Switzer Super Report

Issue 367, 26 February, 2015

Field of dreams

It's been unloved by the market but Charlie Aitken is a big fan of Crown Resorts, mostly because of its exposure to the rapidly growing outbound Chinese tourism market. He upgrades his forecast today.

Speaking of unloved, Roger Montgomery has a similar story to tell around Infomedia - there's more to this car-servicing company than meets the eye.

Star fund manager Anton Tagliaferro, founder of Investor's Mutual, also joins us today with a *Fundie's Favourite* on Ansell. Anton will be sharing his stock insights with us on a regular basis and I'm sure you'll look forward to what he has to say.

Sincerely,

Peter Switzer

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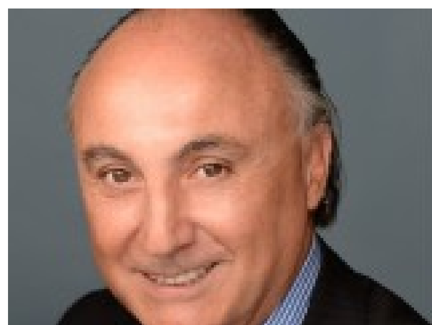

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Crown Resorts: If you build it, they will come

by Charlie Aitken

Key points

- *Crown Resorts (CWN) is leveraged to one of the great long-term structural growth themes: the Chinese outbound tourist.*
- *Projections are over 200,000,000 Chinese nationals per annum will travel internationally by 2020 and they will complete over 300,000,000 "trips".*
- *Crown's strategy focuses on capturing a disproportionate amount of those Chinese outbound tourist dollars both domestically and in the region.*

With global equity markets making fresh all-time highs, I continue to look for mispriced structural growth at a stock specific level. What I am looking for are stocks that are part of a long-term structural growth theme that are currently discounted on a well-known short-term issue.

That brings me to **Crown Resorts (CWN)**, which has tremendous leverage to one of the great long-term structural growth themes: the Chinese outbound tourist, yet is currently being discounted due to a short-term corruption crackdown that has affected both volumes and valuations of Macau-based destination casinos.

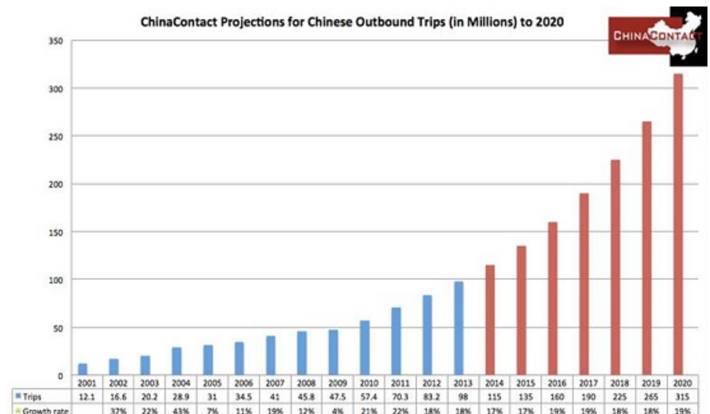
In recent times, the Crown share price had been tracking Melco Crown Entertainment's (MPEL) share price almost one for one. MPEL is 34.3% owned by Crown. That relationship changed last week as Crown confirmed 1H FY15 earnings that were 18% above the consensus forecast. The results showed that Crown's diversified portfolio of assets has proven more resilient than expected, with the Australian assets, most notably Melbourne, actually benefitting from some of Macau's short-term woes.

Earlier this week in New York, MPEL shares dropped 7.3%. There is opportunity in Crown that is being provided by MPEL weakness associated sentiment.

Quite frankly, I think we will all look back with the benefit of hindsight in a few years and realise the one chance you got to buy Crown shares cheaply was during the Macau "corruption crackdown". It's also occurring at a time of relatively high capex for Crown, which institutional investors with short-term performance benchmarks seem to baulk at.

