

This Week's Top Articles

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We buy more apples when they are cheaper, why not Apple?

Ashley Owen

The prices of supermarket groceries change from one week to the next, and often from day to day, depending on a host of factors like supply, demand, stock levels, competitor activity, the weather, etc. When prices are low, consumers buy and when prices are high, they avoid products or look for cheaper substitutes.

When a supermarket manager announces an item is suddenly marked down by 20% for today only, there is a rush to buy. What would happen if the manager announced instead that the price of a particular item is *increased* by 20%? Nobody would buy it of course. People know that prices go up and down regularly, so they will wait for a better time to buy later.

Investor reactions to shares are the exact opposite

On the price side – aside from a general long-term rise for inflation and overall economic growth – share prices go up and down in the short term and much of it has nothing to do with the company itself. Companies report their progress every quarter- or half-year and in between they occasionally announce something, but the share price will jump up and down every day and even every minute.

But investors jump in and buy shares if they have been rising, and the higher the price rise, the more excited buyers become. If a share price is falling, people sell. The lower the price goes the more frenzied the panic selling. It's the same in every cycle, usually unrelated to the long-term prospects of individual companies.

The difference is knowledge.

When we buy groceries, petrol, cars, etc, we know enough about what we are buying to form a pretty good view of its value and what we are prepared to pay for it. If prices rise above what we see as its real value, we wait.

With company shares, most people have little or no idea what each company is worth and or the fair value of one of its shares. When prices are rising, uninformed investors think: "It must be good because everybody else is buying and the price is going up. I'll follow the crowd and jump in to get some too!" And vice versa.

This is what is happening in the market

On Friday 2 February 2018, the US market fell by 2% and by another 4% on Monday 5 February. Australia followed suit a day later, as it always does.

Let's look at one company, **Apple**, the largest listed company in the world worth about 1 trillion Australian dollars, or about the same as the largest 100 ASX companies combined. Last year Apple had sales revenue of US\$90 billion and made \$20 billion in net profits. It is still growing strongly, with revenues up by 60% last year and net profit 80%. It pays a 1.6% dividend yield but chooses to reinvest most of its profits to build its business and to buy back its own shares to reduce the number of shares outstanding so existing shareholders get a larger share of the profits and dividends. The company makes good products that people want to buy and its profit margins are very high. It is currently priced at around 16 times last year's earnings and about 12 times the expected earnings this year.

It's a good company and cheap on almost any measure. It is the largest holding in index funds of international shares and it is also held by many active global share funds.

On 18 January 2018, its shares traded at \$179 but by 5 February, it had fallen by 12% to \$156.

What should we do after such a fall?

The main choices with Apple shares are:

- a) Dump it because it has lost 12% in two weeks and is obviously going to go straight down so we'd better get our money out fast.
- b) Take advantage of the discount today to buy more. "We were happy to own it at \$179 so it would be an even better buy at \$156."
- c) Ignore the short-term share price jumps up and down as market 'noise' that is unrelated to the company itself. Warren Buffett said: 'Buy great companies and then ignore the share price.'
- d) Step back for a moment and think about whether the underlying causes of the recent price moves might be good or bad for the company, and then take your time to adjust holdings.

Response a) is what you would be tempted to do if you read all the shrill headlines in the media and listen to all those 'experts' on the endless financial news channels. The way to lose money is to follow the crowd in 'buying high' and 'selling low'. Novice investors like to see prices rising for a while before they pluck up the courage to follow the crowd and jump in (the 'fear of missing out'). Then when prices start falling, they panic and follow the crowd in selling out.

The problem is that the markets have been so calm over the past year it has given people a false sense of security, so every minor fall is seen as a major catastrophe.

Response b) involves doing the opposite of the headlines and the crowd. Experienced investors should have done the research, know what they are buying and are waiting for these types of price discounts to buy more.

I have a list of companies I would like to own but they are too expensive most of the time. But every year or so there is a general market sell-off triggered by factors unrelated to individual companies, so I get out the list and see if any are cheap enough to buy. *General sell-offs are buying opportunities. I wish they came around more often.*

Response c) has worked for Warren Buffett for 60 years but it really only works with some control or influence in the investee companies, and that is a major part of his success.

Response d) is best for long-term investors who can look beyond the short-term noise and can make portfolio adjustments when changing market conditions do impact individual companies.

So let's ask what triggered the recent general market sell-off, and then ask how it might affect individual companies like Apple.

There are two themes hitting the market – inflation and the US dollar

First, the general sell-off was triggered by last Friday's report on jobs and wages growth, which showed that the US economy is expanding better than expected, and consumer spending and wages are improving.

That is good news for just about everything – better growth, more jobs, higher wages, increased spending, higher company revenues, profits and dividends. But it also means that interest rate hikes may have to be stepped up a little to counter inflationary pressures. Interest rates were zero from the Lehman bankruptcy in 2008 to December 2015, they are now 1.5% and heading higher to around 5%. The only question is the pace.

Companies like Apple will probably benefit from more jobs, higher wages and increased consumer spending.

The second major theme is the US dollar, which is locked in a currency war between the US, China, Japan and Europe. The US generally has maintained a 'strong dollar' policy, which is good for confidence and makes Americans feel richer but bad for US exporters, which are most of the big US companies. On 24 January 2018 in Davos, the new Treasury Secretary Steve Mnuchin appeared to reveal a departure from the official strong dollar line, and it has raised fears of a dollar sell-off that might trigger a major bond sell-off.

