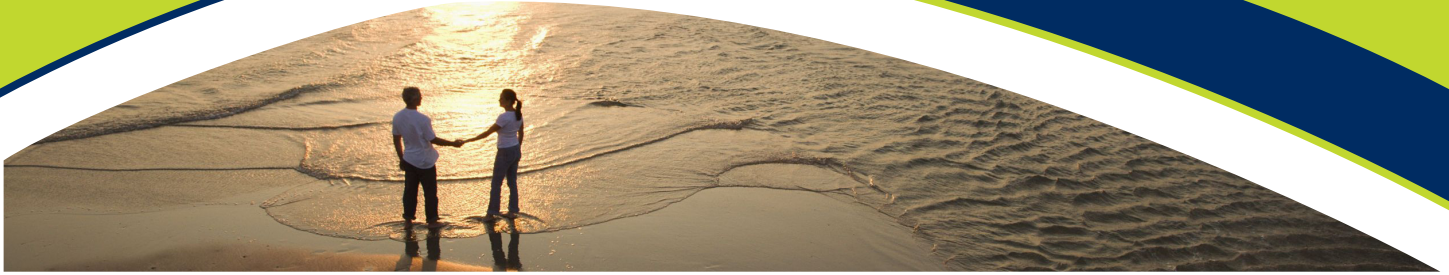


# According to us

## newsletter

Winter 2010



## We Have Lift-Off!

by Geoff Greetham, Executive Director

Welcome to the new financial year and our first newsletter.



The aim of our newsletter will be to keep you regularly informed of important developments and matters of interest that impact on your financial and investment affairs. We trust it will strike a chord with you and welcome any feedback, requests for further information or suggestions for future editions.

In this issue, in light of the volatility in global investment markets, Paul Kasian, our Chief Investment Officer, provides an illuminating insight into returns achieved on Australian shares over the past 30 years. Fiona Hinrichsen, our Senior Financial Strategist, outlines the likely impact of the recently released Cooper Review on superannuation.

Many of you have enquired about the progress of Accordius, particularly as we set up in the depths of the Global Financial Crisis (GFC). Since establishment, our client base has grown to some 40 clients, with funds managed by us in the vicinity of \$45 million. Whilst this has been a testing time for all concerned, we have come through this exceptional period better for the experience.

Accordius currently comprises me, Paul Kasian, Fiona Hinrichsen and Hamish Moore, our Assistant Portfolio Manager. Hamish joined us in May last year, replacing Hamish Bull, who is now with KordaMentha, our third party shareholder. We have significant business growth goals but our priority is to ensure a highly personalised service for our clients.

With a financial year now past, Accordius will begin preparing for clients our Financial Year 2010 Annual Reporting Pack, including an audit certificate for the portfolio(s) we manage as well as associated taxation reports. The aim is to issue these audited reports by the final week of September.

On a final note from me, a number of our clients have come to us as they were dissatisfied with their previous adviser. Many organisations have struggled over recent years and the various government reviews advocating significant changes to industry practices will likely cause them further issues. If you have a friend or colleague who falls into this category, we would welcome the opportunity to speak to them.

## The Cooper Review: Tick for DIY Super but devil in the detail

by Fiona Hinrichsen, Senior Financial Strategist

The public release of the final report on superannuation from the Cooper Review panel has received extensive media attention. We highlight the main areas of concern for those of you who have your own self managed superannuation fund (SMSF).

Despite overall praise of the DIY superannuation sector, which comprises some 30 percent or \$400 billion of total superannuation assets, the final recommendations have taken a harsher stand than expected in a number of areas.

In particular, the Cooper Review has recommended that in-house assets and collectibles be banned. In-house assets are assets acquired from a related party of the fund and collectibles include more exotic items such as art, vintage cars, jewellery and coin and stamp collections. It is proposed that any such items currently held within a SMSF must be sold within five years.



These measures have been put forward in recognition of the sole purpose of superannuation to provide for retirement savings. As such, they are intended to prevent fund members from gaining any personal benefits and to remove the influence of emotion in regard to retirement investment decisions.

Whilst not many of us hold collectibles in our SMSF (they represent only around 0.1 percent of the SMSF asset pool), and there is already a five percent limit on in-house assets in a superannuation fund, the measure is being strongly resisted by the Arts industry and other groups as they fear downward pressure on prices.

It has also been criticised by the self-managed superannuation industry as contradicting the review's own policy that the government should not seek to direct superannuation fund trustees to invest in particular assets or asset classes.

The proposed alternative is to restructure a SMSF into a Small APRA Fund, which has an independent professional trustee, and hold the art work in this fund. This would mean, however, that the fund member relinquishes a key benefit of a SMSF in terms of control over their retirement assets.