The tourism trend

Let's start at the top:



Projections are that over 200,000,000 Chinese nationals per annum will travel internationally by 2020 and they will complete over 300,000,000 "trips". The compound average growth rate per annum is around 18%. Find another consumer sector in the world growing at 18% compound for the last five and next five years. That is structural growth and when you find a structural growth theme, you have to get maximum portfolio leverage to it.

The good news is Australia is well positioned to cater

for this structural growth in outbound Chinese tourism. The recent Sydney Airport (SYD) traffic stats release confirmed that on current growth rates (16.4% in 2014), China is on track to overtake New Zealand as our strongest inbound market in 2016.

What is also little known is the Australian and Chinese governments recently agreed on bilateral air services, which immediately increases capacity from 22,500 seats per week to 26,500 seats per week between Chinese and Australian major gateways. A new category has been created between Australian major gateways and regional Chinese cities, with a further 26,500 seats capacity. Both capacity categories will grow to 33,500 by October 2016, providing 67,000 seats per week accessible from Australian Major Gateways. That's a total annual seat capacity of 3,484,000.

This agreement on bilateral air services clearly represents the next stage of development of the Chinese inbound market into Australia and provides a significant opportunity not only for the major gateway airports (buy SYD), but also for hotel/destination casino operators tilting their product towards the Chinese inbound market.

The lower dollar

The other major macro development is just as airline capacity increases, Australia is becoming better value to Chinese tourists because of the fall in the Australian dollar. The chart below confirms that the Chinese Yuan (Renminbi) has appreciated 39% versus the Australian dollar from recent lows, making Australia now globally competitive as a tourism destination, with the advantage of being in the same time zone. This is another reason the RBA needs to cut rates again to keep the currency down and keep us globally competitive. The RBA remains behind the curve (AGB 3yr @1.86%).

The results

The Crown interim result suggested Chinese VIP traffic is already arriving at their domestic properties, with **VIP turnover play rising 61.4% to $37.1 billion in the 1H.**

Australian resorts performance:

- The performance of the Australian business was satisfactory, given the subdued level of consumer sentiment
- Normalised revenue of $1,626.7 million, up 16.1%
- Main floor gaming revenue of $784.2 million, up 3.5%
- Non-gaming revenue of $341.9 million, up 2.4%
- VIP program play turnover of $37.1 billion, up 61.4%, however at a lower win rate than the prior year
- Normalised EBITDA of $478.2 million, up 20.6%
- Reported EBITDA of $456.8 million, down 5.6%

These results were well ahead of our estimates, with Crown Melbourne the star of the show. Crown Melbourne EBITDA rose 26.1%, while VIP program play rose 86.4%. That marquee property is really humming and now has the added regulatory certainty after the November 2014 agreement with the Victorian Commission for Gambling and Wagering that saw the Melbourne Casino Licence amended. This was a good outcome for Crown and the state of Victoria, which is already seeing Crown attract more VIP's (VIP super tax removed).

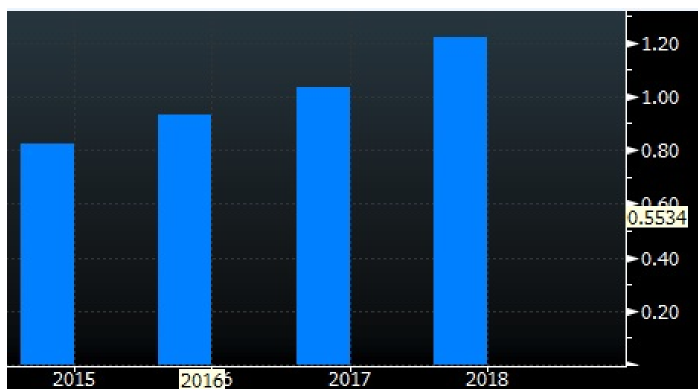
The way I approach Crown as an investment is that the existing domestic assets and the MPEL stake underpin the current share price. The 1H numbers were a pleasant surprise in terms of domestic asset performance and give me greater confidence in the near-term valuation.

