Switzer Super Report

Issue 212, 15 August 2013

Don't sweat the China stuff

It's reporting season and the market is having a good old time. This week the *Switzer Super Report's* Chief Investment Officer (CIO) Paul Rickard and I nut out the China problem in our *Super Sessions* video. Paul's not worried, and you know what, neither am I. The guys who would know - the CEOs of BHP, RIO and Fortescue - actually sound pretty confident.

Also in the report today, Charlie Aitken explains why the global bank analysts know nothing when it comes to CBA and why you should buy it today. Roger Montgomery suggests that it's a good time to avoid all mining services stocks and our *My SMSF* is the CEO of the SMSF Professional Association of Australia, Andrea Slattery.

Sincerely,

Peter Switzer

Inside this Issue

CBA – all class
by Charlie Aitken
02

02 **CBA – all class**
by Charlie Aitken
05 **Why I don't like mining services**
by Roger Montgomery
08 **My SMSF – SPAA CEO Andrea Slattery**
by Super Report Subscriber
09 **Buy, Sell, Hold – what the brokers say**
by Penny Pryor
10 **High-yield bond market opens up**
by Gavin Madson
12 **Deferred lifetime annuities – a solution or an expensive waste of time?**
by Tony Negline
14 **What's the real cash rate?**
by Questions of the week

switzersuperreport.com.au

Switzer Super Report is published by Switzer Financial Group Pty Ltd AFSL No. 286 531
36-40 Queen Street, Woollahra, 2025
T: 1300 SWITZER (1300 794 8937) F: (02) 9327 4366

Important information: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. For this reason, any individual should, before acting, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice.

CBA – all class

by Charlie Aitken

Commonwealth Bank of Australia's stellar results yesterday further back up my conviction on the bank and the note I wrote a few weeks ago.

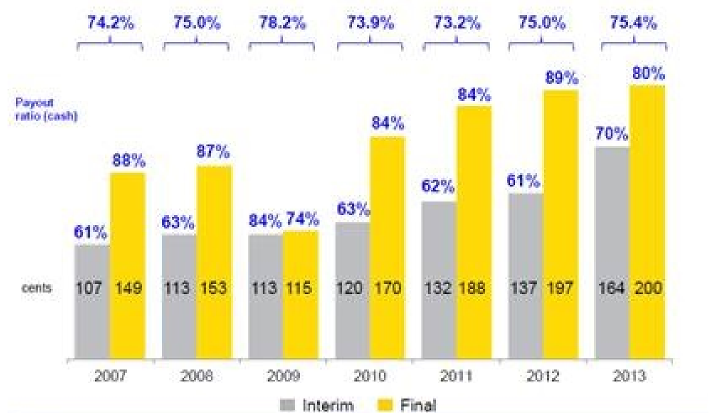
Yesterday morning there were four buy recommendations on CBA, including ours, six neutral recommendations and eight sell recommendations. The median price target was $67.91. Sell recommendations on CBA outnumbered buy recommendations 2:1 and, for the best part of three years, the big broker bank analysts have screamed "overvalued", which has then been regurgitated by the global and local financial press. This time a year ago, the Financial Times (FT) got stuck into me personally for "defending the valuation of CBA @$53.98". I was globally berated by the snooty FT for liking Australia's best company!

What do we see?

During all this negative noise, we have battled away with a bottom up buy recommendation and a 5% fully franked FY14 yield based share price target. It has to be asked, what can we see in CBA that the big broker end of town can't? How can they consistently be so wrong on the biggest stock in the ASX200 Index that delivered a +37% total return in FY13 pre-franking credits?

The very simple answer, in my view, is the big global brokers are trying to approach CBA from a global valuation perspective, when this stock is priced by local mums and dads.

The mums and dads don't give a stuff about what some global broker bank analyst thinks about CBA's valuation versus JP Morgan. They care about the fully-franked dividend growth inside their self-managed super funds (SMSFs).



