

### Alex Vynokur's Top Articles from the archive

- **Howard Marks asks 5 questions on indexing** *Graham Hand*
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- **Cuffelinks' Facebook debate on Labor franking** *Graham Hand*

### Summer Series Guest, Alex Vynokur

"One of the longstanding attractions of the Cuffelinks newsletter is its role not just as a platform for discussing investment ideas, but also as a source for unbiased and dispassionate analysis of the actual 'business' of delivering investment services to investors.

In this regard, I've naturally found it particularly interesting to follow the ongoing discussion around the use of exchange traded funds (ETFs) and the (somewhat) associated age-old active versus passive debate. What follows are six of the articles I've found especially enlightening from the Cuffelinks archives.

1. Provides an unbiased and realistic assessment of the pros and cons of indexing investing, especially through ETFs, from one of the leaders of the global investment industry.  
[Howard Marks asks 5 questions on indexing](#)
2. Introduces the concept of investing by global thematics rather than just passive asset class exposure or individual stocks.  
[Investing by thematics rather than indexes](#)
3. Notes the challenges of innovating in an industry dominated by complexity, consumer apathy, strong existing players and hidden costs.  
[Is there an Uber or Amazon of wealth management?](#)
4. Explains the open-ended structure of ETFs and dispels some of the myths related to their liquidity.  
[Will ETF liquidity be there when I need it?](#)
5. Outlines some handy rules to keep in mind when investing and trading in ETFs  
[Ten rules for more effective ETF investing](#)
6. A breakdown of the various costs related to adviser, investment and administration services.  
[Do you know the fees you're paying?"](#)

**Alex Vynokur, Guest Editor and Managing Director, [BetaShares Capital Limited](#).**

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## Howard Marks asks 5 questions on indexing

by Graham Hand on June 21, 2018

Regular readers of Cuffelinks know we admire the [client memos from Howard Marks](#), and in the past, he has given us permission to publish his [institutional presentation material](#).

In recent memos, Marks has focussed on macro developments and markets, but this week he addressed three new themes that may reduce the role of people in investing:

1. Index and other passive investing
2. Quantitative and algorithmic investing
3. Artificial intelligence and machine learning.

Marks admits he is not an expert in 2 and 3, and readers can check his latest memo (18 pages) for more details. We will focus on his thoughts on index investing here, and we have reproduced his short summary at the end.

### **Distinction between index and passive investing**

Marks notes that index investing started when analysis showed most fund managers were not beating the market benchmarks. Vanguard's Jack Bogle launched the first widely-available index fund in 1975 with low fees and a replication of what became the S&P 500 index. Marks says:

*"The merits of index investing are obvious: vastly reduced management fees, minimal trading and related market impact and expenses, and the avoidance of human error. Thus index investing is a "can't lose" strategy: you can't fail to keep up with the index. Of course it's also a "can't win" strategy, since you also can't beat the index (the two tend to go together)."*

The investment of money into index funds was slow at first, but by 2000 comprised about 12% of retail US stock fund assets, growing to 24% in 2010 and about 42% in 2017. Institutions were slower to adopt but are estimated to place about 20% into index funds.

Until about the year 2000, index and passive funds were synonymous, recreating stock market indexes. Since then, passive indexing has also included 'smart beta' funds, which invest according to some rules or factors. They are 'actively-designed' but then follow the rules with little or no fund manager discretion. These factor funds now come in a vast range, including value, quality, momentum, equal-weighted, growth and low volatility. Increasing demand for both index and passive led to the rapid growth of Exchange Traded Funds (ETFs) to make it easy for retail investors to gain exposure.

Now the debate has moved to whether these factor funds are truly passive as they involve discretionary design and implementation, and why should smart-beta funds be any better than the active managers who pick stocks? The main feature in their favour is the lower management fees.

### **Breaking the question into five parts**

In a discussion that can become bogged down in semantics, Marks breaks the analysis into five questions:

#### **1. Is passive investing wise?**

Passive investing does not ignore the fundamentals and prices of a company. Rather, it relies on active managers to perform the research function and cause assets to be fairly priced. The weightings of stocks in the index come from the prices set by active managers who have done the 'heavy lifting' of security analysis. Index investors can freeload from this work. Ironically, it's not that active managers are devoid of insights, but they set the market capitalisations used by the index.

#### **2. What are the implications of passive investing for active investing?**

Over time, it's likely that the majority of share investing will become passively managed. Marks says this will create more opportunities for prices to divert from 'fair' levels as there will be fewer active analysts. It should satisfy a condition for active managers to perform better. Taken to its extreme where there are no active managers, Marks says, "I'd gladly be the only investor working in that world."

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### 3. Does passive and index investing distort stock prices?

Many people argue that flows into index funds drive up the prices of the heaviest-weighted stocks relative to the rest. Marks is not keen on this idea, since stocks are bought in proportion to their weight in the index, no more and no less. Thus if a stock is 5% of an index, it will be allocated 5% of an index fund, and should not impact relative pricing.

But he recognises that not all stocks are part of the major indexes, including the demand from smart beta funds. As more money flows into various passive funds, it causes shares in those funds to rise relative to other shares. With the S&P500 and NASDAQ near record levels, companies in these indices have benefitted from forced buying in vehicles which do not have the choice to avoid overpriced shares. This may eventually have adverse consequences:

*"It's not clear where index funds and ETFs will find buyers for their over-weighted, highly appreciated holdings if they have to sell in a crunch. In this way, appreciation that was driven by passive buying is likely to eventually turn out to be rotational, not perpetual."*

### 4. Can the process of investing in indices be improved relative to simply buying the stocks in proportion to their market capitalizations?

Cuffelinks has written many times about the work of Rob Arnott and Research Affiliates, and I have attended their Advisory Panel Conference in LA four times. Marks cites the work of his 'friend', which argues that the heavier-weighted stocks in an index are more likely to be more highly priced. Should investments go into the more popular, expensive stocks or ones that are cheaper? Marks seems to accept the rationale for investing in an index which weights according to another factor like earnings rather than market caps.

### 5. Is there anything innately wrong with ETFs and their popularity?

ETFs have driven much of the growth of indexing, but they are simply vehicles for buying and selling assets. Marks says the problem arises from the expectations of the people who invest in them. Some people have a mistaken belief that ETFs are more liquid than their underlying assets. The best example is high yield bond ETFs. Liquidity in these 'junk' bonds can dry up in a crisis, making it difficult for ETFs investing in these assets to meet demand from sellers of the ETF. There may be nothing inherently wrong with an illiquid ETF except for the way they have been sold and the expectations of the investors.

He concludes by saying that the wisdom of investing passively depends on some people investing actively. When passive investing dominates, opportunities for active managers to produce superior returns will improve.

### Howard Marks' conclusions from his review of indexing

This section is taken from the summary at the end of the memo.