Developing assets

What interests me more, and where future share price appreciation will come from, is the portfolio of development assets both domestically and regionally. *"If you build it they will come"* is the right description. It's that simple and patience through the capex cycle will be rewarded out the other side with a major step up in the Crown earnings base, a major diversification of the Crown asset base, and eventually a major step up in the Crown dividend base.

Crown is one of very few major Australian companies actually forgoing high short-term dividend payout ratios and investing in future GROWTH. This is exactly the right strategy and Crown shareholders will be rewarded for this large scale investment in future GROWTH over the next five years, as the assets start coming out of the ground and producing cash flows.

In response to the 1H earnings surprise, we upgraded our EPS forecasts by +8.7% in FY15, +7% in FY16 and +5.1% in FY17. Consensus now sees EPS growth for the next four years, rising to 122c in FY18.



Double digit EPS growth resumes for CWN from FY16 on. The current FY16 multiple of 15 times will prove too cheap in a broader ASX200 market where sustainable double-digit EPS growth will be hard to find.

Waving the flag

Being a supporter of Crown over the last five years had been rewarding. We are up over 100% since our initial positive view, and while the last 12 months has been choppy, driven by Macau sentiment, I remain of the view that Crown has the right long-term strategy to capture a disproportionate amount of those Chinese outbound tourist dollars both domestically and in the region.

On days like yesterday, where MPEL weakness may well see some Crown weakness, I strongly recommend accumulating Crown shares (cum 18c interim div) and holding them for the next five years when we will reap the rewards of their strategic investments.

Crown shares are relatively illiquid for their market cap due to James Packer's 50.1% holding and that is another reason I encourage you to buy trading dips.

My whole thesis on CWN has been they are building a "luxury brand" and that the stock will be re-rated to a "luxury brand" multiple once that thesis is proven.

On that basis, I am setting a long-term price target of 20 times FY18 consensus earnings. 20x 112c =

$24.40

Crown remains a high conviction buy and a core member of high conviction model portfolios.

CWN: 1YR technical downtrend broken

Go Australia, Charlie

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Infomedia – the little Aussie battler

by Roger Montgomery

Key points

- *Because it is an illiquid stock, brokers cannot generate a great deal of brokerage from recommending it, so they don't.*
- *In the first half of financial year 2014, the company revealed solid revenue growth in every geographic region in which it operates.*
- *The company recently lost a major client, which will hit earnings, but it is focussing on expanding another product in the US.*

Infomedia (ASX:IFM) is a small Australian company, determined to be a winner on the world stage and another Australian export success story. But Infomedia is less well-known to investors than the big banks, big miners or Telstra.

This is, in part, because it offers investors an illiquid stock. In turn, the illiquidity means that brokers cannot generate a great deal of brokerage from recommending it, so they don't. And they don't bother allocating resources to covering the company either. Another reason to argue for the market's hitherto indifference is that management had for a long time neglected the business, which was in decline.

Perhaps the lack of deeper analysis and broader broker coverage that contributes to the price being cheaper than it otherwise might be in this low interest rate and high P/E environment. It's also true that recently the company gave investors a scare – more on that in a moment.

The offering

Infomedia's software products and services are used by the service centres of car dealerships in Australia, and now Europe and the United States. Servicing cars is the most profitable part of car dealerships so any tool that can raise the revenue of the division and make it more efficient is welcomed with open arms. Infomedia's Superservice software helps car dealerships manage their parts and service operations more efficiently and profitably by reducing costs and assisting sales by suggesting upselling opportunities.

By entrenching itself in the systems and processes of the businesses it services, Infomedia bares some of the characteristics we like in a business, and in particular, higher switching costs. Once staff are trained in Infomedia's systems to directly order and track car parts, as well as upsell the customer, it becomes a more expensive exercise to switch to another provider.

The scare

Well, that's the theory anyway. Recently however, Jaguar/Landrover ceased their relationship with Infomedia, and in response Infomedia's share price dived 18% from $1.15 to 94 cents.

"Infomedia announces that, as a consequence of the non-renewal of one of its agreements with Jaguar and Land Rover Limited (Jaguar Land Rover), the Company's expected FY 2015 revenues and NPAT will reduce by approximately A$1.1 million and A$0.8 million, respectively."