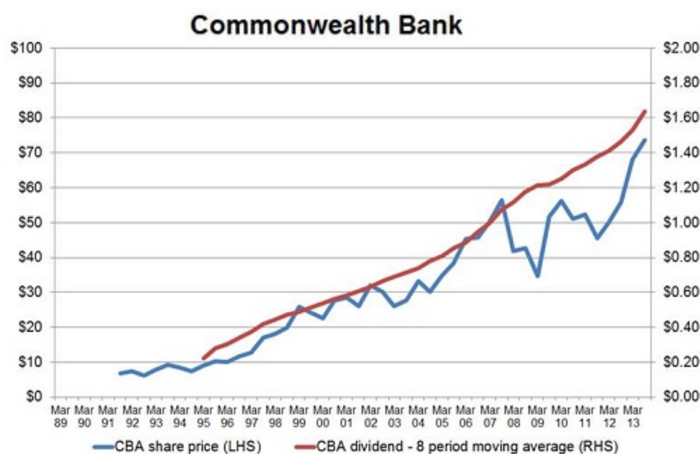
Power to the people

CBA, as a former government privatisation, is majority owned by Australian mums and dads (60%). It is Australian mums and dads who marginally price CBA equity, not domestic institutions, not foreign institutions and not hedge funds. The vast bulk of the big broker research on CBA is written for the latter, who remain structurally underweight the biggest Australian stock (9.6% of ASX200) due to its massive retail ownership.

Call me a cynic, but the so-called "no.1 rated" Australian bank analyst is the guy who has been most wrong on CBA. Do you get rated for telling professional investors what they want to hear, or being right?

CBA is all about the value of rising fully-franked dividend income streams inside the Australian taxation and superannuation system, that rewards buying and holding high fully-franked dividend equities. At times of ultra-low interest rates, that growing fully franked dividend stream will be bid down as it's even more valuable in real after tax terms than cash. The chart below reminds you of the long-term

correlation trend between CBA's share price and the annual dividend.



Appearance is deceiving

The company always has, and always will, look "expensive" on P/E and price-to-book ratios versus global peers. Those global relative value comparisons will continue to cost those that believe in them, performance in CBA shares. They are totally irrelevant. Always have been and always will be.

They don't compare apples with apples. They don't take into account the oligopoly structure of the Australian banking system, Australian nuances in the taxation and superannuation system, or low-touch Australian bank sector regulation. They are totally misleading and irrelevant, being widely used by analysts who have just been outright wrong in their predictions for CBA.

Compare this to the United States banking system, where JP Morgan CEO Jamie Dimon recently said "new rules will touch almost every system, every legal entity, every product and every service that we have across the company". The US banking system has entered a new "era of regulation" and to compare US bank multiples to Australian ones, is outright misleading.

Year in year out, CBA delivers on earnings and dividend growth. This company has a strategic deposit base advantage and is the technology leader in the sector. It has a very strong and stable Board of Directors and is well led by the low profile CEO, Ian Narev.

Year in year out, the very same bank sector scribblers describe CBA's results and dividends as "expected" and "not justifying the premium multiple". This comes after they have spent the last 12 months upgrading EPS, DPS and share price targets in an attempt to keep near the share price.

Expect the unexpected

If you go back and look at EPS, DPS and share price targets for FY13 this time 12 months ago, nothing that was delivered yesterday was "expected". They were all saying sell @ $53.98. This trend will continue in FY14 and beyond.

Today I want to look at a series of charts from CBA's results presentation – pages 6, 28, 10, 11, 13, 29, 43,70, 76, 108, 114 and 146 here.

I thought that was another great set of numbers from CBA yesterday. Don't be fooled by the slight "sell the fact" trading response yesterday, as the stock had rallied plus $10.00 into the result. When you look at the slides, consider our research and then overlay our positive macro view on East Coast Australia and Australian residential property, which CBA finances 25% of, then you can see how we come to the view that CBA is a buy (cum the 200c fully-franked final div) and will head to our long held 5.00% fully-franked FY14 yield based share price target of $76.80.

