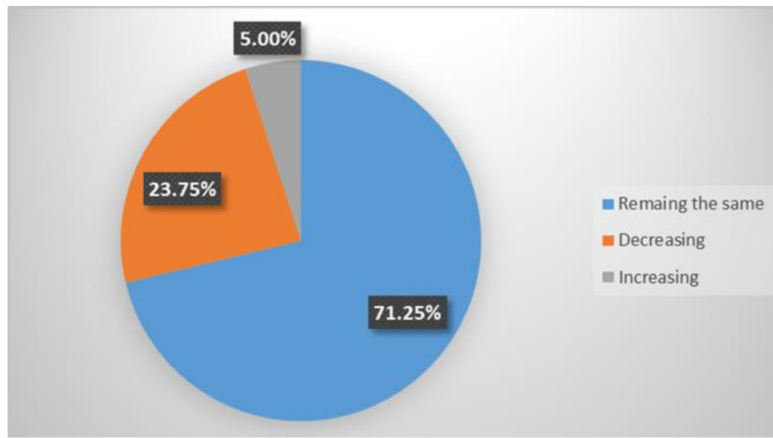
My clients' exposure to Australian equities is:



Would you be happy for your Australian equities manager to hold 10% cash?



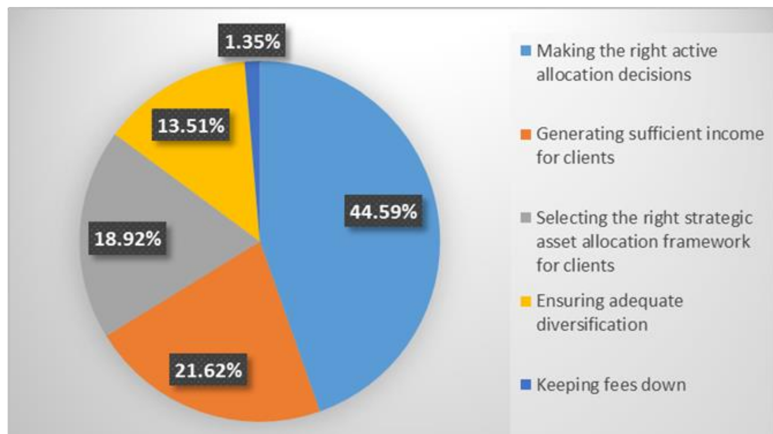
Following the discussion, my clients' exposure to Australian equities will be:



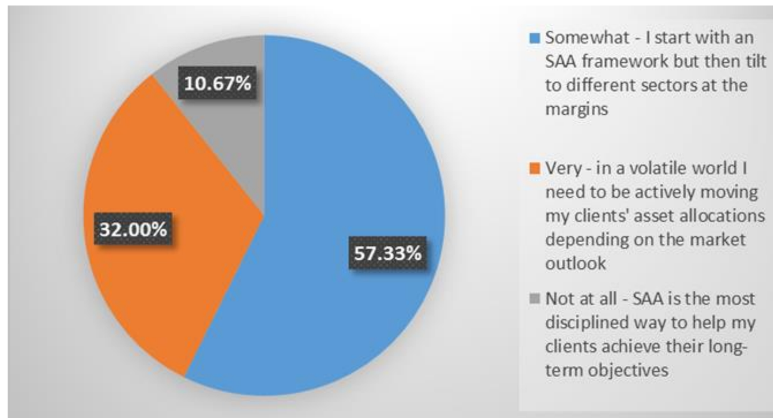
Portfolio construction – Putting it all to work

A recap and analysis of the major investment themes discussed during the day, from the top-down macro and asset allocation discussions to the bottom-up individual investment selection insights and the role of alternatives.

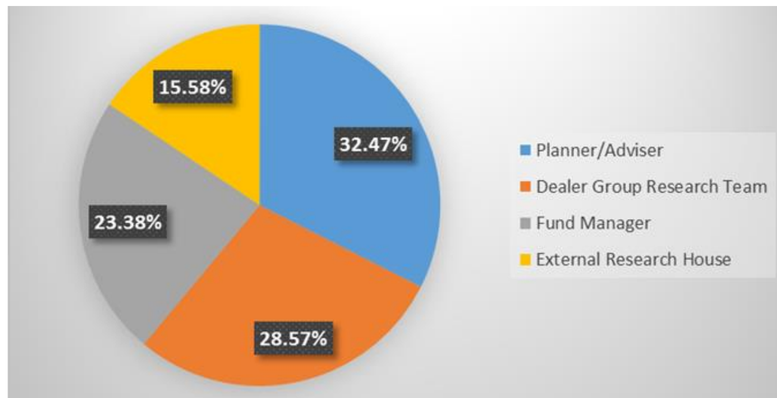
My biggest portfolio construction issue at the moment is:



How flexible should your asset allocation be?