"For me, the situation regarding index and passive investing is clear:

- Most people can't and don't beat the market, especially in markets that are more efficient. On average, all portfolios' returns are average before taking costs into account.
- Active management introduces considerations such as management fees; commissions and market impact associated with trading; and the human error that often leads investors to buy and sell more at the wrong time than at the right time. These all have negative implications for net results.
- The only aspect of active management with potential to offset the above negatives is alpha, or personal skill. However, relatively few people have much of it.
- For this reason, large numbers of active managers fail to beat the market and justify their fees. This isn't just my conclusion: if it weren't so, capital wouldn't be flowing from active funds to passive funds as it has been.
- Regardless, for decades active managers have charged fees as if they earned them. Thus the profitability of many parts of the active investment management industry has been without reference to whether it added value for clients.

It's important to note that the trend toward passive investing hasn't occurred because the returns there have been great. It's because the results from active management have been poor, or at least not good enough to justify the fees charged.

Now clients have wised up, and unless something changes with regard to the above, the trend toward passive investing is going to continue. What could arrest it?

- More active managers could become capable of delivering alpha (but that's not likely).
- The markets could become easier to beat (that'll probably happen from time to time).
- Fees could come down so that they're competitive with passive investment fees (but in that case it's not clear how the active management infrastructure would be supported).

Unless there are flaws in the above reasoning, the trend toward passive investing is likely to continue. At the very least, it reduces or eliminates management fees, trading costs, overtrading and human error: not a bad combination.

Of course, there are active investors who outperform. Not most, and not half. But there's a minority who do earn their fees, and they should continue to be in demand."

*Graham Hand is Managing Editor of Cuffelinks. Howard Marks' full memos can be read on [this link](#).*

## **Investing by thematic rather than indexes**

by Michael Birch on October 8, 2015

Investors are becoming increasingly frustrated at buying an index where they have little or no conviction around the thematic of some companies within the index. An example of this is owning the ASX200 which has companies that are in the gaming industry or in the business of selling alcohol.

Thematic investing will continue to build in Australia where investors follow themes or trends that resonate with them in a particular industry or sub-industry. It is already possible through more granular Exchange Traded Funds (ETFs) which are a low cost vehicle for investors to gain a thematic exposure.

### **Key thematic worth following**

Some key themes that we follow include:

#### 1. Changing consumer tastes

The internet has changed the buying patterns of consumers and enabled new retailers to emerge quickly and at a low cost compared with 20 years ago. Mobile connectivity has accelerated this even further. Based on some estimates, by 2020 there are expected to be over 40 billion devices connected to the internet. The majority of the growth is expected to come from emerging markets as internet penetration increases and consumer tastes change. This creates a huge opportunity – for example, one billion people in India conduct only 1% of their retail sales on-line. This is a huge opportunity for the likes of Apple, Google, Samsung, social media and telecommunication companies, cyber security companies and retailers such as Nike or other brands that can transition from high street to on-line without having to sacrifice margins. Some innovative ways to access this thematic is through the PureFunds ISE Mobile Payments ETF, the Global X Social Media ETF and the Emerging Markets Internet and Ecommerce ETF.

#### 2. Energy and environmental awareness

China is currently dealing with the fallout from little to no environmental policies in the past and recent market moves have highlighted huge disruption as its manufacturing sector adjusts. It is working to find cleaner energy sources. Market estimates of an increase in energy consumption of 43% by 2040 would use an additional 40-50 million barrels per day. The world needs a new energy source to replace oil. Solutions are coming to market that could further improve and reshape the energy balance: cost curves for renewables are falling, solar is displaying profitable returns without subsidy, battery technology is improving and the cost of energy storage is declining. Winners are likely to be solar, nuclear and battery technologies that can produce a solution at a low enough cost to be adopted by industry. The iShares Clean Energy ETF or the Market Vectors Global Alternative Energy ETF provide a diversified exposure to this thematic including underlying exposures to Tesla Motors and Vestas Wind Systems.

### 3. Big data and cyber security

Big data, collecting and analysing client spending patterns is presenting huge opportunities in software. This is not new, but the tools to undertake the analysis are now more advanced, and improved storage and computing power have meant that no job is too big. Much of the development to date has been focused around building a big data strategy rather than spending the real money to implement it across the organisation. Accenture estimates that 73% of industrials are allocating 20% of their IT capex budget to big data. Credit Suisse estimates that applications across the industrial and consumer spectra could generate an estimated 10% compound annual growth in investment in big data to at least US\$85 billion by 2026. The productivity gains to be harnessed as this is leveraged in industrial processes and automation are considerable, especially where the industrial 'internet of things' meets automation, robotics, additive manufacturing etc. The winners are the big players with a robust engine and scalable businesses such as Amazon, Microsoft, Oracle and cyber security. There has been significant growth in ETF's that provide exposure to this thematic including the SPDR Morgan Stanley Technology ETF, First Trust Nasdaq CEA Cybersecurity ETF, First Trust Cloud Computing Index Fund and the PureFunds ISE Big Data ETF. This is probably one of the fastest growing areas in Global ETFs.

### 4. Aging population and maturing emerging markets.

People are living longer, in both developed and emerging markets. Healthcare is the big theme, looking after the elderly and sick. For companies that can effectively work with governments to improve the quality of life, and reduce the public burden, there are huge opportunities.

Environmental issues causing health problems in countries such as China and India are more endemic and ultimately there is heightened risk around regulatory or policy changes. Where 'ageing' is concerned, the two end markets that are most relevant typically lie across the healthcare supply chain and savings industry. A growth overlay to these end markets comes from emerging market, not just because of rising GDP per capita, but as the rate of ageing is now becoming more pronounced. It is now projected at twice that in developed markets out to 2035.

A therapeutic area of specific growth in healthcare is oncology and its related 'immuno' story, estimated as worth \$35 billion in the end market. The challenge to healthcare generally is who pays the bills, and how? Winners are the big players that can implement broad solutions across geographies, and the hospital players who can provide low cost care and take the burden off the government. Accessing health thematic is not without pitfalls given that the risk of failure for a start up is very high. As a result, this thematic lends itself to investment through ETFs due to diversification across scale players. The SPDR S&P Biotech ETF and the SPDR S&P Pharmaceuticals ETF are two of the more established ETFs in this sector in the US, for an International flavour, the SPDR S&P International Health Care Sector ETF covers non-US companies.

#### **Look for themes you are passionate about**

These are just some examples of thematic that people can invest in for multiyear strategies, rather than chopping and changing looking for the next takeover. It is easy to see why this is a much more powerful investment proposition and most likely the way of future investing. Invest in something you know, a theme you are passionate about and stick with it because you will probably do better in the long run.

*Michael Birch is Head of Equities at Mason Stevens Limited. These views are general and do not consider the personal circumstances of any investor.*

## **Is there an Uber or Amazon of wealth management?**

by Graham Hand on March 5, 2015

*"Even well-meaning gatekeepers slow innovation. When a platform is self-service, even the improbable ideas can get tried, because there's no expert gatekeeper ready to say 'that will never work!' And guess what – many of those improbable ideas do work, and society is the beneficiary of that diversity. I see the elimination of gatekeepers everywhere."*

Jeff Bezos, quoted in *The Everything Store: Jeff Bezos and the Age of Amazon*, page 315.