If you buy CBA today, you are entitled to the 200c fully-franked final FY13 dividend and what we forecast to be another 384c fully franked, equating to 584c fully franked for the next 13 months. That's 7.9% fully franked for 13 months or 11.3% grossed up. Super funds in the pension phase get the full 11.3% value.

Knock-on effects

The other very clear point from yesterday's CBA result and recent commentary from Suncorp, is that these positive trends are positive for the entire sector, but particularly the residential mortgage heavy banks Westpac, Bank of Queensland and Bendigo Bank.

After CBA yesterday, I have even greater conviction that my top down FY14 5.00% fully-franked dividend yield based share price targets for the major banks

will be hit at some stage this financial year, but particularly for the heavily mortgage exposed banks. I have to say I really like Westpac, which is effectively the Bank of NSW plus St George as NSW exits a multi-year “feels like” recession.

I am stilling banking on it. I think the major Australian banks will continue to lead the ASX200 higher, as their rising net interest margin (NIM), rising ROE, rising profits and rising dividends drive a self-fulfilling virtuous circle of demand for their own equity, in an extended period of ultra-low domestic cash rates.

Top down FY14 5.00% fully-franked yield targets remain:

ANZ $33.60
CBA $76.80
NAB $38.70
WBC $36.40
SUN $14.40
BOQ $12.00
BEN $12.40

Go Australia, Charlie

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Why I don't like mining services

by Roger Montgomery

The Australian Engineering and Construction (E&C) sector has experienced explosive growth over the past 12 years. Activity in 2012 was estimated to be some 600% above that of 2001, and the industry has grown to represent 7% of GDP; a record for Australia.

Quality-listed businesses, with blue chip clients exposed to this thematic, have shown even more impressive growth numbers. Monadelphous Group Limited (MND), which we regard as the sector's highest-quality company, has experienced share price appreciation of 3,100% over the same period.

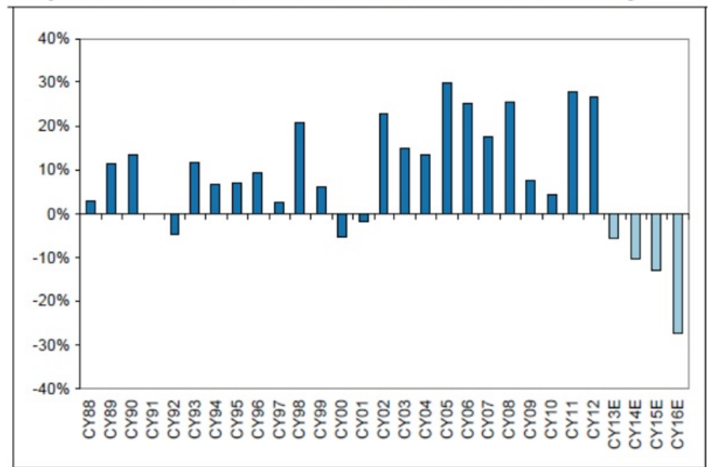
That return figure was higher, until management suggested recently that their outlook will become challenging in 2014. Our interpretation was that business will find it challenging just to stand still in the coming financial year. For a market used to operating at breakneck speed, this has come as a big shock to many loyal investors, and naturally the share price slumped.

The outlook

Investors have had a lot to digest over the past six to 12 months. After continuously achieving 10% to 30% annual growth rates for the past 12 years, a severe and prolonged decline in Australian E&C activity has been estimated by a number of leading research and economic houses. Many of these forecasts indicate that we are about to enter a period of double digit declines.

According to one firm, this is unprecedented in 27 years of data collection and analysis. Morgan Stanley's forecasts are illustrated below.

Our forecast E&C capex decline represents an unprecedented event in Australian E&C history



Source: ABS, Morgan Stanley Research (E) estimates

While these are merely forecasts, signs of deterioration are already observable for those willing to look a little deeper. Profit downgrades and deteriorating outlooks have dominated the recent trading update season.