Would a lower dollar would be good or bad for Apple? Since an increasing proportion of Apple's revenues and profits – and most of its growth – comes from foreign sales, a lower US dollar would boost US dollar profits for shareholders.

The other possibility is that this latest jobs report and recent spike in bond yields is just another false start in the long road to recovery for the US economy. Jobs numbers and unemployment filings are notoriously volatile and we are just as likely to see it reverse next month, but the long-term trend is for an improving US economy. That's great news.

The other good news is that we are probably a long way yet from runaway inflation that needs to be countered by rapid interest rate rises by the Fed. Low to moderate inflation and interest rates (under 5%) are generally good for share prices, but high inflation and interest rates (above 5%) are generally bad for share prices.

This is an example of our response d) to the question raised about what to do in response to big changes in prices. If we look beyond the market noise and silly media headlines we start to build a picture of the likely impacts of changing market conditions on the prospects for companies. Each company is affected in different ways by changes in market conditions.

Misleading media headlines

The headlines today are complete beat-ups. The 1,000-point fall in the Dow Jones Industrial Index was 'the largest one-day points fall in history!' Yes, but that's only because the index was 25,000 to start with. What's important is the percentage fall, not the number of points.

For example the largest ever 1-day fall in the Dow was 19 October 1987 when it fell -22.6% but in points terms it was a mere 508 point fall – less than half the points of this weeks 4% fall but much more serious. 'Points' are pointless, percentages count.

In percentage terms there have been plenty of falls in the Dow like the 4% fall on Monday. Since 1980, there have been 37 falls of 4% or worse, the index is up 2800% in total or 9% compound per year.

In Australia, Tuesday's 3% was similarly a dime-a-dozen fall. I have seen more than 50 falls of 3% or more.

In summary, ignore the headlines and the media chatter and focus instead on understanding what the underlying changes might mean for markets, asset classes and individual securities, and stick to a long-term strategy.

Ashley Owen is Chief Investment Officer at advisory firm [Stanford Brown](#) and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is general information that does not consider the circumstances of any individual.

The CAPE hanging over share markets

Vinay Kolhatkar

The long-anticipated fall in US share markets and return of volatility finally arrived this week, with the S&P 500 down 4.1% on Monday 5 February 2018 after a 2% fall the previous Friday. Following this lead, the S&P/ASX200 fell 2% then 3.5%, and the headlines screamed of panic selling and a wipe out of billions of dollars of wealth.

But these movements always require a context. The S&P 500 was up 5.6% in January 2018 alone, hitting all-time highs. Long-term investment plans should expect stock markets to move like this regularly.

What matters more is where the market is headed for the long term, and whether it offers value compared with historical levels.

Two weeks ago, Robert Shiller, 2013 Nobel laureate in Economic Sciences, and co-inventor of the CAPE measure, was calling the US the "world's priciest stock market" because the CAPE ratio was higher than every other country measured.

Development of the CAPE ratio

Thirty years ago, in February 1988, Robert Shiller and John Campbell presented a paper to NBER (National Bureau of Economic Research) that led to the cyclically-adjusted price-to-earnings (CAPE) ratio. The CAPE ratio is the real (inflation-adjusted) price of a share divided by a ten-year average of real earnings per share. It's an alternative to the more common P/E ratio.

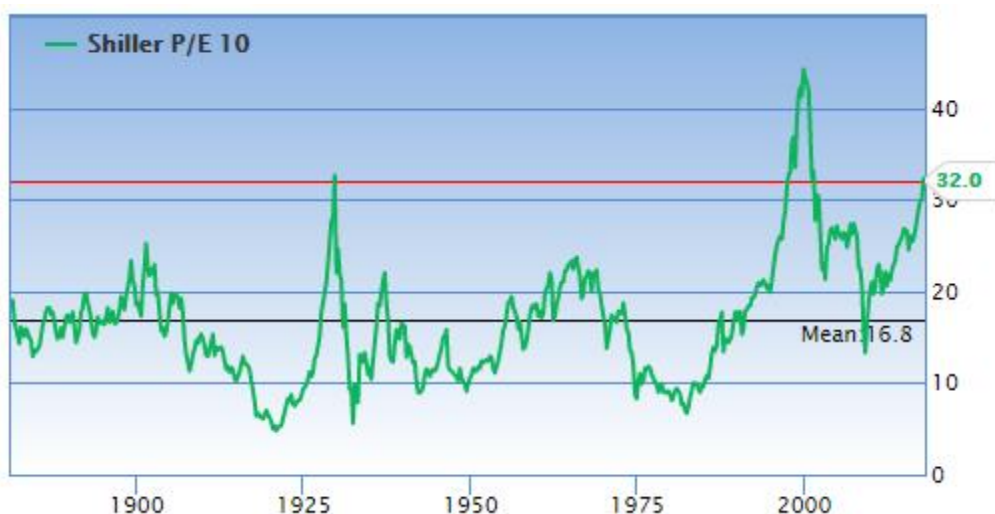
Why ten years? Says Shiller:

"Ownership of stock represents a long-term claim on a company's earnings, which the company can pay to the owners of shares as dividends or reinvest to provide the shareholders more dividends in the future. A share in a company is not just a claim on next year's earnings, or on earnings the year after that. Successful companies last for decades, even centuries."