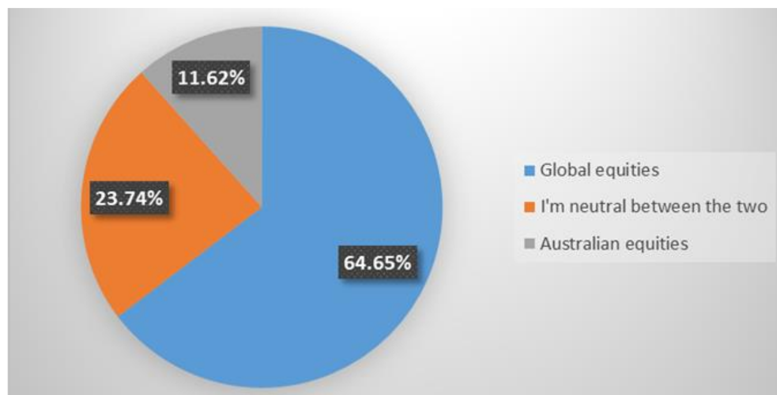
If you want to be more active in your asset allocation, I think this decision should be made by:



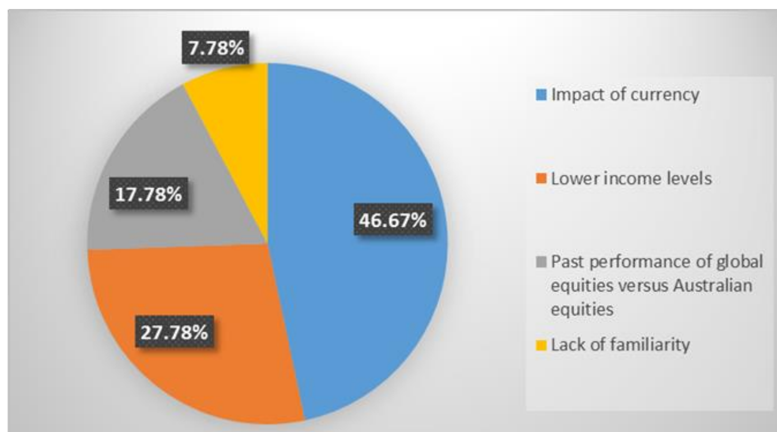
Global equities – Time for risk management, or faith in recovery?

After multiple years of strong gains, advisers would be right to doubt whether global equities is a good place for their clients' next dollar. But relative underperformance in some regions over the past few years combined with a sustained decline in oil prices and persistently low bond yields make that analysis far from straightforward. A discussion on whether to batten down the hatches or look for good opportunities.

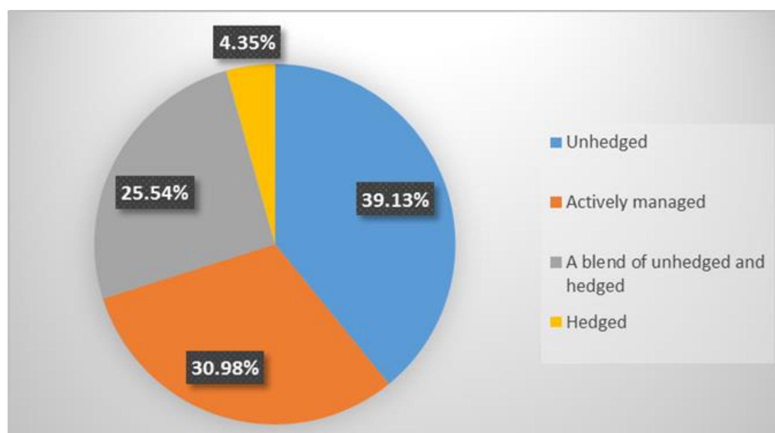
Within my clients' growth asset allocations, my preferred exposure is to:



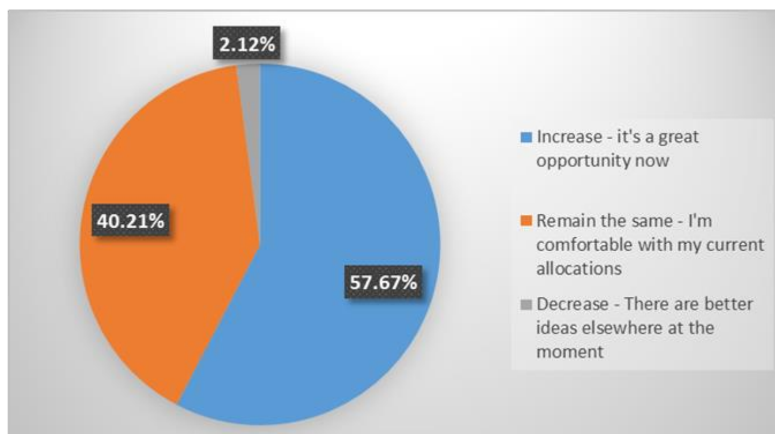
My primary concern with investing globally is:



I prefer my clients' currency exposure within global equities to be:



My clients' exposure to global equities is likely to:



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