Some have argued the stock market's reaction has been overdone and that shares are now cheap. But mine-expansion activity has slowed sharply and billions of dollars worth of projects have been mothballed or cancelled. By way of example, RIO has recently announced that it will be putting a renewed focus on cost cutting to help counter falling revenues, so we would argue that future pressure on service providers is only just gathering pace.

A cautionary tale

We expect competition in tendering for a declining pool of projects will intensify and the discounting will put pressure on margins. In anticipation of this, we are already seeing rising unemployment and slumping job advertising. Although there are approximately 80 listed businesses that service the mining sector, we estimate there are 800 companies

in total, and all are bidding for an ever-decreasing pool of work.

The result is poor earnings 'visibility', and hence we continue to be wary of the sector and will watch the recent bounce in commodity and share prices from the sidelines.

Will others come around to our way of thinking? This year's reporting season will be one to follow closely. Our expectation is that companies will generally report well, given full order books secured back in 2012, when the market was buoyant. Revenue targets are all but locked in, and contracts have been secured on historically attractive margins.

But herein lies the rub. In the past, service providers have been able to point to their pipeline of future work to reassure the market that they will be able to meet expectations. But the pipeline can dry up quickly for companies at the mercy of projects being deferred or cut back.

Outlook statements by the sector's incumbents will be heavily scrutinised for encouraging signs. Generally, however, we prefer to avoid businesses that only cover their cost of capital during booms. Given the long lead times required to mobilise labour and equipment, we'd prefer to see at least 60% to 70% of a business's order/revenue book contracted and underway at the result, with the balance secured and underway by the second half. This gives us a reasonable level of confidence that the business will at least tread water.

Coffey and Bradken

Two businesses have already reported in the mining services space, and despite their share prices bouncing afterwards, we are generally underwhelmed by how we see the next 12 or more months playing out for them.

Coffey International Limited (COF) locked in a favourable 12-month turnaround to 30 June 2013, with total revenue of $688.4 million, but its contracted fee revenue is just $100 million in Geosciences, $14 million in Project Management, and $73 million in International Development for 2014. That's less than 30% of its revenue contracted. Management states "there is no doubt, conditions remain tough, particularly for Geosciences in Australia, so it is prudent not to provide any specific earnings outlook at this time".

That's hardly encouraging.

Bradken Limited (BKN) reported a result that seemed to impress the market, with its business strategy remaining unchanged for FY14. Bradken plans to focus on its key strengths on the design, manufacture and supply of consumable products to the mining, energy and rail industries. Which is perhaps what you would expect.

The fact that Bradken expects FY14 to be broadly comparable with FY13 doesn't sit well after some thought is given to its future. While it might be achievable, we see considerable downside earnings risk in FY14 and beyond.

Can Bradken have a hero 12 months? RIO might provide the answer, as it has already highlighted the huge price savings it is getting on consumables. Given that RIO and others are continuing to focus on cost-cutting measures, RIO doesn't seem as confident as Bradken's outlook statement.

Rising share prices are evidence of a few investors being lured back into the sector recently – the short-term 'voting machine' in action – thanks to optimism about a turnaround in China.

Over longer periods however, the market is a 'weighing machine' and with outlooks hardly enthusiastic or confident, we remain of the view that the risks are still firmly to the downside.

Given earnings generally drive share prices over the longer term, falling earnings are unlikely to produce a satisfactory return outcome for our portfolios. We will continue to steer the Montgomery funds away from mining services.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

My SMSF – SPAA CEO Andrea Slattery

by 3` VdWS E´SffVdk

Name: Andrea Slattery
Age: 54
Other members of your SMSF: One (husband)
How long have you had your SMSF? 12 years

Why did you start it up?

My husband and I chose to set it up to ensure we were self sufficient in retirement. My husband was self-employed and I had been working in this area for many years. We were in a position where we could work together to build our superannuation nest egg.

Is it more or less difficult to manage than you thought it would be?

No, easier.

Are you glad you have it?

Definitely.

What are your views on asset allocation?