Earnings can be volatile from year to year, but research indicates there is mean reversion in earnings, which means there's value in using long-term averages.

The CAPE ratio reached an all-time high during the dot-com bubble. It also reached a historically high level again during the GFC up to 2007. Today, Barclays Bank in London compiles the CAPE ratios for 26 countries using Robert Shiller as a consultant.

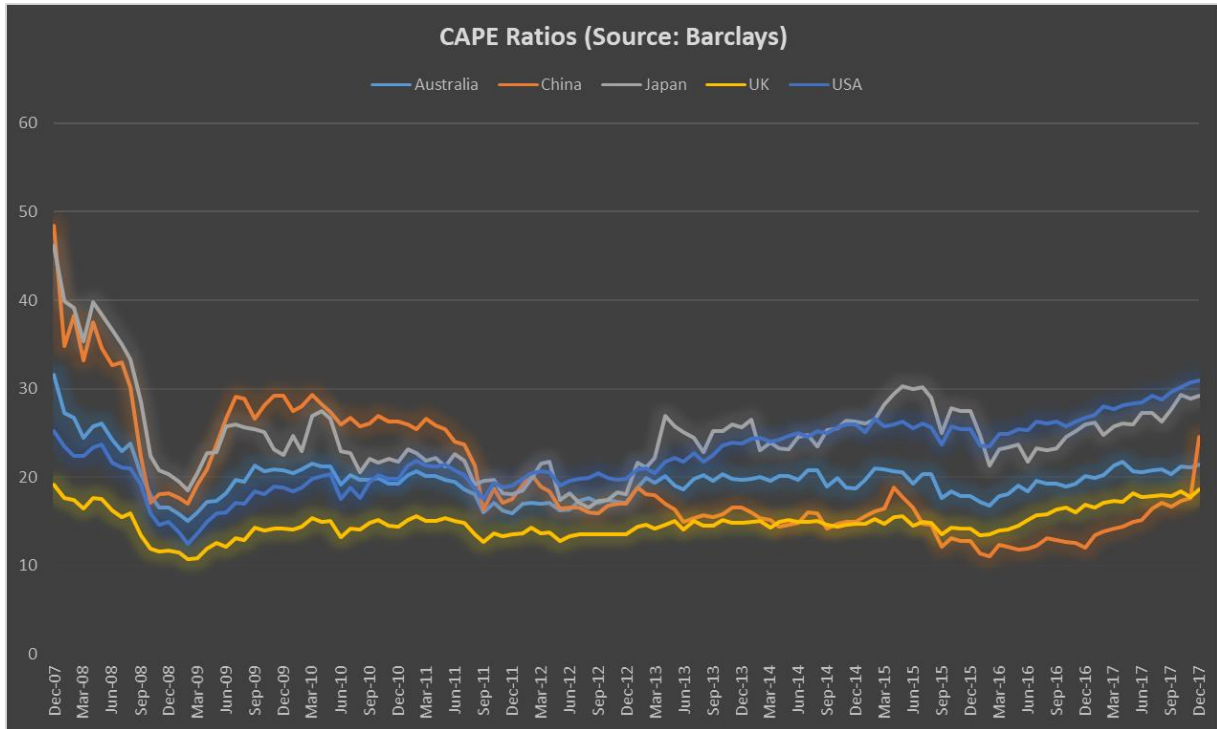
As shown below, the historical mean of the CAPE for US markets is 16.8. At the close of 5 February, it stood at 32, or 90% higher (the regular P/E ratio has an historical mean of 16 and stood at 25).



Shiller and Campbell found that the lower the CAPE, the higher the investors' likely return from equities over the following 20 years. A comparison of CAPE values might assist in identifying the best markets for future equity returns.

Is the US market overpriced?

Two weeks ago, writing in *Project Syndicate*, Shiller expressed a concern that the CAPE ratio is at an historical high in the US and that it is higher than for any other country that it is measured for. At the end of 2017, the CAPE ratios for five major economies were: US 30.9, Australia 21.4, China 24.6, Japan 29.2, and UK 18.6.



While this might indicate some cause for concern, especially in the US, a high CAPE ratio need not mean that the market is necessarily overpriced.

Contrarian Geoffrey Caveney finds a reason for why the US CAPE ratio is now around its historic highs (it was only higher in the late 90s dot-com bubble):

"However, this is misleading right now because the CAPE ratio's 10-year back period begins with the Great Recession in 2007. So the 10-year earnings are abnormally low, due to the effect of 2007-2009 on the 10-year average. As the recession years 'roll off' the 10-year back period, the 10-year average earnings will increase, and stock prices can rise without making the Shiller CAPE ratio rise excessively."

Diversify rather than justify

Even when using his own measure, Shiller cautions against being too sure of the reason it is high:

"... the mystery of what's driving the US stock market higher than all others, [is] not the "Trump effect," or the effect of the recent cut in the US corporate tax rate. After all, the US has pretty much had the world's highest CAPE ratio ever since President Barack Obama's second term began in 2013. Nor is extrapolation of rapid earnings growth a significant factor, given that the latest real earnings per share for the S&P index are only 6% above their peak about ten years earlier, before the 2008 financial crisis erupted."