Despite the meaningful operating leverage this business might enjoy from its program to roll out its Superservice product around the world, investors leapt to the conclusion that a single contract loss may foretell further losses.

In the first half of financial year 2014, the company

revealed solid revenue growth in every geographic region in which it operates. And in the first half of 2015, that revenue growth continued, even on a constant currency basis.

While reported NPAT was up 22% for the half, we look through the benefit of a large hedging loss in the previous corresponding period, to arrive at an NPAT figure for the first half that was down 3% on a constant currency basis.

But even-deeper digging revealed the slight decline in profit is more than explained by 1) a very large increase in operating expenses related to a significant investment in sales and marketing to support the global roll out, and 2) a lower rate of research and development capitalization (an accounting treatment that placed expenses on the balance sheet as an asset rather than through the profit and loss as an expense – which it now appears to be doing to a greater degree.

The risks

The loss of the Jaguar/Landrover Microcat contract is an example of the kind of bumps that might be encountered and there will be an impact to FY15 profits of $800,000.

Infomedia describes Microcat as “a mission critical application that helps genuine parts dealers quickly identify, locate and price specific parts that are needed to service or repair a vehicle, from the hundreds of thousands of parts OEMs (automakers) provide. Each part identification is particular to a specific vehicle and the way it was built.”

In July 2013, Infomedia announced that it had renewed its Microcat contract with Jaguar for three years. The loss announced in January this year was therefore something of a surprise.

But the Microcat service is not the Superservice offering – the new and exciting growth engine of the business, and the offering into which it is investing heavily. Our understanding, after speaking with management, is that one manager at Jaguar insisted on receiving the IP for Microcat. Understandably, Infomedia was not forthcoming. How such a stand off permitted the termination of a contract will be something we ask at subsequent meetings.

The opportunities

A large number of trials are now underway with dealerships across the US and Europe and while a large Australian car service centre might have 10 hoists under which mechanics work – some of whom will have access to Superservice modules – a large US dealership could have 10 times that number.

Some of the trials are transitioning to revenue earlier than expected and management has revealed that there have been few or no rejections. Pilot dealers have reported a significant enhancement to productivity and revenue generation, and Infomedia is now training 200 representatives at Original Equipment Manufacturers to train their own staff.

Having set the business back on a steady course, co-founder Richard Graham sold a large number of shares a year or two ago, and stepped down from the chairman role after 27 years. That removes any concerns about ‘overhang’ and may eventually serve to add to liquidity.

Following the sell-down, there is scope for improved liquidity in Infomedia shares in the future, and given the quality of its business, Infomedia may start to receive more attention.

Infomedia

Source: *Yahoo!7 Finance, 26 February 2015*

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

Reporting season continues to bring more downgrades than upgrades as the market remains hard to impress.

In the good books

Macquarie upgraded BHP to Outperform from Neutral. BHP's earnings beat the broker by 13%. Lower costs for iron ore and copper contributed and a strong performance was posted by the South32 assets. Forecast capex has been cut further, which should allow a cash surplus to emerge.

Morgans upgraded Flight Centre (FLT) to Add from Hold. The first half was better than the broker expected and full year guidance looks comfortably achievable. Morgans has greater confidence in the outlook now.

Morgan Stanley upgraded Tatts Group (TTS) to Equal-weight from Underweight. After further review of the first half results, Morgan Stanley is upgrading to Equal-weight from Underweight, raising the target to $4.10 from $3.10. The broker considers the opportunity to redeploy the Victorian pokies compensation through either a capital return, buy-back or increased pay-out ratio is a large catalyst.

In the not-so-good books

Citi downgraded BHP to Neutral from Buy and Morgans downgraded BHP to Hold from Add. The interim result was ahead of the Citi's estimates but it downgraded because of the challenges in iron ore and oil in 2015. Morgans has rerated BHP in the light of recent share price appreciation.

Macquarie downgraded Brambles (BXB) to Neutral from Outperform. Brambles' result missed the broker due to increased plant and transport costs for Pallets Americas. The FY15 guidance range has been retained but the broker sits at the bottom end.