I am loath to be prescriptive about how SMSF trustees should do their asset allocation. It depends on so many factors, such as income, investments held outside the fund, age, etc, that to think one size fits all is simply wrong. What I would encourage all trustees to do is to get the best possible professional advice so that their asset allocation best meets their individual needs.

What investments do you have outside of superannuation?

None.

Do you use an advisor or any kind of service provider?

I have always used professional advisors from the outset. This includes auditing, accounting, legal and financial planning, as well as getting advice on insurance and property investment. My advisors are SPAA SMSF Specialist Advisors.

How long have you been involved with SPAA?

I was one of the founding board members of SPAA and then became its first chief executive officer in 2003.

Why did you want to become involved with SPAA?

I began working in this area as an accountant more than 20 years ago. I have always believed that SMSFs were an excellent way for some individuals to ensure they were self sufficient in retirement. SMSFs have a legitimate place with other sectors of superannuation and have been in existence since the early 1940s, but there was a perception that the SMSF sector was significantly non-compliant. We decided to set up SPAA to build a profession, assist all stakeholders in understanding the sector, to encourage proficiency in advice and to develop a level of professionalism and integrity across the industry. The degree to which we have succeeded was evident in the glowing report that Jeremy Cooper handed down in 2010, when it said that the SMSF sector was functioning well.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Buy, Sell, Hold – what the brokers say

by Penny Pryor

Broker activity was again dominated by reporting season as companies ramped up their results announcements this week. Commonwealth Bank of Australia announced a better than expected profit (see Charlie Aitken's analysis above for what analysts thought of that). But there were other surprises on the upside also.

In the good books

Domino's Pizza (DMP) announced its results on Tuesday, which most brokers said were in line with their expectations, but JP Morgan liked the group's announcement that it would also acquire 75% of Domino's Japan. JP Morgan upgraded it to Overweight from Neutral on the belief the acquisition will add to growth. Credit Suisse, Macquarie and UBS all maintained Neutral ratings on the stock.

Credit Suisse upgraded food and beverage group Goodman Fielder (GFF) to Neutral from Underperform, following its FY13 result. Earnings growth is expected to continue but the broker knows it is a tough environment and the company also has an expensive debt structure. JP Morgan maintained its Underweight rating on the stock following the results, which met its expectations.

Credit Suisse also upgraded Prime Media (PRT) to Outperform from Neutral following its decision to sell its Queensland radio business to pay down debt. The sale leaves the company a pure TV play and the broker believes it will become a takeover target.

The not-so-good books

Newcrest Mining (NCM) was in the naughty corner this week after announcing less than impressive results on Monday – a $5.78 billion net loss for FY13.

Credit Suisse downgraded it to Underperform from Neutral, saying the companies FY14 guidance on its Lihir operations is "inadequate and confusing". Macquarie also downgraded it to Neutral from Outperform, also concerned about the risks at Lihir.

Deutsche Bank downgraded it to Sell from Hold, and is not very optimistic about the gold price outlook and JP Morgan downgraded it to Neutral from Overweight. JP Morgan was also disappointed by the Lihir guidance.

CSL (CSL) also announced yesterday, which prompted UBS to downgrade it from "Buy" to "Neutral". Although it reported a better than expected 19% increase in net profit, the Broker believes it is fully priced. That said, UBS continues to rate it as a core portfolio holding. JP Morgan and Credit Suisse maintained their Overweight and Outperform ratings following the earnings announcement.

UGL (UGL) announced its results, which most brokers thought not too much of – maintaining three Neutrals and two Underperforms – but CIMB Securities downgraded it to Underperform from Neutral being more bearish on the cycle than UGL management. CIMB also thinks others in the space offer better value.

The above was compiled from reports on the FNArena database, which tabulates the views of eight major Australian and international stock brokers: BA-Merrill Lynch, CIMB, Citi, Credit Suisse, Deutsche Bank, JP Morgan, Macquarie and UBS.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

High-yield bond market opens up

by Gavin Madson

Post GFC, the Australian banks pulled back on commercial lending as concerns of difficult economic times ahead forced them to reassess their exposures. Caught in the crossfire were good businesses, which suddenly found funding either cut off, or much more expensive than before. A recent issue by G8 Education Limited shows SMSF investors are prepared to step into the market to fill the breach, and get a strong yield in return.