"The truth is that it is impossible to pin down the full cause of the high price of the US stock market. The lack of any clear justification for its high CAPE ratio should remind all investors of the importance of diversification, and that the overall US stock market should not be given too much weight in a portfolio."

However, if US selloffs continue to be replicated in other markets, the US may retain its relative high, but hopefully not its historic high.

As tempting as it would be to justify investing against proven trends, country diversification could well be one simple response that is also prudent in a well-diversified portfolio.

(For an interactive analysis of CAPE ratios over time and for many countries, see [this link](#)).

Vinay Kolhatkar is Assistant Editor at Cuffelinks. This article is general information and does not consider the circumstances of any investor.

Five things SMSF trustees should consider right now

Mark Ellem

Into a new calendar year and more than half way through FY18, it's a good time to take stock of the super reform issues. Here are five items for SMSF trustees to consider:

1. Is your SMSF eligible for CGT relief?

Capital Gains Tax (CGT) relief is available for SMSFs that, between 9 November 2016 and 30 June 2017, had members who:

- Took action to comply with the \$1.6 million transfer balance cap, or
- Had in place a transition to retirement income stream (TRIS).

The relief is specific to FY17. Those intending to access the relief must make an election by the due date of their FY17 SMSF annual return. The ATO has announced that all SMSFs have until 2 July 2018 to lodge their FY17 SMSF annual return.

Accessing the CGT relief may have tax consequences, particularly for SMSFs using the unsegregated or proportionate method to claim tax exemption on current pension income in FY17. The proportionate method is available to SMSFs in pension and accumulation phase that use an actuary to determine the percentage of fund income that is tax exempt.

2. Retired and under age 65

If you have reached your preservation age but are under age 65, being 'retired' can be important especially if you are currently receiving a TRIS. From 1 July 2017, the income earned on fund investments paying a TRIS will be taxed at 15% if it is not in a 'retirement phase'. Previously such income was tax exempt.

The removal of the tax exemption has created a distinction between a 'TRIS in retirement phase' and a 'TRIS not in retirement phase'. A TRIS in retirement phase is exempt from tax on any income earned on fund investments that support it. However, the value of a TRIS in retirement phase is counted against the member's transfer balance cap.

A TRIS moves from not being in retirement phase to retirement phase if the fund has been notified that the member is totally and permanently disabled, is terminally ill, or has reached their preservation age but is under age 65 and has 'retired'. If the fund has not been notified of one of these events, it will remain a 'TRIS not in retirement phase'.

The notion of retirement for some may mean the gold watch, a retirement party or an oversized 'Sad to see you go' card – but under the super law it is quite different. Retirement for super purposes depends on retirement age, your intentions and ceasing work. Anyone who is between 60 and 65 is considered to have 'retired' when an employment arrangement has ceased.

Case study

David is aged 61 and is an employee for company A. He receives a better employment offer from Company B and so resigns from Company A. He finishes on a Friday with Company A and starts with Company B on the following Monday. In David's mind, he's changed jobs, but, under superannuation law, he has retired.

If David was receiving a TRIS, such an event would result in his TRIS becoming a 'TRIS in retirement phase', which means the fund will be tax exempt on the earnings allocated to the TRIS and it will count towards David's transfer balance cap. Consequently, it is important for David to notify his fund that such an event has occurred. In an SMSF context, this may mean notifying his fund accountant or service provider that he has retired.

3. The reduced concessional contribution cap

The concessional contribution cap for everyone, no matter their age, is \$25,000 for FY18. If you have salary sacrifice arrangements in place, check that no more than \$25,000 in employer and personal deductible contributions will be made to super in FY18.

There are changes proposed which, effective 1 July 2018, will remove salary sacrifice contributions from offsetting an employer's Superannuation Guarantee liability, which in turn may result in additional contributions being included under the reduced cap.

4. Split contributions where it makes sense to do so

With the introduction of the transfer balance cap, consider longer-term strategies designed to equalise balances between couples. The ability to split up to 85% of concessional contributions from one spouse to another can help equalise members' accounts over time. The current concessional cap of \$25,000 allows a spouse to effectively allocate \$21,250 to the other spouse in the financial year after the contribution has been made. This strategy can provide some estate planning benefits.

One of the benefits of equalising account balances between spouses is that it may assist in keeping one or both spouses under the non-concessional cap thresholds.

Case study

Rob has concessional contributions of \$25,000 made to his SMSF in FY18. He has a total super balance of just under \$1.4 million and decides to split 85% of the concessional contributions during FY19 to his spouse, Narelle, who has a total super balance of more \$1.6 million. By keeping the total super balance below \$1.4 million, Rob is able to access the 'two year bring forward' rule if he wishes to maximise non-concessional contributions, provided all the other conditions are met.

5. Estate planning

Any estate plan should be regularly reviewed so it meets a family's changing needs and wishes. The introduction of the super reforms is a trigger to review the appropriateness of estate plans, even when not affected by the \$1.6 million transfer balance cap. A couple with combined transfer balance account balances of more than \$1.6 million could have an estate plan that is now out of date with their wishes. This may be due to the restricted amount that can be retained in retirement phase.