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*"Spend the vast majority of your time thinking about product and platform. Many large, successful companies started with the following:*

1. *They solved a problem in a novel way.*
2. *They used that solution to grow and spread quickly.*
3. *That success was based largely on their product.*

*In the Internet Century, all companies have the opportunity to apply technology to solve big problems in new ways ... if you focus on your competition, you will never deliver anything truly innovative."*

Eric Schmidt, CEO of Google from 2001 to 2011, quoted in *How Google Works*, pages 91-93.

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I recently read *'The Everything Store'*, *'How Google Works'*, and Walter Isaacson's biography of Steve Jobs and Apple. The creation of these three extraordinary companies in a short time from the vision of a few individuals left a nagging question in my mind at almost every page: can any company do to the Australian wealth management industry what Amazon did to Borders, what Apple did to Nokia, what Google did to all other search businesses? They are all remarkable stories of redefining how business is done, breaking the traditional rules and in the process, destroying much of their competition.

### **Markets where anything seems possible**

It's the same with Uber, the ride-sharing service with operations in 53 countries and a market value of about US\$40 billion. There are 5,500 taxi licences in Sydney worth about \$400,000 each or \$2.2 billion. In Melbourne, metro licences have fallen in value from \$515,000 a few years ago to \$290,000 on a combination of new licences and Uber drivers given access to the market. Uber has fought legal battles all over the world, as it is in NSW, but there's no denying the public demand.

It's a good example of a change in the way the global economy operates. It's a platform business that matches customers with drivers, turning employees into 'entrepreneurs', in a similar way to the thousands of businesses run from home using ebay as a distribution platform. And there are 'ubers' for all types of services such as cleaning and massage, and of course human resources with sites like Freelancer and Elance.

Amazon is portrayed in the book as a brutal competitor. When diapers.com (owned by a company called Quidsi) was gaining market share among mothers but refusing a takeover offer, Amazon reduced the price of diapers by 30%, and then launched a new service called Amazon Mom, with additional discounts. Quidsi executives estimated that Amazon lost \$100 million in three months on diapers. Then Wal-Mart made a bid for Quidsi, and Amazon threatened to drive prices to zero if Wal-Mart won the bidding. The diapers.com founders sold to Amazon out of fear.

*"The money-losing Amazon Mom program was obviously introduced to dead-end Diapers.com and force a sale, and if anyone had any doubts about that, those doubts were quickly dispelled with by Amazon's subsequent actions. A month after it announced the acquisition of Quidsi, Amazon closed the program to new members."* *The Everything Store*, page 299.

Of course, the Federal Trade Commission investigated the deal but gave its approval. If Amazon and Uber can take such actions in the face of legal hostility, anything seems possible in the age of the internet.

Australia has its home-grown examples of severe market disruption, the most public being the turmoil created for newspapers from the success of realestate.com.au, seek.com.au and carsales.com.au, almost bringing the once mighty Fairfax to its knees.

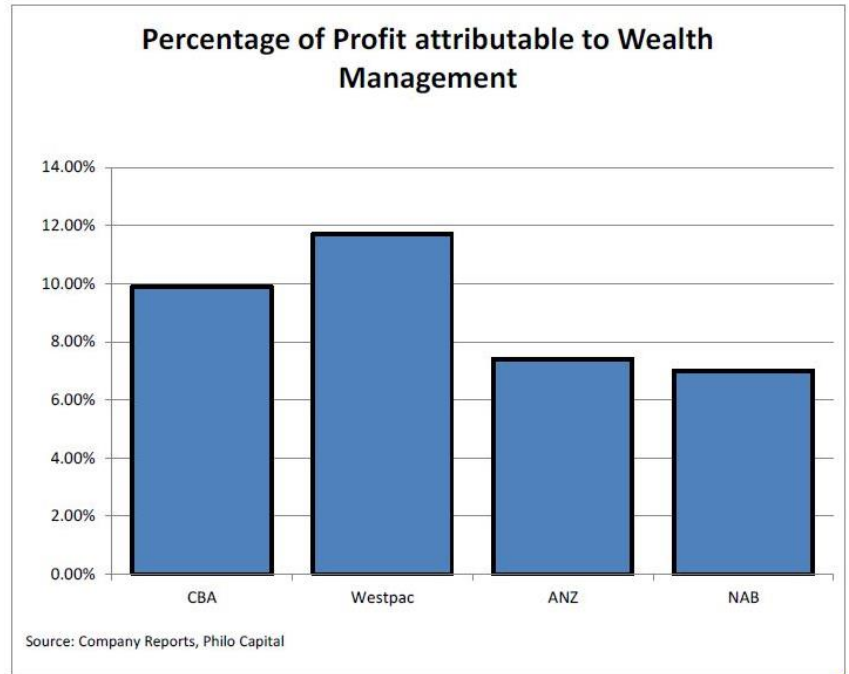
Unlike Facebook and Twitter which have invented new 'social media' activities, companies like Uber and Amazon are killing off competitors. When Jeff Bezos convinced publishers to allow him to put their books on the Kindle, they thought he would charge a margin over the usual wholesale price of books of around \$16. But by retailing books online for \$9.99, Amazon reinvented the price point. It did not take long for booksellers like Borders and Angus & Robertson to go out of business. Despite the fact that Amazon made a loss in 2014, the market has spoken: its market cap is about USD170 billion.

The defining characteristic of these great American companies moving into retailing, mobile communications, social media, search, taxis, employing contractors and booking B&Bs is that they break the mould for the way business is done. New methods are often not appreciated by the incumbents until it is too late, and it is fanciful

to predict what future disruptions will occur. When Mark Zuckerberg developed Facebook, he did not have a notion that it would become the way a billion people shared their most intimate secrets, and he certainly he had no idea how to make money from it.

**What is major disruption in Australian wealth management?**

By disruption, I don't mean somebody developing an online 'robo-advice' model (such as GuidedChoice, eMoney, Betterment and Wealthfront in the US or Stockspot and BigFuture in Australia) and collecting \$1 billion in funds in a few years, although that would be considered a great success and will happen. With \$2 trillion in superannuation, real disruption is at least \$100 billion within a few years, which is only 5% of the market. Such numbers would worry the four major Australian banks, which are not only almost 30% of the market capitalisation of the ASX200, but wealth management is significant to them all. They also control the majority of financial advisers in Australia.



