and Woolworths. The oldest holding is Coca-Cola Amatil, at an average cost of less than half current prices.

BHP and Woodside (8% of the portfolio) are the major exposure to resources. I quit Rio Tinto (at a nice profit) in 2009 in a premature hedging against the China iron ore boom. This risk averseness is quite a change for a young speculator, who held Oil Search shares at less than 50c in the late 1950s!

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

For all the administration, I rely on, and trust, an accountant whose firm has administered the SMSF since inception, while I act as the chief investment officer. For more than a decade, I've used a small, private client broker where I have a good personal relationship. Apart from routine dealings, we meet half-yearly for talks on strategy.

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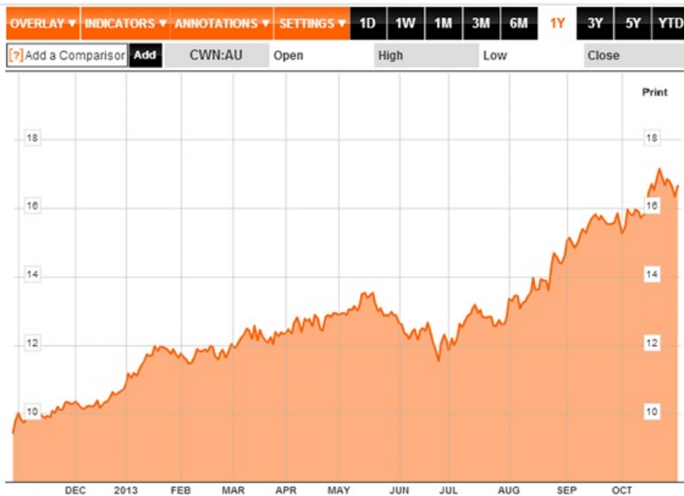
Short n' sweet – Crown, Telstra and property

by Penny Pryor

Crown Limited (CWN) has certainly been drawing a lot of interest with its Barangaroo project and investors are increasingly warming to the company. Last week, it was Platypus Asset Management's favourite pick.

The fund manager bought the stock just over two months ago and likes the fact that it continues to find high quality investment options that provide it with a very high growth profile, particularly for a company of its size.

Stock Chart for Crown Ltd (CWN)



Source: Bloomberg

Telstra has also been receiving a bit of attention at *Switzer Super Report* lately. Barrie Dunstan says it is probably a much better exposure to media than actual media companies and Charlie Aitken likes it too.

Last week, Charlie was drinking with management and had this to say in his report: "Part of my job is reading body language of company executives. If I am any good at that, I can sense a growing confidence in the Telstra camp.

This is the complete reversal from three years ago, when any time you met a Telstra executive they were on the defensive."

For a long time at *Switzer Super Report,* we have been saying Telstra would go to $5 – Paul Rickard made that call just over 12 months ago – and this morning it was trading at $5.16

Stock Chart for Telstra Corp Ltd (TLS)

Source: Bloomberg

And we have also been monitoring the residential property market with our weekly auction clearance rate report. We've watched as the numbers have slowly edged above 70% and then 80% in Sydney but we still don't buy into the property price bubble talk. Paul Rickard wrote a very good analysis of it all here and a few weeks ago he sat down to chat with Peter Switzer about all the fuss.

Less than two weeks ago, the Reserve Bank was also saying that talk of a bubble was "unrealistic alarmism" and it did not think SMSFs buying property was a risk to financial stability.

As the table below shows, the significant growth in house prices is only really in Sydney and Melbourne and is coming off a very low base of at least two years of stagnant growth.

Capital city home value changes

Capital city	Weekly change	Monthly change	Yr to date change	Annual change
Sydney	0.3%	2.4%	12.5%	11.6%
Melbourne	-0.1%	0.6%	7.7%	7.6%
Brisbane	0.4%	1.0%	2.5%	2.1%
Adelaide	-0.1%	-0.1%	0.8%	0.9%
Perth	-0.5%	-0.2%	5.6%	6.5%
Combined 5 capitals	**0.1%**	**1.2%**	**7.9%**	**7.7%**

*Brisbane results are for the combined Brisbane and Gold Coast region.
Source: RP Data

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Utilities offer a strong yield alternative

by Ron Bewley

The utilities sector is best thought of as defensive with good dividends. Well, dividends have remained strong at 5.7% but the capital losses have been disappointing over the past six months.