Dust off that estate plan, have a read, and consider its appropriateness.

Mark Ellem is Executive Manager, SMSF Technical Services at [SuperConcepts](#), a leading provider of innovative SMSF services, training and administration. This article is for general information only and does not consider the circumstances of any individual.

10 checkpoints before setting up an SMSF

Liam Shorte

SMSFs are one of the success stories of our superannuation system, with about 600,000 funds in operation being set up at the rate of over 30,000 a year. Over 1.1 million Australians are trustees of their SMSF, making the structure a focal point of many retirement plans.

But they are not suitable for everyone, and here are some of the key issues to determine whether an SMSF is suitable to meet your objectives and circumstances. They have been developed to address concerns about people being pushed or rushed into an SMSF, and to protect access to the SMSF option for the long-term.

1. What do you or your family want to achieve by establishing an SMSF? This explores your reasons goals for investigating this strategy and whether it aligns with your short, medium and long-term goals. There may be alternatives that may meet your true objectives.
2. Is running a strategy via an SMSF suitable for you in terms of your experience, knowledge and available time? There are many busy executives, truck drivers and small business owners that I have talked out of running an SMSF when they can't even find one hour in their week to schedule a meeting or even engage via Skype to understand their trustee obligations, yet they thought they could run an \$800,000 investment portfolio.
3. What funds do you have to rollover from an existing fund and are you able to move those funds? Some people are in government, military or state funds that cannot be accessed before a certain age, or maybe a Defined Benefit Scheme that's too sweet to leave. Can future Super Guarantee contributions be redirected to an SMSF as some employers have a mandated fund under enterprise bargaining agreements. Are there high exit fees or underlying investments that are not liquid? Is it really right move for you?
4. Have insurance needs been adequately identified and addressed for your future protection? Consider the current insurances and do a needs analysis to see if they should be maintained, altered, replaced or cancelled.
5. Are you clear about trustee responsibilities? You may need to commit to more education before setting up the SMSF. Urgency to set up a fund does not remove your duties.
6. Do you appreciate the costs of setting up and ongoing expenses of administering an SMSF as well as costs related to specific strategies you want to undertake. This includes fees associated with advice, investments, establishment, legal and administration?
7. Have you done a complete cost versus benefit analysis of an SMSF? Are you fully informed or influenced by a friend or adviser who may have other motivations than your best interests.
8. Have you developed an SMSF investment strategy that is compliant and will help to achieve your objectives. Your expectations need to be grounded in reality, not some magic long-term excess returns based on a few myths.
9. Will the SMSF engage in borrowing or gearing, and what is a reasonable level of gearing in your circumstances based on your retirement plans and analyse the affordability of the gearing strategy.
10. How will the SMSF be administered and which professional services will you need, including financial advice, investments and legal? Have you chosen software that will minimise the administration and reduce costs, and make the work involved easier, especially for monitoring performance and preparing reports at tax time?

They're not for everyone

Don't underestimate the time and knowledge required. I hesitate to mention one client who said he could do his research while driving to work on his mobile! Or the couple who felt they were 'property experts' because they had four Queensland regional properties, having never visited any of them or done more than a cursory Google search. They were headed for a low income, negative capital growth portfolio. On asking for property inspection reports, we found they were also up for tens of thousands of dollars in repairs and maintenance over the coming years. It was agreed that their super was safer in their well-diversified existing strategy than another 'punt' on property in an SMSF until they learned more about property investing.

There is more to setting up and managing an SMSF than many people realise, and the process requires the right strategy at the right time to secure future financial security.

Liam Shorte is a specialist SMSF adviser and Director of [Verante Financial Planning](#). This article contains general information only and does not address the circumstances of any individual. This article draws on a [circular issued by The Financial Ombudsman Service](#).

Home care: the good, the bad, and the ugly

Rachel Lane

The Good

In February 2017, Home Care Packages underwent major reform, giving consumers the ability to choose their home care provider, direct funds to the services they want and need, and wield the ultimate consumer power – the ability to move from one provider to another.

Without a doubt, the best thing about Home Care Packages is that they enable people to stay in their own home and community, whether that is a family home, an apartment, a caravan park, a retirement community, a granny flat, or other living arrangement.

For the most part, Home Care Packages are affordable. The Basic Daily Fee is set at 17.5% of the age pension, or \$10 per day. The need to contribute beyond this amount is based on the person's income with the fee calculated at 50c per dollar in excess of the threshold and capped at \$10,627 per year. For people of limited means (or good negotiating skills), the Basic Daily Fee can be negotiated with the provider.

(For more details on the fees applicable to Home Care, see ['Home is where the care is'](#)).

The Bad

With the increase in choice and control comes an increase in responsibility to understand the fees and charges that apply, potentially negotiate some of them, and pick a provider. While this may seem fair and reasonable, the fee schedules can be mind-boggling with call out fees, different rates for the same service at different times of the week or day, and minimum periods. The fees and charges vary from one provider to the next, and for consumers who want to compare one provider with another, it can be an almost impossible task.

In addition to the cost of their ongoing care, consumers need to be aware of and factor in the cost of an exit fee if they move from one provider to another. Many providers don't charge exit fees. Some providers, however, charge an amount that covers the cost of the administration involved usually around \$500, while at least one has an exit fee in excess of \$4,000.