**Where can disruption happen in the value chain?**

Wealth management is usually broken into at least three parts:

- \* financial advice
- \* administration platforms
- \* asset management

Let's consider what happens if an investor uses a platform such as Colonial First State's (CFS) FirstChoice Wholesale, the most popular among financial advisers. It requires a minimum of only \$5,000 so it is a retail product. On a typical and popular fund such as the Schroder Australian Equity Fund, CFS charges a fee of 1.02%, and splits it with Schroder. Call it 0.5% for CFS administration and 0.5% for Schroder asset management. CFS also has an Australian share index option for only 0.40%, where the asset management costs only a couple of basis points (0.02%). So we can generalise that major platform administration costs about 0.4%-0.5% with asset management on top of that. Financial advice costs are additional: it may be fee for service, say \$350 an hour, or a percentage of funds, say 0.5%.

In simple terms, there's the Australian wealth management value chain. If a market disruptor comes in, they can easily remove the asset management cost by using index funds; they can automate advice based on an internet-based, self-service model; and investments can sit on a simple and inexpensive administration platform. Would it be the equivalent of Amazon charging \$9.99 for a book that previously retailed for \$30, and destroying other booksellers?

I'm not looking here for the disruption of SMSFs holding \$600 billion or one-third of all super. They are serviced by thousands of advisers, accountants and administrators as well as being users of the products of major banks, fund managers and the ASX. My focus here is on a single company coming in with a game-changing, disruptive product offering.

**What will the disruptor do or look like?**

1. It will not attack one part of the value chain, it will be end-to-end with a complete investment solution. For example, it will not be sufficient to only offer 'great asset management', as plenty of companies claim that. A disruptor could hardly 'out-Vanguard' Vanguard (or State Street or BetaShares) and provide cheaper and better

asset management through ETFs. Broad-based domestic or global equity portfolios can already have negligible costs, less than 0.1%. These ETF providers are successful, well-capitalised companies with overseas parents or partners who already have the capacity to take large shares of the Australian market. Although their growth has been impressive, they only have \$15 billion, less than 10% of the money managed by CFS.

2. It will be price-led. I cannot see how anyone can convince enough people that a superior product is worth paying up for because that will depend on a promise (guarantee) of outperformance over time. Amazon can set up systems to deliver a book next day and Telstra can have the best phone coverage in Australia but nobody can promise to outperform the market consistently, whatever their resources. This 'game-changer' will be index-based or with some type of 'beta' engine, not a bunch of superb stock pickers making company visits all day. They are too expensive.

Similarly, the portfolio will not include alternatives or unlisted investments, as they have higher fees and are more expensive to manage, even if done internally. The portfolio is likely to be dominated by cash and term deposits where the 'fees' can be hidden in the product margin.

(Of course, Apple's success is far from price-led, its phones are the most expensive on the market. They have achieved this through beauty of design and creating massive desirability and arguably the best product. But in my wildest dreams I cannot see people queuing up around the corner to invest in a managed fund based on its beauty and desirability).

3. It will need to be well-capitalised and carry a great deal of market trust. This is not like buying a book with a secure credit card charging system. People will be handing over their future, their life savings, and the company must be beyond reproach. Whatever they do, they will need to buy time and spend a lot of money on marketing and disrupting and delivering results, plus ongoing R&D specifically for the Australian market.

4. It will be technology-based and self-service. Investors will input their own characteristics into an engine and it will recommend a portfolio of investments, selected according to the risk appetite and demographics of the client. This 'robo-advice' (a large part of 'fintech') is already being embraced by major players in the US, such as [Charles Schwab](#) and [Fidelity's acquisition of eMoney](#).

5. It must break established distribution networks. An estimated 70% of financial advisers are already 'tied' to the four major banks, AMP and IOOF. At the moment, eight out of every ten people default to the super fund selected by their employer and \$10 billion a year automatically flows into default super funds. Whereas everyone selects their own phone, most people do not engage with their superannuation.

A new winner would need to capture the hearts and minds of investors in the way no financial product has done before. The only alternative to making the product 'sexy' is 'fear', but how would that gain traction? As David Blanchett, Morningstar Head of Retirement Research, said:

*"We all know most people aren't on track for retirement. I think surveys that talk about poor savings in the US, or the fact that people haven't saved enough for retirement, are relatively worthless. Kind of like saying, 'The sky is blue'".* (Yahoo! Finance, 8 February 2015)

### **Severe disruption is unlikely**

The growth of superannuation assets in Australia is assured by the Superannuation Guarantee regime, making it a highly desirable industry to be in. It must attract new competitors. There's no denying wealth management will change significantly over the next ten years, just like every industry driven by technology. There will be surprises, developments nobody has yet thought of, perhaps from a couple of young computer geeks in the proverbial garage. Some will do well and drag in a few billion. But that's not disruption like the executives of Kodak, Blockbuster, Nokia and Borders experienced.

Based on the short and glorious histories of Amazon, Google and Apple and their impact on established businesses, how can anyone conclude that wealth management will not face a similar massive overhaul from a new competitor? Yet that's my conclusion: I don't see how any company can make wealth management sufficiently exciting for enough people to grow a market share of 5 to 10% in the next few years. To use Google's test, what problem will the disruptor solve in such a novel way that hundreds of billions will divert from incumbents? I hope I'm wrong because it would be fun to watch.

*Graham Hand has worked in banking and wealth management for 35 years and is Managing Editor of Cuffelinks.*

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## Will ETF liquidity be there when I need it?

by Louis Crous on February 19, 2015

One of the benefits for investors in Exchange Traded Funds (ETFs) is their tradability. Unlike traditional funds, ETFs can be bought and sold at any time through the Australian Securities Exchange (ASX) just like an ordinary share.

But since ETFs trade like shares, investors may mistakenly attempt to evaluate their liquidity in the same way they might for shares. This gives rise to one of the most common misunderstandings about ETFs, namely, that an ETF's 'on-screen' volume equates to ETF liquidity.

This misperception reflects the fact that, by comparing them to shares, many investors assume that ETF liquidity is driven by the same factors, namely:

- the ETF's size (funds under management)
- average daily volume traded
- the volume of units quoted 'on screen' at any given time.

For ETFs, however, these measures often vastly understate their effective liquidity. The best measure of an ETF's liquidity is the liquidity of the underlying portfolio of securities (such as company shares) it holds.

### **ETF open-ended structure facilitates liquidity**

The open-ended structure of ETFs effectively means their supply on offer can adjust to demand through the trading day.

In the case of shares, for example, the number of outstanding shares available for trading on any given day is fixed by the level of supply, irrespective of the level of investor demand. As a result, the ability of the market to accommodate swings in demand without affecting prices too much is quite rightly related to the average daily trading volume of these shares.

ETFs, on the other hand, are open-ended funds, meaning supply can adjust to swings in demand *throughout* the trading day. How so? Each ETF trading on the ASX has one or more dedicated market makers. Uniquely to ETFs, these market makers have an ability to add to or withdraw from the supply of ETF units by trading directly with the ETF issuer (such as with BetaShares).