Morgan Stanley downgraded Flight Centre (FLT) to Underweight from Equal-weight. The broker says Flight Centre's golden run is coming to an end. Nearly every consumer company has reported a solid start to 2015 but Flight's growth has merely stabilised, as the lower Australian dollar and online competition impact.

UBS downgraded Oil Search (OSH) to Neutral from Buy. 2014 results were in line with the broker. UBS was surprised at the US5c special dividend, which brought the 2014 payment to US14c, and represented a 44% pay-out. Long-term growth outlook is excellent in the broker's view but the stock is considered fully valued for now.

UBS downgraded Rio (FIO) to Neutral from Buy. UBS notes the share price has recovered from the trough in December and has outperformed the iron ore price by 30%. While expecting the stock to be underpinned by the US$ 2 billion buy-back and 4.6% dividend yield, the broker believes higher commodity prices are needed for further meaningful outperformance as there are few company-specific catalysts.

The above was compiled from reports on FNArena, 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.

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Buy Macquarie Group, Sell ANZ

by Geoff Wilson

Key points

- *Lower interest rates are continuing to drive investors towards the Australian banking sector.*
- *Macquarie Group Limited (ASX: MQG) is offering value within the sector, as a number of key factors are helping it.*
- *The banking sector remains an important and highly visible component of many investment portfolios, but its spectacular rise should not persuade investors to ignore the fundamentals of investing.*

The stock market has rallied nearly 10% in recent months, as investors continued to scramble for yield.

The Reserve Bank of Australia appears focused on lowering interest rates and we are expecting two more cuts, bringing the cash rate to 1.75%.

The banking sector

Lower interest rates are continuing to drive investors towards the Australian banking sector, which is over 30% of the capitalisation of the Australian share market. The banking sector is one of the highest yielding sectors, with the big four banks delivering yields of around 4.8% fully franked or almost 7% on a pre-tax basis.

We believe Commonwealth Bank of Australia (ASX: CBA) is the best managed bank, but at current prices, the stock looks expensive.

Upside for Macquarie

Macquarie Group Limited (ASX: MQG) is a place within the banking sector offering value, as a number of key factors are helping it. Importantly, it's clearly in a buoyant earnings upgrade cycle, which means analyst forecasts continue to be exceeded. Under Nicholas Moore, Macquarie is building a consistent track record of under-promising and over-delivering since the turmoil experienced during the global financial crisis.

Macquarie has recently indicated its profit growth is towards 20%, driven by favourable divisional profit trends, currency and a lower tax rate. A key driver of its strong profit growth is its powerful funds management business, which generates significant management and performance fees. Even after the strong gains this year, Macquarie is trading on a prospective price/earnings multiple of only 14, with scope for superior earnings growth in the next 12 months.

Macquarie

Source: *Yahoo!7 Finance, 26 February 2015*

We are confident Macquarie will continue to perform and prove the Australian banking sector can provide value investment opportunities, despite being one of the best performing sectors in recent times.

The downside

One bank we are not that keen on is Australia New Zealand Banking Group Limited (ASX: ANZ), which we believe is running into some headwinds.

In our view, the quality of ANZ's earnings appear somewhat inferior to other major Australian banks, given ANZ is more reliant on institutional clients and trading activities. Issues in its Asian banking business were also put under the spotlight recently when it released its quarterly update. After a number of years, this strategy still remains questionable.

Firstly, Asia is highly competitive and ANZ's Asian business is currently less profitable than the rest of its banking business. Secondly, the group's capital structure creates some problems, because of the joint ventures in Asia.

ANZ faces lower returns and more volatility as a result of its reliance on Asian markets, at the expense of its strong core Australian and New Zealand retail franchises. Trade finance in Asia is capital intensive and volatile, which was reflected in the recent softer profit result.

Overall, we believe ANZ lacks momentum and is in need of clear direction. This became clear to us after the departure of senior executive and top job aspirant, Phil Chronican, last week.

Australia's banking sector remains an important and highly visible component of the economy and many investment portfolios, but its spectacular rise should not persuade investors to ignore the fundamentals of investing.