The funding provided through a Home Care Package is based on the level of the package the consumer receives, as shown in the table below.

Home Care Subsidy Daily Rates (1 July 2017 – 30 June 2018)

Package Level	Basic Subsidy	Dementia Supplement
Level 1	\$22.35	\$2.24
Level 2	\$40.65	\$4.07
Level 3	\$89.37	\$8.94
Level 4	\$135.87	\$13.59

Additional supplements are paid for people with special care needs such as oxygen and enteral feeding.

Home Care Funding is simply an allocation of monies, but the money may not cover the cost of care. In many cases, people find that they need to 'top up' their package with private care.

The Ugly

Unfortunately, many consumers still view Home Care as a 'slippery slope into a nursing home' and delay accessing services. The expectation is they will get it when they really need it. The reality is that demand is increasing and the number of people waiting for a package is greater than those receiving one.

Between March and September 2017, the average number of approvals jumped from 401 to 497 per day. The majority of approvals are for people with higher care needs (Levels 3 and 4).

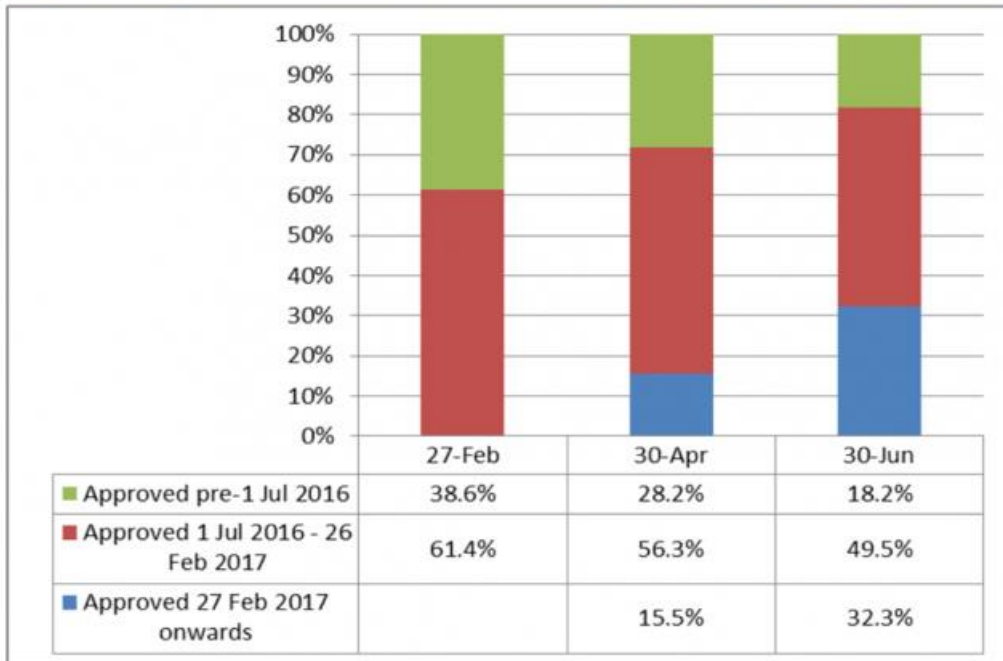
These approvals are adding to the growing number of people on the national prioritisation queue, which was up from 88,904 on 30 June 2017 to 101,508 on 30 September 2017.

Table 3: Total number of consumers on the national prioritisation queue, by level of approval and state and territory of residence as at 30 September 2017

State/Territory	Level 1	Level 2	Level 3	Level 4	Grand Total
NSW	71	7,342	6,874	20,246	34,533
VIC	54	7,257	3,610	10,642	21,563
QLD	44	3,806	3,662	11,794	19,306
WA	11	1,362	1,351	7,184	9,908
SA	12	1,543	2,033	7,786	11,374
TAS	3	577	516	1,295	2,391
ACT	3	341	217	1,067	1,628
NT	1	105	67	262	435
National	201	22,424	18,434	60,449	101,508

Of the 101,000 in the queue, around 41,000 have an interim package which is below their assessed care needs. The other 60,000 are waiting with no interim package at all.

Figure 3: Proportion of consumers on the national prioritisation queue, by date of approval



While 101,000 people are waiting, only 72,000 are actually getting a package and the queue is growing (data from the Reference Home Care Packages Program Report, Department of Health).

The bottom line is that the wheels turn but in some cases, they turn very slowly. Consumers can expect to wait for the ACAT assessment (to determine eligibility and package level), wait for the approval, and then wait for the Home Care Package. At the end of it all, maybe a Home Care Package lower than the assessed need may be made available.

The role of the adviser has never been so broad or so valuable. Crunching the numbers on the contribution to the Home Care Package is possibly the least valuable component. The real value is in the knowledge the adviser has of the system and helping the client navigate the various aspects and to come out the other end with access to the care they need that is also affordable.

Rachel Lane is the Principal of [Aged Care Gurus](#) and has co-authored a number of books including '[Aged Care, Who Cares?](#)' with Noel Whittaker. This article is general information only.