Indeed, unlike the typical company that lists its shares on the market (including listed investment companies, or LICs), ETF issuers stand ready to buy back or sell ETF units to ETF market makers at the net asset value or NAV of the underlying portfolio of securities the ETF holds. Should investor ETF demand exceed what is currently available 'on screen', the market makers can simply create more units (issued by the ETF issuer) to meet the demand. Similarly they can also redeem their units should supply exceed demand. The ETF units issued or redeemed are exchanged for the underlying holdings that comprise the ETF and therefore the liquidity of these underlying holdings is the key determinant of the real liquidity. The volume displayed for sale or purchase at any given moment is only a glimpse of what is available.

### **Why prices stay close to the NAV**

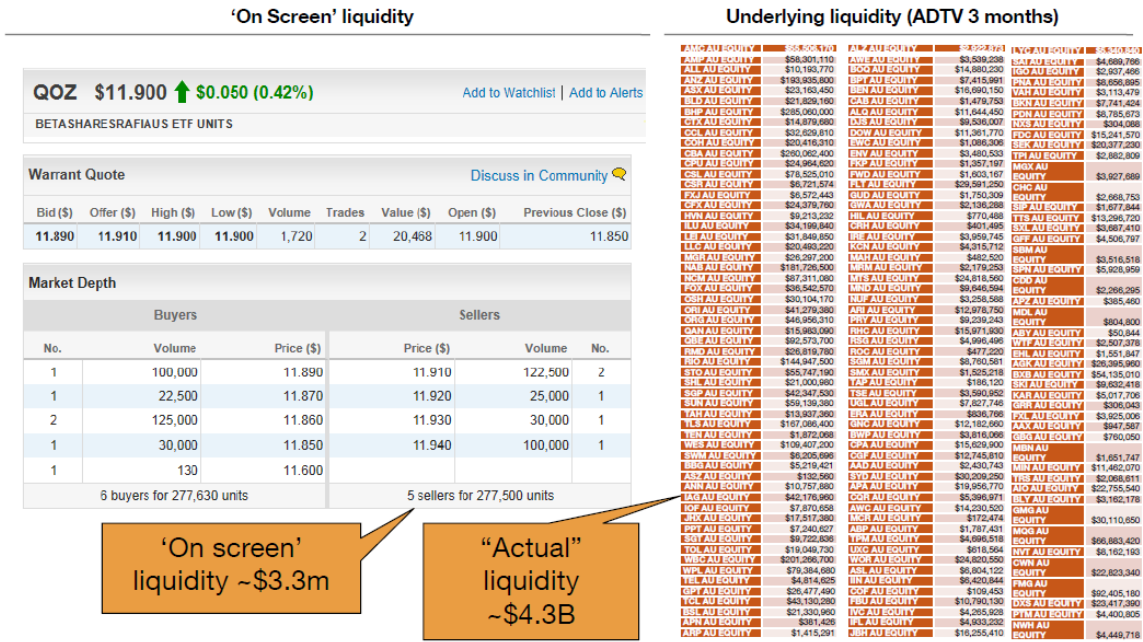
What's more, due to competition between ETF market makers – and their potential to make 'arbitrage profits' in trading ETFs – the best bid and offer prices quoted for an ETF will typically be close to its NAV.

To see why, consider what would happen if an ETF's current offer price (i.e. the price at which you could buy it on the exchange) was well above the NAV of its underlying portfolio of securities. In this case, an ETF market maker could buy up parcels of the underlying securities and exchange them for ETF units with the ETF provider, and the ETF units could then be sold on market at a profit. This process would continue until the ETF's prices were bid down (and the price of the underlying securities bid up) until this arbitrage profit opportunity was eliminated.

Similarly, if the ETF's offer price was well below the NAV of its underlying securities, the ETF market maker could then buy ETF units on the market and exchange them with the ETF provider for parcels of the underlying securities, which could then be sold on market at a profit. Again this process would continue until the price of the ETF was better aligned with the NAV of the underlying securities.

## ETFs are as liquid as their underlying holdings

Given the way ETFs work, their 'true' daily liquidity is best reflected by the average daily volume of their underlying holdings. As seen in the example below – using the BetaShares FTSE RAFI Australia 200 ETF – while there was only around \$3.3 million worth of the ETFs available for sale or purchase at the time of this snapshot, the 'true' daily liquidity of its underlying constituents was actually around \$4.3 billion.



At present, most ETFs available in Australia have underlying portfolios that are highly liquid, which contributes to robust liquidity levels and generally ensures that the price of the ETF closely reflects the value of the underlying portfolio.

With this depth of underlying liquidity, it's also possible for trading in an ETF to spike on a particular day with virtually no impact on spreads.

As seen in the example below, trading in the BetaShares U.S. Dollar ETF on a particular day in December 2014 spiked to 2.5 million units (\$31 million) which was 12.5 times the average daily volume traded over the prior 90 days. The bulk of this trading (\$26 million) occurred in just nine minutes between 11.35am and 11.44am without impacting the overall spread of the ETF. Here is an actual example of how the market maker was able to tap the liquid foreign currency market to source US dollars and then provide them to the ETF provider in exchange for newly created ETF units.

Time of trading	Action	Price	Volume
17/12/2014 11:00:07 AM	TRADE	11.96	10,000
17/12/2014 11:00:07 AM	TRADE	11.97	6,277
17/12/2014 11:00:07 AM	TRADE	11.97	5,000
17/12/2014 11:00:07 AM	TRADE	11.97	28,723
17/12/2014 11:13:52 AM	TRADE	11.97	645
17/12/2014 11:17:05 AM	TRADE	11.97	1,250
17/12/2014 11:21:55 AM	TRADE	11.97	12,532
17/12/2014 11:22:56 AM	TRADE	11.97	2,000
17/12/2014 11:22:56 AM	TRADE	11.97	8,445
17/12/2014 11:23:14 AM	TRADE	11.97	5,000
17/12/2014 11:29:01 AM	TRADE	11.97	5,500
17/12/2014 11:35:55 AM	TRADE	11.97	150,000
17/12/2014 11:36:11 AM	TRADE	11.97	3,340
17/12/2014 11:36:29 AM	TRADE	11.97	146,660
17/12/2014 11:36:31 AM	TRADE	11.97	3,340
17/12/2014 11:37:09 AM	TRADE	11.96	150,000
17/12/2014 11:37:36 AM	TRADE	11.97	150,000
17/12/2014 11:38:14 AM	TRADE	11.97	150,000
17/12/2014 11:38:40 AM	TRADE	11.96	150,000
17/12/2014 11:39:04 AM	TRADE	11.97	150,000
17/12/2014 11:39:25 AM	TRADE	11.97	150,000
17/12/2014 11:39:47 AM	TRADE	11.96	150,000
17/12/2014 11:40:28 AM	TRADE	11.97	150,000
17/12/2014 11:40:31 AM	TRADE	11.97	523
17/12/2014 11:40:55 AM	TRADE	11.97	150,000
17/12/2014 11:41:27 AM	TRADE	11.96	150,000
17/12/2014 11:41:45 AM	TRADE	11.97	120,000
17/12/2014 11:42:57 AM	TRADE	11.97	120,000
17/12/2014 11:43:43 AM	TRADE	11.96	130,000
17/12/2014 11:52:21 AM	TRADE	11.97	668
17/12/2014 11:54:57 AM	TRADE	11.97	1,500
17/12/2014 11:58:05 AM	TRADE	11.97	1,670
17/12/2014 12:31:03 PM	TRADE	11.96	13,100
17/12/2014 12:31:04 PM	TRADE	11.96	21,900
17/12/2014 12:31:04 PM	TRADE	11.96	1,000

Source: Bloomberg

### Tips on trading ETFs

Despite their unique advantages, some care is still required in trading ETFs, especially if the intended volumes are relatively large. As seen in the example above, limited quantities of an ETF might be shown for sale or purchase at the best bid and offer prices at any particular moment. As with any normal quote screen, other traders or investors may also have stock available for sale or purchase at less favourable prices.