As part of these measures, it is also proposed that those related party transactions that are allowed (such as the transfer of business real property into a SMSF) must be on an arm's length basis and be backed by an independent valuation. This is a sound strategy as it helps members avoid harsh penalties for transferring an asset at below or above market rates.



The other recommendation to monitor relates to the level of superannuation borrowing. For SMSF members, the borrowing provisions represent the opportunity to move (allowable) family assets into superannuation, which is often the preferred long term investment structure.

The review has concerns with the concept of borrowing and agrees with the original position under the superannuation legislation that superannuation funds should not borrow as it puts retirement savings at too much risk. A number of extra safeguards were recently announced by the government and the panel wants to gauge their impact before recommending any changes to the current borrowing framework.

None of these measures are law yet with the government indicating it will officially respond, after industry consultation, within the next two months. We will keep you informed of the likely implications.

## Buying Shares: Investing or Gambling?

by Dr Paul Kasian, Executive Director

In the last couple of years we have seen huge volatility in investment markets. The impact of the Global Financial Crisis is still being felt with investors having become more attuned to the risks associated with investing. However investing in the market has always had its risks. This is not meant to trivialise the current risks. There are a lot of issues that need to be taken into account. These include whether the European sovereign debt issues will drag down world growth, whether the attempts by China to moderate its growth will go too far and the potential for excessive government regulation on financial institutions to impact on credit growth.

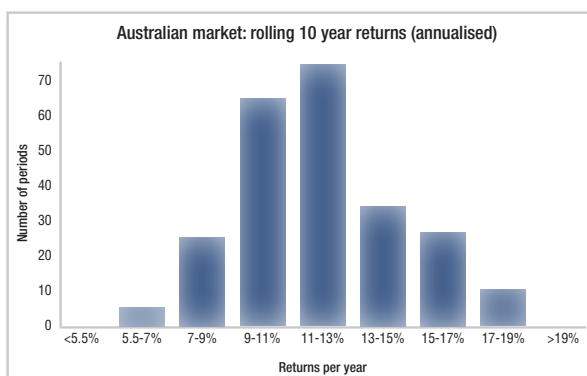
These issues have resulted in both a significant fall in share markets as well as excessive day to day movements (volatility). This has led some investors to question whether buying shares is equivalent to gambling rather than investing. The answer is that it can be both. It depends on your investment horizon.

This point is illustrated by analysing the performance of the All Ordinaries Accumulation Index (i.e. incorporates dividend payments) since December 1979. This involves looking at the market in terms of 10 year returns. This is done by assuming individual investments were made at the end of each month since 1979 and that investment was held for 10 years. The return for each of those 10 year periods was then calculated. The returns were annualised (i.e. what was the return per year for the 10 years the investment was held) and plotted on the chart.

What this analysis reveals is that the majority of returns over ten year periods were between 9% and 13% per annum. It should be noted that these returns do not include the franking or tax credits that investors would have received.

These franking credits are likely to add at least an extra 1% to the returns achieved. However the most interesting point to come out of this analysis was that not once since 1979, has a 10 year investment delivered a negative return. In fact, the worse return over 10 years was 5.9% p.a. and that is before franking/tax credits. To put that in perspective, the increase over that particular 10 years was 77.5%. For those that are interested, you would have got this return if you happened to invest in the share market in August 1987, just before the big crash in October 1987.

So the key take away from this is that history suggests that if you have a long term investment horizon then you will make good returns. You have never lost money over any 10 year period over the last 30 odd years and that is despite the market having some very significant corrections. So while investors wrestle with the various risks facing the market the important point to note is that these risks are ameliorated over time. So while those investors who have a short term investment horizon are exposed to the risk of negative returns, those with 10 year horizons are yet to suffer this fate. A key difference between investing and gambling is the time spent in the market.



On the subject of the current risks facing the market the following point needs to be made. While the possibility of a double dip recession cannot be ruled out, the current data releases for Australia and major economies such as China, the USA and even Europe, does not support this. All the economies are still showing economic recovery/growth. In fact, the International Monetary Fund which had in April increased its forecast for growth to 4.2% in 2010 and 4.3% in 2011, has recently (on 8 July) further increased its 2010 forecast to 4.6%.

Please note that the information in this publication is for general use only. We would be pleased to talk with you in regard to your particular circumstances should you wish to explore any particular aspect further. Any tax planning matters should be discussed with your accountant before proceeding.

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Accordius Pty Ltd • ACN: 128 900 603 • AFS Licence No. 321955  
Level 24, 333 Collins Street, Melbourne, VIC 3000 • GPO Box 2985, Melbourne, VIC 3001  
Telephone: +61 3 8623 3378 • Fax: +61 3 9614 8822 • Email: [info@accordius.com.au](mailto:info@accordius.com.au)

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