Make an earlier start understanding aged care

Assyat David

Every day, approximately 32 people in Australia turn age 85 and this population sector has grown by [133% over the last two decades](#). An industry survey conducted jointly by Aged Care Steps and Swiss Re reveals that aged care is an increasingly important topic for advisers and clients and should be an earlier part of retirement planning. The survey was done in October 2017 with results compiled from 173 respondents.

Consumer implications

Australians need to plan for the affordability of future care needs and understanding the options to make informed decisions with confidence.

Chart 1 from the survey shows that Australians tend to seek aged care advice after a medical event or crisis, but often this is too late and their options are limited. They should deal with their aged care needs well in advance such as when planning for retirement.

Chart 1: When do people seek aged care advice?

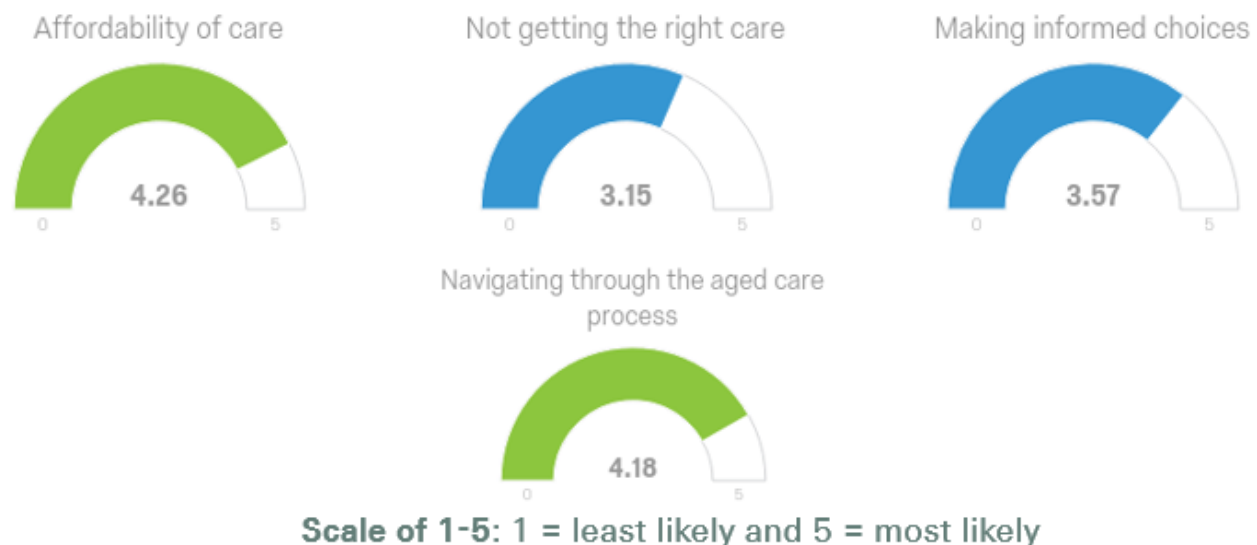


Key issues include:

- how to fund aged care costs given the shift towards a greater user-pays
- willingness to access the equity in their home instead of a focus on inheritance
- the ability to rely on family and friends to provide care and financial support.

The survey explored the challenges and fears of people concerning care, and show Australians are grappling with the following issues when accessing the right care.

Chart 2: The challenges and fears of people dealing with aged care



Professional advice implications

The aged care survey revealed that professional advisers should be preparing for aged care to become a standard business focus in response to increasing client demands. Advisers who ignore the demand for aged care advice risk becoming uncompetitive and less relevant to their clients.

Other results from the survey include:

- 90% of surveyed advisers expect an increase in client demand for aged care over the next three years. About 85% of advisers report that clients are proactively seeking aged care advice with 29% suggesting this is happening frequently.
- 30% of advisers provide aged care to service existing clients. The remaining provide aged care services to attract family or friends of care recipients (25% of respondents), build their client base and attract new clients (22% of respondents) and to provide intergenerational wealth transfer advice (21% of respondents).

These results align with the trend of advisers exploring new revenue sources and opportunities to better align with their client base, and about 51% of surveyed advisers regularly promote aged care services and a further 27% offer it on a case by case basis.

Advisers report that family members (children or relatives) and spouses approach them for aged care advice more than the person requiring care, as shown in Chart 3 below. ‘Target clients’ therefore tend to be clients aged 40–70 years who take responsibility for dealing with their ageing parents. This age group often already represents the bulk of an adviser’s client base.

Chart 3: Who approaches financial advisers for aged care advice?



Scale of 1-5: 1 = least likely and 5 = most likely

These survey results reinforce the risk that advisers who do not include aged care solutions to address broader needs, risk losing clients and forgo the opportunity to capture new revenue sources. Clients need to be made aware that they can approach their professional adviser when dealing with aged care issues for themselves or their loved ones.

Adviser groups need a compliance framework for the delivery of aged care advice, accreditation training, access to practical tools and efficient planning software. They need to review their portfolio construction guidelines for retirement planning to adequately address clients’ aged care needs throughout the retirement phase.

People should not wait until there is a medical crisis before considering their alternatives, and nor should they leave it to family members who might not know what’s in the best interest of the person requiring care. The desire to minimise family conflict is obvious.

Assyat David is a Director of [Aged Care Steps](#).

Small and mid-cap resources review 2018

Mark Gordon and Gavin Wendt

(This introduction is an edited extract from the longer research book attached at the end of the article).