As a result, as with trading company shares, investors should refrain from simply placing large 'at market' orders, as there is the risk of having one's order cascade down and being filled at less than the best prices possible. In these cases, it's better to stagger trades by placing smaller market or limit orders that do not exceed the volumes currently available at the best prices on offer.

Unlike trading in company shares, however, once an ETF trade is completed, the market makers will typically quickly replenish the volumes available at these same best prices, unless the ETF's NAV has suddenly changed.

If in doubt about an ETF's underlying NAV, most ETF providers have real-time estimations (indicative net asset values or 'iNAVs') available through the trading day. The iNAV for a given ETF can be usually be found on the issuer's website, where it will change in real-time, or alternatively, the issuer website will point to an 'iNAV ticker', where the iNAV can be found like any share price on the ASX (for example, the iNAV for [BetaShares FTSE RAFI Australia 200 ETF](#) can be tracked at any time during the trading day using the ASX ticker 'YQOZ').

*Louis Crous is Senior Portfolio Manager, BetaShares, a leading manager of exchange traded funds. This article is for general information purposes and does not constitute personal financial advice.*

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## Ten rules for more effective ETF investing

by Alex Prineas on February 18, 2016

A number of exchange-traded funds (ETFs) traded at substantial discounts to net asset values (NAVs) during bouts of substantial volatility in late 2015 in the United States and Chinese share markets. While funds' prices quickly snapped back and came into alignment with their underlying NAVs and the trading anomalies were short-lived, it was a reminder of the need for caution in ETF trading in tumultuous markets.

We haven't seen anything like those disparities in Australian-listed ETFs, but it is worth revisiting some rules of thumb for transacting in ETFs which, if followed, should reduce the chances of local investors being impacted by such events.

### **1. Use limit orders rather than market orders**

Market orders (ie an order to fill the trade at the best available price) tend to be used when time is of the essence and price is of secondary importance. Investors using market orders want to execute their entire order as soon as possible. For very large, very liquid ETFs that trade contemporaneously with their underlying securities, market orders will likely result in fast execution at a good price.

But there are smaller or less liquid ETFs, and there are also ETFs that trade out of sync with their constituent securities (such as U.S. equity ETFs where there's no overlap between Australian and U.S. trading hours). Limit orders (ie an order to fill with a specific price limit) will ensure favourable execution from a price perspective. A buy limit order will fetch the buyer a price less than or equal to the limit price, while a sell limit order will transact at a price greater than or equal to the limit price.

### **2. Avoid trading at open, close, or in the auction period**

For ASX-listed ETFs, this means at the very least, avoiding trading earlier than 10:15am or later than 3:45pm. At these times, market-makers may not be watching the market as closely, and some underlying stocks may not be trading, making it more difficult for the market-maker to calculate an accurate price.

### **3. Be wary of transacting when the underlying securities are not open for trading**

With transparent pricing of the underlying stocks, trading volumes should be substantially higher, and bid/ask spreads will typically be lower. For example, trade Asian ETFs in the afternoon, once the Hong Kong, Singapore, and Shanghai exchanges are open.

### **4. Check the bid/ask spread**

If the bid/ask spread is wide, it may indicate that something is amiss, and it might pay to delay your trade or dig further.

### **5. Check trading volumes and ETF size**

An ETF's on-screen trading volume doesn't tell the whole story. The liquidity of the underlying assets is arguably more important, because the market-maker can create or redeem ETF shares to balance supply and demand, as long as the underlying market is liquid. However, the size of an ETF and on-screen volume are worth monitoring, particularly for ETFs where the underlying assets trade outside Australian hours.

### **6. Use the available tools**

ETF providers offer tools such as the intraday NAV (iNAV) which can help gauge whether an ETF is trading near its net asset value (NAV). Although there's no guarantee the iNAV will be an exact representation of the NAV, it's a useful indicator. Check the iNAV before trading.

### **7. Apply a common sense check**

Ask yourself: is there anything unusual here? Is the ETF price substantially different from the previous day, or even from a few minutes ago? Is the ETF price stable while underlying markets are rising or falling? Are markets going through extraordinary volatility? If so, further research or patience may be required before placing a trade.

## 8. Be careful about using stop-loss strategies

Stop-loss strategies caused serious problems for some U.S. investors in the recent market turmoil. The U.S. sharemarket gapped downward because of a lack of liquidity at that moment, which triggered stop-loss orders. Because some of these stop-losses were market orders, they were filled at any price available, and with limited liquidity at the time, may have caused an even bigger drop in prices. We advise caution using stop-loss strategies, especially if they're triggered automatically, or use market orders.

## 9. If in doubt, contact the ETF provider or market-maker

The ETF provider (or for large investors, the market-maker) can answer questions about trading an ETF and explain anomalies. If in doubt, contact the ETF provider or market-maker before trading.

## 10. Remember – it's all about your investment strategy

Investors investing for the long term may have fewer worries when transacting ETFs. If a volatile market causes bid/ask spreads to widen, a long-term investor can be patient, waiting to execute their trade when volatility has subsided. In contrast, a short-term trader may be forced to exit a trade quickly, no matter what the cost. Nevertheless, if an ETF doesn't help you achieve your investment goals and strategy, or fit with your tolerance for risk and investment time horizon, then it's unlikely to be the best fit for you, no matter how attractive an investment proposition it seems.

*Alex Prineas is a Research Analysts at [Morningstar](#). This article is general information and does not consider the investment needs of any individual.*

## Do you know the fees you're paying?

Sam Wylie on November 14, 2018

Most investors don't have a clue how much they pay across all the different types of fees they are charged. There are fees for advice, administration, investment management, tax planning, and more. The examples below are intended to help you better understand these fees and roughly calculate how much you pay in total. Many investors who do this calculation are shocked at how much it comes to.

An example will demonstrate the importance of minimising investment fees. Imagine that over your 40 years in the work force, you put 10% of your annual income into superannuation each year. Let's assume that your income starts at \$50,000 per year and then grows at 4% per year above inflation of 2.5%, and your investments deliver an annual, after-tax return of 5% per year above inflation, but before fees.