While the big four banks have been fighting hard in the home loan market, out in the corporate lending world, things haven't been so rosy. With a number of market participants pulling out of Australia post GFC, the big four banks have had the corporate lending market to themselves. For borrowers, this has generally meant tighter terms and higher margins, or no lending at all.

This pull-back in bank funding has created a supply/demand shortfall in the lending market, which, almost inevitably, had to be filled by someone. With virtually no market for unrated bond issues from institutions, borrowers (like many potential investors) were to a large extent locked out of the bond market.

However, a number of forces have converged to help meet this gap – the continued expansion of the SMSF market, the low cash rate, and the realisation by many investors, as a result of losses through the GFC, that capital protection and risk allocation needed to be more closely monitored – and have brought together the sophisticated individual investor market with companies looking for funding on reasonable terms.

Corporate bond offerings

Last week, listed childcare and education provider, G8 Education Limited (GEM:AX) successfully raised $70 million in senior unsecured bonds through FIIG Securities. This issue was the third bond raising by an unrated company in the last 12 months, showing that an appetite for high-yielding fixed income products, exists in the Australian market.

The GEM deal, following similar issues by listed catering finance company Silver Chef Limited (SIV:AX) and unlisted Mackay Sugar, had a number of attractive attributes.

Firstly, with cash rates low, and likely to remain low in the short to medium term, the yield on offer from the GEM notes (at 7.65% for six years) proved very attractive for investors looking to protect their level of income. Secondly, with many investors still hesitant to fully commit to the equity market, having taken losses through the GFC, a bond investment in a company offers an increased level of security over an equity exposure. This is due to the legal obligations of bond issues; the regular payment of a pre-set level of distribution and the repayment of capital at maturity. The issue gave investors the chance to improve their allocation to fixed income, without losing out on income.

With three similar senior unsecured bonds going to the market inside 12 months and more deals likely around the corner, the demand for these high-yielding investments, and the supply from high quality companies, looks to have changed the fixed income landscape in Australia. While these issues have seen some institutional interest, the vast majority of the funding has been provided by the SMSF market.

This shouldn't come as a surprise to anyone. In Europe, the US and Asia, investing in bonds similar to these is commonplace and easy, and this is reflected in the investment allocations in these markets, where corporate bonds form a significant portion of investors' portfolios.

The issue from G8 (and Silver Chef and Mackay Sugar before them), is another step in the maturing Australian financial market, as SMSF investors become increasingly aware of what they were missing out on, and demand a better deal.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Deferred lifetime annuities – a solution or an expensive waste of time?

by Tony Negline

Genuine long-term deferred annuities are now government policy.

I think this policy is unnecessary for most investors. I'll explain why in a moment. First some background.

Annuities "101"

All annuities have to be provided by life insurance companies and are designed to pay you an income – at least annually. Some pay for a defined period of time (typically called 'term' annuities). Other annuities pay for the rest of your life, or the life of your reversionary annuitant, if you have nominated one. These are called 'lifetime' annuities.

Built into these products are adviser remuneration, as well as life office expenses and a profit margin.

They're reasonably complex, inflexible and costly products and it's almost impossible to work out what's going on inside them.

All annuities in Australia are 'immediate' annuities, that is, they begin paying you an income as soon as the life insurance contract is finalised.

A 'deferred' annuity follows these broad principles but begins to pay you an income each year after a pre-set period of time. These types of annuities were quite common for many years in Australia before about 2000. In the mid-80s, the Government mandated that income payments from these products had to commence when the annuitant turned age 65 (there were some exemptions and exceptions to these rules).

The government is now contemplating allowing you to purchase a deferred annuity and permit a long time period before income will have to be paid, e.g. 20 or 30 years into the future.