How did 2017 stack up?

How times have changed since the end of the resources bust. The market began to turn at the beginning of 2016, and we have seen significant gains in all sectors and metals, as shown in the following table. The figures show strong performance across most market sectors and individual commodities over the last two years.

The resurgence is largely in response to an improving global economy, which fared better than expected in 2017, and is expected by some to carry into 2018. However, given that the Chinese economy is maturing, it is unlikely to repeat the rapid growth that characterised the early to late 2000s which led to the previous 'super cycle'.

2017 was an excellent year for the resources sector, building on the solid foundations achieved in 2016. I recall my first *121 Conference* in London in early 2016 where a panel discussion suggested that, given the prevailing environment, some junior explorers should be privatised, much to the disgust of at least one managing director of a listed junior miner.

The headline story of the 2017 year was the battery metals, particularly lithium and cobalt. These have been driven by the expected growth in demand for rechargeable batteries, particularly for electric vehicles. Although it has not performed as well, graphite has held its own. We would expect interest in these commodities to continue, but with some flattening and consolidation.

Movements in materials and indices – January 1, 2016 to the present.

LME/Comex Commodities	Units	January 1, 2016	January 1, 2017	Current	1 year Change	2 Year Change
Gold	US\$/ounce	\$1,074	\$1,152	\$1,258	9%	17%
Silver	US\$/ounce	\$14	\$16	\$16	0%	16%
Copper	US\$/tonne	\$4,611	\$5,501	\$6,855	25%	49%
Lead	US\$/tonne	\$1,742	\$1,985	\$2,546	28%	46%
Zinc	US\$/tonne	\$1,550	\$2,563	\$3,205	25%	107%
Tin	US\$/tonne	\$14,442	\$21,100	\$19,174	-9%	33%
Nickel	US\$/tonne	\$8,465	\$10,010	\$11,522	15%	36%
Cobalt	US\$/tonne	\$22,000	\$33,000	\$72,500	120%	230%
Bulks and Energy						
Iron Ore	US\$/tonne	\$42	\$80	\$64	-20%	53%
Thermal Coal	US\$/tonne	\$50	\$84	\$97	15%	94%
Met Coal	US\$/tonne	\$78	\$200	\$230	15%	195%
WTI Crude	US\$/tonne	\$32	\$53	\$57	8%	80%
ASX Indices						
Small Resources	XSR	1,309	2,048	2,554	25%	95%
Gold	XGD	2,665	4,081	4,603	13%	73%
Metals and Mining	XMM	1,922	2,936	3,349	14%	74%
All Ordinaries	XAO	5,323	5,719	6,087	6%	14%
Energy	XEJ	8,255	9,043	10,519	16%	27%
IIR "Indices"						
Lithium		1,000	2,047	9,168	348%	817%
Cobalt		1,000	4,317	5,840	35%	484%
Graphite		1,000	957	1,154	21%	15%

Source: Index Mundi, IRESS, IIR analysis

We have noticed in the current cycle that most companies seem to be better quality than in the exuberance of the last boom. This is largely due to shareholders (many who were burnt in the bust) demanding more cost and project management discipline from company management. Many companies have a good product to sell and are run by quality personnel.

Due to the rejuvenation in the junior miner sector, quality smaller companies are once again able to raise funding for exploration, appraisal and development activities, markets are reacting positively to favourable company news, and share prices are continuing to move in the right direction.

Smaller companies, in contrast to the majors, boast management with significant 'hurt money' invested, meaning they are often run on the smell of an oily rag. Smaller independent resource companies are also much more leveraged to the strongly-performing commodities of 2016/2017.

What's in store for 2018?

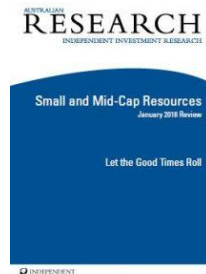
The resource space in 2018 will be volatile, but amid an overall improving tone in demand and supply fundamentals. One of the biggest drivers in sentiment early in 2017 was 'The Trump Effect'. There was a lot of near-term enthusiasm in commodity markets as speculators gambled on an infrastructure-led spending spree, but it was largely overblown. The biggest factor in the resource sector remains China, easily the largest consumer of commodities in the world economy.

Our view is that the key mainstream commodities are the base metals, and in particular nickel, which is showing signs of life, with the battery resources also in the mix. Interestingly, the world's major mining houses have relatively little exposure to the minor metals and are still heavily reliant on iron ore, coal and copper for the bulk of their earnings. We expect the gains in bulk commodities like iron ore and coal to subside, as supply is abundant and there have been temporary factors within China that have sucked in imports and supported price increases.

Australian miners should continue to benefit from strong commodity prices in A\$ terms. Overall, we expect the strength in the sector to continue into 2018 due to our forecasts for strong metals prices, driven by a relatively healthy global economy.

Mark Gordon is Senior Analyst at Independent Investment Research. Gavin Wendt is the Founder of MineLife and the Senior Resource Analyst. These comments are general in nature and do not consider the circumstances of any investor.

The full Independent Investment Research – Small and Mid-Cap Resources January 2018 Review (including specific comments on many junior resource companies) can be accessed by clicking the image below. The purpose of this research book is to present a diverse group of resource companies worthy of further consideration.



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