If the total annual fees you paid were 2% (200 basis points) of your accumulated super, then after 40 years you have \$1.9 million in super. If instead, your fees were 1% (100 bps), then you have \$2.3 million. Cutting fees by 1% leads to a 21% increase in the amount of money retirement in this realistic example.

### Calculating fees

The first step towards ensuring that you are not paying too much is to understand how much you are paying today. The following examples are intended to help you calculate the total percentage (and dollar) amounts you are currently paying.

**Total fees for different types of investment and advice**

	Type	Advice	Admin	Management	Structuring and tax	Total
Evi & Karl	Financial advisor Retail super fund	1.00%	0.65%	0.75%	0%	2.40%
Faiz & Mary	No advisor Industry fund	0%	0.12%	0.76%	0%	0.88%
Axil & Wei	Brokerage firm SMSF & Fam Trust	0.95%	0%	0.50%	\$6,800	1.61%

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### Example 1: Financial advisor and retail super fund

Evi and Karl's investible savings (other than the family home) are \$580,000 of super. The couple's financial advisor, Steve, has put their \$580,000 of combined super into one of the big retail super funds (MLC, CFS, BT and AMP are the largest).

They pay: 1.00% (for advice) + 0.65% (for administration) + 0.75% (for management) = 2.40% of \$580,000 = \$13,900 a year.

There are three levels here. Financial advice from their advisor. Administration from a retail super fund. Investment management from various fund managers.

**Advice:** Evi and Karl meet with their advisor once a year to discuss:

- their financial goals
- how much they need to save to meet those goals
- what they should invest in (asset allocation) and in which managed investment funds
- whether they should borrow to invest in property
- how much insurance they need
- how to minimise tax
- how they should structure their investments (do they need an accountant to set up an SMSF, a family trust, etc.)

Steve charges 1% (100 bps) of their super balance for this advice.

**Administration:** The retail super fund charges the couple 0.65% (65 basis points) for administration of the super fund, which involves:

- the creation and governance of the super fund
- access to a large number of different managed funds (for investing in Australian shares, global shares, fixed income, commercial real estate, infrastructure, etc.)
- buying power to access those managed funds at low cost
- calculation of the couple's share of value in the super fund (which has many thousands of members)
- preparation of reports for Steve, and some smaller things

**Management:** Steve chooses which retail super fund to put the couple's \$580,000 into. Then he looks at all the different managed funds that the retail super fund gives access to and chooses a managed fund for Australian shares, global shares, commercial real estate, etc. On average these funds are charging 0.75% (75 basis points) for the effort they put into researching and choosing the shares or properties that they invest in. The 75 bps would be more if not for the buying power of the retail super fund (which many billions are invested through).

**Tax and structuring:** Evi and Karl's taxes are simple. They file their taxes online using 'intelligent' online software that takes them through the process and costs a small amount (negligible compared with their advice, administration and investment fees).

### Example 2: No advisor and industry fund

Faiz and Mary's investible assets are \$620,000 in super plus a negatively geared investment property (for which they pay the rental agent 8.5% of the rent, which I will ignore here). They both have their super in the 'balanced' option of their industry super fund (the biggest industry funds are AustralianSuper, Hostplus, HESTA, REST, and Unisuper)

They pay 0% (for advice) + 0.12% (for administration) + 0.76% (for management) = 0.88% of \$620,000 = \$5,500.

**Advice:** Faiz and Mary have never spoken to a financial advisor. They wonder whether they might benefit from advice but have put that off until their situation becomes more complex.

**Administration:** Their industry super fund charges an administration fee of 0.12% which covers the costs of collecting members' super payments, calculating account balances, providing annual statements and answering members' inquiries.

**Management:** Faiz and Mary's industry fund manages some of its members' money in-house and pays external managers fees to manage the remainder. The 0.76% fee covers all of the costs of this investment management. The couple chose the 'balanced' investment option and the industry fund makes decisions on asset allocation and choice of investment managers on their behalf.

**Tax and structuring:** Faiz and Mary pay a tax agent about \$300 to complete their income taxes, but only because of the tax rules around their rental property, so I have ignored the tax expense above.

### **Example 3: Brokerage firm and SMSF**

Axil and Wei have considerable investible assets: \$2.4 million in an SMSF and \$1.8 million in their family trust, which continue to grow quickly. This is in addition to the ownership of their family home and the business created and run by Wei. Their investible assets are managed by an advisor of a brokerage firm (some large brokerage firms are JBWere, Morgans, Ord Minnett and Evans).

They pay 0.95% on \$4.2 million (for advice, administration and management of their Australian shares) plus 0.50% extra (for management of global shares and some commercial property trust investments – see below) = 1.45% of \$4.2 million = \$60,900. Their accountant's fees (structuring and taxes) are \$6,800, which is 0.16% of their investible wealth. They have paid 0.95% since they started with the brokerage firm but are considering asking for a reduction to 0.85% now that their investible assets are larger.

**Advice:** Axil and Wei speak with their advisor three or four times a year. There is a scheduled annual meeting when their advisor takes them through the changes to their investments and performance of their portfolio over the year. But there are also ad hoc telephone conversations when their advisor is considering large changes to their investments or their advisor wants to offer them a particular investment opportunity. These include investments in property trusts, initial public offerings of shares and even investments in some start-up companies.

**Administration:** Advice, administration and management of the Australian share portfolio are bundled together in the 0.95% fee charged by the brokerage firm.

**Management:** The brokerage firm manages Axil and Wei's portfolio of Australian shares in a 'separately managed account' that is not pooled with the shares of their other clients. However, their investment in global shares is through a managed fund that charges 1.50% per annum, and their investment in private commercial property trusts has a fee of 1% per year. In total these extra fees are equivalent to 0.50% of their \$4.2 million of investible assets.

**Tax and structuring:** Axil and Wei's accountant provides tax advice and prepares their personal tax forms, as well as the financial reporting, taxes and audit of their SMSF and family trust. The same accountant is used by their business, but those fees are charged to the company.

### **Concluding remarks**

Fees, taxes and transaction costs are, in one sense, all the same thing for investors. They are all money out, and that needs to be minimised. But 'minimised' doesn't mean 'set to zero', because everyone needs some level of help, especially with tax planning and structuring (SMSFs, family trusts, etc.). The advice you receive might lead you to save more, take the right amount of risk, manage your taxes effectively, etc. which will lead to better outcomes. Minimising fees just means getting value for the fees that are paid.

How much do you pay annually in fees, with total fees broken down into advice / administration / management / structuring and tax? Try to work it out yourself. But if you have a financial advisor then ask them. If you don't get a clear and direct answer, then that is a problem. There is obviously a great deal more to discuss on this topic, but this can start your conversations.