Only AGL Energy and Spark Infrastructure (just) met my conditions of having a sufficiently good consensus recommendation for inclusion in a new super portfolio at the last review (13th April 2013). Since that time, their recommendations have improved and Duet has joined them.

The sector lost 2.3% over the half year, while the ASX 200 gained 9.9%. Even if we include reinvested dividends, the sector only returned 0.5% against 9.9% for the index.

As we can note from Table 1, every top 100 stock in the sector lost ground over the period, with most wiping out their dividends! The two small cap stocks did gain but Energy World isn't even rated by any of the brokers who send their forecasts to Thomson Reuters!

Table 1: Data on companies in the ASX 200?s Utilities sector

Index	Code	AGL ENERGY	Capital gains from 13/4/2013 - 25/10/2013	Consensus recs. 13/04/2013	Consensus recs. 25/10/2013
ASX 100	SPN	SP AUSNET	-0.4%	3.08	2.70
	AGK	AGL ENERGY	-0.8%	2.53	2.30
	SKI	SPARK INFRASTRUCT	-2.6%	2.55	2.30
	APA	APA GROUP	-4.5%	2.83	3.00
	DUE	DUET GROUP	-9.6%	2.78	2.50
Small Caps	ENV	ENVESTRA	11.0%	3.00	2.70
	EWC	ENERGY WORLD	7.1%	-	-

Note: the estimates in the Table are current to the close of business 25 October 2013. They are based on Thomson Reuters Datastream.

An alternative yield option

The sector statistics in Table 2 show that the financials sector has had its dividends driven down to 5.2%, which we view as an approximate floor. With that sector also being overpriced by 7.1% (which is well above our trigger for a correction or a prolonged sideways movement), I think other high yield sectors need to be considered for a super portfolio. Of course, those who do not need to sell for a long time can hang on to their financials stocks but it does not seem the time to buy or even top-up. Note that the capital gain forecast adjusted for mispricing is negative at 1.2%, which, if realised, would eat into the dividend yield.

Table 2: ASX 200 sector statistics

	Sector	P/E ratio historical	P/E ratio forward	Cons. rec.	Index weights	Exuber-ance	12 month forecasts yield	12 month forecasts cap gain	12 month forecasts adj gain
Resource-related	Energy	18.7	15.0	2.6	5.7%	-1.1%	3.6%	23.8%	25.2%
	Materials	14.1	12.2	2.2	17.4%	0.5%	3.2%	15.8%	15.2%
	Industrials	19.3	17.2	2.5	6.1%	2.9%	4.0%	10.2%	7.1%
High yield	Financials	14.8	13.9	2.7	40.7%	7.1%	5.2%	6.4%	-1.2%
	Property	15.1	14.5	2.6	6.1%	0.5%	5.6%	4.3%	3.7%
	Telco	15.7	15.0	2.9	5.3%	3.0%	5.7%	4.5%	1.3%
	Utilities	16.8	15.3	2.5	1.6%	-1.2%	5.7%	9.2%	10.5%
Other	Discretionary	19.0	17.1	2.6	4.0%	4.0%	3.4%	11.6%	7.1%
	Staples	18.5	17.0	3.1	8.0%	0.4%	4.6%	8.1%	7.7%
	Health	22.8	20.0	2.5	4.5%	0.8%	2.4%	12.6%	11.7%
	IT	20.5	18.2	2.6	0.7%	0.7%	3.2%	12.0%	11.2%
	ASX 200	15.8	14.4	2.6	100.0%	2.8%	4.5%	9.8%	6.6%

Source: Thomson Reuters and Woodhall Investment Research
Note: Exuberance is a measure of mispricing (negative is underpriced) and cap(ital) gain is adjusted for exuberance
Cons. Rec. is the consenus recommendation from Thomson Reuters . 1 is a buy, 3 a hold and 5 a sell
Note: the estimates in the Figure are current to the close of business 25 October 2013.