Managing longevity risk

The stated purpose of these products is to help retirees manage longevity risk. This risk is a fancy way of saying that you'll run out of retirement savings before you die.

Longevity risk arises for two principal reasons:

1. Before retirement, investors underestimate their living expenses and haven't saved enough; or
2. Many market-linked pension and annuity products force you to constantly buy and sell assets to deliver you an income.

All retirees need to very accurately and very carefully estimate how much their living costs will be in retirement. Moreover, this financial budget needs to be continuously monitored and adjusted as circumstances change – for example, costs increase because of tax changes or general consumer inflation.

All asset prices move around constantly and unpredictably. More to the point, it's impossible to control the movement of these prices. This means that if you have to "sell" units or assets at prevailing market prices to receive an income, then there's a good chance you'll go broke, because the amount of capital you need to expend on each and every income payment is at the mercy of the market price of an asset.

Last week, I gave the following example to illustrate this problem – an investor puts $200,000 into a managed fund that has a $1.00 unit price, which means they "own" 200,000 units. Suppose that after several years, the unit price has increased to $2. Their 200,000 units are worth $400,000. If the investor wanted to pay themselves $20,000 income

from this fund, they would need to sell 10,000 units while the unit price is $2.

Now suppose that the price of the units has crashed to 75 cents, but they still wish to pay themselves $20,000 income. They now need to sell 26,666.66 units. Under this second scenario, units are walking out the door as income.

So for $40,000 of income, they have used up 18% of their units for two years' income. Somehow, miraculously, their units are meant to last for at least 20 years.

These aren't extreme examples of unit price movements – I have seen unit price falls emasculate retiree money in 1994, 2001, 2004 and 2007.

For someone receiving monthly income payments over 20 years, his or her income is determined by 240 different market movements. I think this is madness on a grand scale.

There is a better way to manage longevity risk

The key to solving longevity risk isn't deferred annuities. In reality, there are two solutions.

Firstly, invest your assets to earn income and live off that income. You should find investments that pay an increasing level of income to take into account inflation.

You should only be looking to sell assets so you can move from one income-paying asset to another income paying asset.

It's true that the income you'll receive from investments fluctuates, but it doesn't do this as often or as sharply as the market movement of asset prices. In fact, there are a number of "blue chip" shares that have stable (and generally increasing) dividend payments – while the share price moves up and down, the dividend is far less volatile.

Some people find that living off the income their assets generate is insufficient because their assets don't generate enough income to cover their lifestyle. There are no simple solutions to this problem, except to either work until your retirement assets can generate the income you need for your lifestyle, or readjust your retirement lifestyle expectations.

The second solution to longevity risk is to reduce the cost of advice and administration of your retirement investments. Even a 1% per annum reduction in fees will make a significant difference to your retirement income earning prospects.

In short, I believe the solution to longevity risk isn't traditional, expensive and inflexible annuity products. The solution is to simplify how you invest your retirement money, invest to earn inflation-linked income and keep your fees to a minimum.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

What's the real cash rate?

by Questions of the week

Question: *I have very little money sense, could you please explain the difference between the cash rate and the real cash rate. Is this when you have an interest only loan and inflation is helping you to pay it off at the end?*

Answer: Thanks for the question about the 'real' cash rate. This is where we have adjusted the nominal cash rate for the effects of inflation.

It is best thought of from the perspective of an investor. If the RBA cash rate is 2.5%, and inflation is running at 3.0%, then effectively you go backwards over the course of the year. After 12 months, your $100 is now worth $102.50 with interest, however goods that cost $100, 12 months ago now cost, with inflation, $103.00. You have gone backwards by 50 cents. The 'real' cash rate, in this example, is -0.50%.

So, the 'real' cash rate = the RBA cash rate – inflation.

And it also works the other 'way round' as you suggest – as a borrower with an interest only loan, inflation is helping you pay it off.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Super Sessions - Peter Switzer and Paul Rickard

This week, *Switzer Super Report* CIO Paul Rickard and I nutted it out on China in our *Super Sessions video.* We're not that worried, watch the video here to discover why.