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Ansell – top-flight protection in your portfolio

by Anton Tagliaferro

Key points

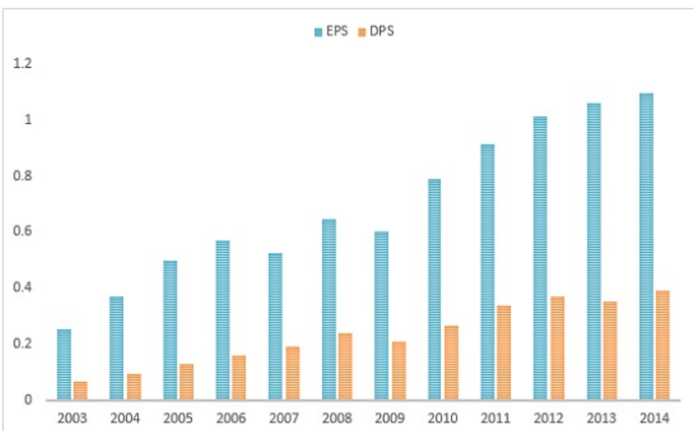
- *Ansell is a global leader and innovator in protection gloves and other products across the medical and industrial sectors.*
- *The company has steadily grown its earnings and dividends over the last five years.*
- *Investor's Mutual has a 12 to 18 month price target of $27.00 on the stock.*

How long have you held the stock?

We have held the stock for over five years.

What do you like about it?

Ansell is a global leader and innovator in protection gloves and other products across the medical and industrial sectors (such as automotive, chemical, food and construction). It is also the second largest condom business in the world behind Durex. The company has steadily grown its earnings and dividends over the last five years as shown in the graph below:



Source: IML, ANN

How is it better than its competitors?

As Ansell is the largest player in its sectors by some distance, it allows the company to spend significantly more on research and development than any of its competitors. Ansell also has the largest range of gloves available in the market, which means that all major distributors of medical or industrial products stock Ansell's products. It also has the largest sales distribution team compared to its competitors which means that once a new product is developed it can be sold globally, unlike for many of its competitors.

Ansell

***Source:** Yahoo!7 Finance, 26 February 2015*

What do you like about its management?

Management has always been focused on the innovation and development of new products, as well as on the maintaining of strong brands. Management has also grown the company internationally in the last few years by making some strategic acquisitions. Part of Ansell's success is also attributable to the fact that management has always been disciplined in not overpaying for new acquisitions.

What is your target price?

All things being equal, I would expect the share price to reach $27.00 within the next year or two.

Is it a liquid stock?

Ansell is a liquid stock as it is a top 100 stock.

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CEO Spotlight – Don Meij from Domino's Pizza

by Penny Pryor

CEO Name:

Don Meij

Company:

Domino's Pizza

Years at Domino's:

28

The broker report:

Broker	Rating	Recommendation	Target Price	% to Reach Target
Morgans	1	Add	$36.36	4.60%
Macquarie	3	Neutral	$34.60	-0.50%
JP Morgan	3	Neutral	$30.07	-13.50%
UBS	5	Sell	$28.00	-19.40%
Credit Suisse	5	Downgrade to Underperform from Neutral	$28.85	-17.00%
Deutsche Bank	3	Downgrade to Hold from Buy	$33.00	-5.10%
Morgan Stanley	1	Overweight	$40.00	15.10%

Source: FN Arena. All actions 12/2/2015. Share prices 25/2/2015
Ratings: 1 is highest 5 is lowest

Don Meij is renown for his leadership of Domino's Pizza. He even has his own website (www.donmeij.com), which tracks his journey from a pizza delivery guy for Silvio's Dial-a-Pizza in 1987, to general manager in 1993 when Silvio's purchased Domino's in Australia. Don then became a Domino's franchisee with 17 stores in 1996, which he sold into Domino's in 2001 to become chief operating officer and then chief executive officer in 2002. He went on to steer the company through its IPO in 2005.

Motivation

Don says his desire to manage and lead come from having such a strong believe in the business.