The utilities sector, on the other hand, is offering a healthy expected dividend of 5.7% and a forecast capital gain of a very reasonable 9.2%, with the sector currently underpriced at 1.2%, making an adjusted forecast gain of 10.5% to add to the dividends. These statistics overshadow those for the other two high yield sectors of property and telcos.

Based on these broker forecast data, AGL (ASX code AGK) and Spark Infrastructure (ASX code SKI) could make a good contribution to a super fund. If, as I expect, there might be some pull back in the market in the not-too-distant future – particularly in the big banks – the utilities sector may be a relative safe haven. The overall market is only moderately overpriced at 2.8%, while financials at 7.1% is the

sector mix that bothers me, being also in the midst of reporting season for three of the big four banks.

Interestingly, in statistics not shown here, my capital gains forecasts by sector show that over the last week or so, Industrials have slipped down a percentage point or two, while the forecasts for energy and materials have improved. Since the upgrade in recommendations only really came in for AGL over the last month, and over the last week or so for Spark, getting into AGL and Spark is a timely decision to consider. Duet is not out of the running if someone wants three utilities' stocks – but it is a small sector comprising only 1.6% of the index.

I currently own AGL – but no other stock from the sector – in both my super portfolio and my non-super portfolio, with a combined weight of about double the index. Last week, I sold a big portion of my non-super (margin loan) allocation to the big banks (when exuberance breached 6%), having more than doubled my investment in Commonwealth Bank and Westpac, including dividends, but not franking credits nor interest as a risk-reduction action. I bought that stock in 2008 and 2009 and saw no point in paying interest on an investment which I think may lose money over the coming year. I didn't do anything with those stocks in that sector in my super portfolio, nor do I plan to at this stage. I am in pension mode so there is no tax – nor interest – and I get the franking credits.

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Save tax with a re-contribution strategy

by Tony Negline

The "withdraw and re-contribution" is a strategy designed to save tax and involves you taking money out of super as a lump sum and then after a period of time re-contributing this payment back into super.

This strategy first became popular in the mid 1990s and between 1995 and June 2007 was almost standard fare for most investors preparing for retirement.

Costello's "Better Super" reforms reduced the instant tax benefits on this transaction in many cases but it still delivers important estate planning tax concessions. It might also have a short-term tax benefit for anyone aged at least 55 but under 60 and fully retired.

Estate planning benefits

This is best explained by an example.

You're aged 63 and have $1 million in super, which is all taxable component. Your spouse is 62 and has no super assets in their name. An important consideration for you both is the amount of tax your surviving adult children might pay on you and your spouse's death.

At present, your adult independent children would have to pay almost $165,000 tax on a $1 million death benefit (that is 16.5% tax).

So should you take $450,000 out of your super benefits now and contribute it in your spouse's name as a non-concessional contribution and then perform a similar transaction in your own name at a later date?

These contributions will only be possible while you're under 65 and you have no excess non-concessional contribution problems. You can only take this money out of super if you're fully retired. After you turn 65, the $450,000 threshold, in general, becomes unavailable.

Once you take the money out of your super and make the non-concessional contribution for your spouse, those contributions will become a 100% tax-free component, which can be used to provide a pension. The pension can only commence once your spouse is fully retired or reaches age 65. But after the pension commences, it will remain 100% tax-free for the remainder of your spouse's life. This will include benefits payable on death.

After the withdrawal and re-contribution strategy, your super benefits will be $450,000 tax-free component and $100,000 taxable component. Your spouse's portion will all be tax-free component ($450,000).

To look at your super in its totality, 90% of your and your spouse's super assets are now tax-free component.

Tax on death (payable by an adult child) is now down to $16,500, which is a significant saving for completing a few comparatively simple transactions.

Short-term tax benefit

For those aged at least 55 but under 60, the taxable component portion of their pension payments are taxed with a 15% rebate. A higher tax-free component brought about because of the "withdraw and re-contribute" strategy will mean less taxable component with each pension payment and, therefore, potentially less income tax to pay.

Given the impact of the 15% rebate – and the fact that it significantly increases your effective tax-free threshold to about $49,000 – this will only impact a small number of taxpayers.