*Dr. Sam Wylie is a Principal Fellow of the Melbourne Business School and a Director of [Windlestone Education](http://Windlestone.com.au). Please seek professional advice on structuring and tax planning from a qualified accountant or financial planner. This article is for general information only and does not consider the circumstances of any individual. A longer discussion of fees and managing your relationship with advisors is part of my Finance Education for Investors course. Go to [Windlestone.com.au/melbourne](http://Windlestone.com.au/melbourne) or [Windlestone.com.au/perth](http://Windlestone.com.au/perth) for more information.*

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## Cuffelinks' Facebook debate on Labor franking

Graham Hand

When the ABC programme, 7.30, reported the announcement of Labor's new policy on franking credits on 13 March 2018, it highlighted the way a self-funded retiree, Lyle Essery, relied on a refund to finance his relatively modest lifestyle. The ABC report is [linked here](#).

Recently, Cuffelinks posted [an article on Labor's franking](#) by Don Hamson on our Facebook page, and like many posts on this subject, it generated more comments than any other topic. In the following extract from Facebook, the same Lyle Essery explains why he believes Labor policy is poor. The edited exchange illustrates how many people feel about the policy, for and against, but perhaps Lyle goes some of the way to winning the argument. You be the judge.

For context, Don Hamson was explaining why the policy will affect all super funds and not only SMSFs.

**Alexander Tootell** Get off your greedy platform of filching taxpayers contributions to a fairer society.

**Lyle Essery** Lol, fairer society where Labor takes \$8500 off the gross share income of low income individuals and selfie retirees on a modest \$28500pa leaving them with only \$20k to support themselves and gives it to rent seekers who may have \$100000+ incomes and who are negative gearing and potentially getting franking credits to offset tax on unrelated income.

**Alexander Tootell** Lyle Essery just find a better and fairer investment, that's all.

**Lyle Essery** Alexander Tootell the current treatment of franking is fair. Everyone pays tax on their gross earnings at their marginal tax rates. If you haven't enough earnings or are concessionally taxed due to being retired and drawing no welfare its reasonable to refund withheld imputed income paid by companies out of part of shareholders earnings. Labor's franking policy is bonkers.

**Alexander Tootell** Still working and paying taxes aged in mid 70's. Would love to claim full refund on my loss years. However unable to claim until a profitable year. That's the life of a farmer. Any claim by non taxpayers is therefore a RORT.

**Lyle Essery** Alexander Tootell you don't understand how imputation works. The tax paid by the company out of part of shareholders earnings and the remainder ( cash div) are shareholders assessable income by law. It their property just as withheld wages PAYE are tax paid by employers out of part of employees wages. It's property of the person to firstly pay tax liability or if assessed tax liabilities is less than withheld amounts, to be refunded.

Labor's franking plan will greatly disadvantaged farmers who have a company structure, common these days, as when the farm Co pays dividend to owners I.e. husband and wife owner unless these people get more than \$120k gross divs from their farm they will effectively lose their tax free threshold and be made to pay tax on their farm income at 30% with no tax free threshold.

BTW farmers structured as company or no company partnerships CAN carry forward business losses to future years so you can claim deductions for losses on future years and on occasion, especially in drought or floods farmers have been allowed to carry back losses to past profitable years and access a REFUND.

So I cant understand your position. Labor is lying about how franking works and who is getting their imputed income refunded. Labor's franking policy only disadvantages low income individuals (like farm owners) and selfie retirees on modest incomes .

The truly wealthy are unaffected by Labor's plan as they have lots of tax liabilities to soak up franking credits. (Hence my example of a farmer on over \$120k unaffected but a farmer on only \$40k distributed farm earnings will have to pay \$12,000 tax instead of the current \$4500 as the current refund of \$7500 franking (paid by their company farm) will be kept by Labor if they arnt a welfare recipient.

**Alexander Tootell** Its a RORT just find an alternative investment. My taxation to a more worthy cause please.

**Lyle Essery** Alexander Tootell so a retiree who draws no welfare is not entitled to get their own money refunded when they have paid too much tax withholding???? That's unreasonable.

**Alexander Tootell** to recoup tax losses I need to make a profit, pay taxes and then able to claim any losses. The important point is the person who personally made the profit pays the tax and can therefore claim prior losses. Not paid to numerous third parties in a shuffle of paper.

**Lyle Essery** Alexander Tootell the shareholder who is the beneficial owner of a company made the profit, some of that profit is paid to the ATO as withholding and recorded as a franking credit for the owner and added to the owners taxable income.

If the owners tax liability on taxable income is less than withheld amounts it's reasonable to refund those amounts withheld. Labor is refunding withheld imputation income to welfare recipients and NGOs so it's reasonable to refund shareholder low income individuals and selfie retirees too.

**Alexander Tootell** Consider it an inappropriate appropriation of taxation revenue, find another investment.

**Lyle Essery** My modest nestegg gross earnings can keep me, welfare free, forever, but after Labor legislates to change the rules, even a modest draw will rapidly deplete it. So thinking I'll go live it up at Lombok/Bali for a while my super lasts and come back just in time for a welfare age pension at 67. If I can live until 87 that's \$500,000 in free government money! I'll pay the \$11,000 retirement tax, reduced every year as selling down assets to live, in ten years I'll pay around \$66,000 of my share earnings as tax. But sometime it's best to go with the flow, silly to save and plan for a welfare free retirement when the Labor party back stabs you.

**Alexander Tootell** Costello started this rot, financial advisors exploited it.

**Lyle Essery** Alexander Tootell actually refunded franking was introduced to eliminate disadvantage to low income individuals and concessional tax entities.

**Alexander Tootell** it has developed into a win for financial advisors and clients and a loss of appropriation for the community.

**Lyle Essery** Alexander Tootell Q. Why does low income individuals and selfie retirees on modest incomes have to lose income but under Labor the very wealthiest are unaffected? E.g a person with a \$4.8 m fund (1.6m PF , \$3.2m AF) can use their 30k+ franked withholding to pay tax on \$200,000 accumulation earnings. But a low income individuals or selfie retirees on modest incomes with no \$3.2m accumulation account has to lose \$11,000 of \$36k earnings, earnings needed to sustain themselves in frugal comfort! Labor's franking policy is bonkers. Labor should drop its loonie plan and develop reasonable policies that makes the wealthy who currently are paying unreasonably low tax on their outsized incomes pay reasonable tax.

**Alexander Tootell** Lyle Essery you are convincing me that further RORTS need attention, let us hope these are attended to and that appropriation can also attend to community needs. With your dedication and application I am confident that you will find alternative structures to compensate for any changes.

Imputation means attributable. The tax paid by the company out of part of shareholders earnings is their assessable income by law. Even after Labor takes \$11,000 of my \$36,000 gross shareholder earnings my taxable income will still be \$36,000 but now net \$25,000. The argument that 'you haven't paid tax (even tax on unrelated income or other persons taxes as per pooled funds), you can't get a tax refund' is Labor lies. Franking credits are earned tax credits like PAYE not a concessional tax credits like low income tax offset. How about just keep taxing all citizens taxable income at their marginal tax rates – sounds fair and reasonable, and that's what Labor is planning to do to welfare recipients.

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