Some clarity

For many years it wasn't known if "withdraw and re-contribution" transactions were acceptable because nothing formal had ever been published. Over the years, the industry and retirees have relied on Tax Office press releases and letters between government bureaucrats and industry associations on how the law operates.

This is a completely unsatisfactory situation for a transaction that impacts so many taxpayers.

Earlier this year, the ATO published a Private Binding Ruling (PBR) about the "withdraw and re-contribution" strategy.

The PBR says the taxpayer in question was aged over 55 and was thinking of retiring because of an illness that had lasted more than 12 months.

Because of their illness, they asked to get their super money paid to them as a lump sum but then realised they'd get less disability pension from the government.

In the PBR, the Tax Office had no issue with the lump sum paid to the taxpayer. The ATO acknowledged that the member had a right to ask for the benefit and the super fund's trustee was entitled to pay them the benefit.

The ruling was indifferent about the making of the contribution with those withdrawn super benefits. The PBR doesn't say a period of time has to pass before the contribution could be made with the withdrawn super benefits.

In the absence of clearer instruction from the Tax Office, this ruling provides the best evidence to date that the ATO is comfortable with this tax-saving strategy.

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Cash versus equities and life insurance

by Questions of the Week

Question 1: *I'm 60, in pension mode, and my SMSF's share portfolio is mainly in blue chips similar to those in the Switzer portfolios and worth around $600,000 at current market levels. I have $400,000 cash in term deposits that mature in December this year. I've read that as a rule of thumb you should own 100 minus your age in equities and the balance in fixed interest investments and cash. I see my cash earning little, and despite already having exceeded the rule of thumb asset allocation, I'm tempted to top up my existing shares when the term deposits mature. What strategy would you recommend?*

Answer (By Paul Rickard): I am always a little circumspect about "rules of thumb". I am not particularly familiar with the one you quote – sounds like it may have been invented by someone to help sell a book.

One problem I have with it, specifically, is that it doesn't take into account any dynamic asset allocation. The harder the share market runs, the stronger the argument is to start to reduce your exposure. Use the rule as a guide – but not much more.

For most people at your age, circa 60% in growth assets (Australian shares /international shares etc) is going to be around the mark. Whether it is right for you will depend on your risk appetite, how much income you need in retirement, other assets outside super etc.

Prima facie, I wouldn't say that 40% in income assets is inappropriate. By December, if the equities market is higher still, I would be even more inclined to maintain the weighting.

If you are looking to increase your return and are prepared to take on some more risk, consider these options:

1. Listed hybrid securities or other higher risk interest bearing assets (eg. mortgage funds).
2. Property – direct, or through listed or unlisted property funds.
3. Stay short in the term deposit market – when interest rates increase, extend the term to pick up yield; or
4. In the equities market – stick to the less volatile sectors (consumer staples etc).

Hope this helps. My other suggestion? Perhaps you should consider a consultation with a financial advisor.

Question 2: *I noticed in The Australian's Business section an article emphasising the need for trustees of an SMSF to take out insurance or at least consider it. Our Minutes show that we did consider it but have not acted on it because we felt our Medical Benefits and Health cover met our needs. However, according to this article, we should take Life Insurance fairly seriously. I am 72 and my wife is 66. Can you please advise us and which funds you would recommend?*

Answer (By Paul Rickard): I am not familiar with the article you refer to and I am a little bit puzzled by it.

You are required under the law to consider the insurance needs of the members. The regulation says: "whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund."

As you point out, you are not required to take out insurance – just conduct a review as to whether you need it or not.

Should you take out life insurance? I think at your ages, it really depends on the monies you have accumulated in super and the assets you have outside super, and whether they are going to be

sufficient to meet your financial needs in retirement. If you have sufficient savings and don't have any liabilities, why would you take out insurance?

If, on the other hand, your current savings may be inadequate or you have liabilities, then life insurance may make some sense.

As you are both over 65, taking out life insurance is not going to be straightforward and arranging cover may be dependent on completing medical examinations. I would initially contact three or four of the major life insurance companies to see if they will provide cover, ask for an indicative quote, and obtain a briefing on the process. Some life insurance companies that you might care to contact include AMP, CommInsure, OnePath and BT Life.

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