"We were a market leader [in Queensland]," he says.

[I thought] why can't we become number one and, of course, that's what we achieved."

Don says that having a very good understanding of who your customer is and who they could be, has been key to the company's success.

"For example, in 2007 the biggest rejecters of our brand were women with children, and young women," he says.

But fast-forward almost a decade and those customer segments have been some of the fastest growing for the company.

"That's come about through thinking through what our customers need. Customers don't know what they need if it doesn't exist yet."

Domino's has also been at the forefront of big data and technology developments. Last year it launched Pizza Mogul, an App and website, which allows customers to develop their own pizza and then earn profits based on how many people buy that pizza. As of 11 February 2015, it had 55,000 Moguls registered and 160,000 pizzas added to the menu.

"I think we're better than most at it but I definitely don't think we're anywhere where we should be with big data."

"I think we look a lot better than we actually are," he admits.

The company is about to hire its first data scientist and better use of big data will be a focus this year.

"A lot of large businesses pretend to be in these space and talk the language and in our belief, that's worse. You've really got to be [in it]."

Managerial style

Don describes his management style as very energetic.

"I've got a lot of energy and I'm always restless and I'm very impatient," he says.

"On the other side, our results speak for themselves and I do empower."

He believes it is important to inspire people and really push employees to be the best that they can be.

He is also very loyal and acknowledges the many "amazing" people within the business including, but not limited to: Andrew Rennie, CEO Europe; Scott Oelkers, president and CEO Japan; Nick Knight, Australia and New Zealand operations manager and Allan Collins chief marketing officer Australia and New Zealand.

"These are very talented people and they make me look very good," he says.

Staff turnover at the pizza store level is high, but continues to drop and is much better at the managerial level.

"I think we pay very well at Domino's," he says.

The competition

The company's main competitive advantage is its ability to not just come up with the big ideas but also the ability to execute them.

"We're good at the big ideas but were also good at delivering the big ideas," Don says..

Other competitors in the Domino's Pizza space are big fast food brands, along with supermarkets and smaller sandwich shops.

"Home cooking has increased. Our current competitors are now the supermarket businesses."

But fortunately for Domino's, the "new economy" continues to win over the "old economy".

The strategy

Don's main short-term priority is on delivering the company's products, although he does not rule out an acquisition in the fast food space.

"We may step into another business in the next few years," he says.

For now, the intensity is around the products and the staff who deliver those products.

But Don stresses that those products aren't the pizza but the technology.

"There is so much opportunity and our limiting factor is the ability to execute."

Domino's has a strict schedule of upcoming launches, almost on a monthly basis over the next 12 months, in the very aggressive technology space where Don says patents are just waiting to be stolen.

"It's a very competitive space where ideas that are created today can be worth a lot of money very fast."

The financials

Don says he was "really proud" to recently announce half year net profit after tax (NPAT) of $29.1 million, an increase of 44.2% on the prior corresponding period last year.

He owns 1.84 million shares, or just over 2% of the company, and also has 1.1 million options coming due in the next 12 months.

"My intention is to accumulate," he says.

Don also recently upgraded full-year NPAT growth guidance to 32.5% (compared to FY14 underlying) from 25% announced in October.

The risks to this are "management execution" and "the things we can't see", but overall he says they are feeling pretty comfortable.

The company also declared an interim dividend of 24.6 cents per share fully franked, up 39.0% on the prior comparative period. The dividend strategy is a payout ratio of 70%, which is reviewed on a half-yearly timetable.

For the company's shareholders, Don has this final message:

"People are going to eat. I will never give shareholders excuses because in the end…people eat breakfast, lunch or dinner."

"There is so much lunch and dinner to go after. If we fail, it's because we have failed to execute."

Domino's Pizza

Source: *Yahoo!7 Finance, 26 February 2015*

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Working out your working pension

by Tony Negline

Issues to take into account

- *After June 2015, your SMSF can only accept employer contributions via a payment gateway (smaller employers have another 12 months).*
- *If you're aged at least 65, then there are restrictions that apply to making contributions.*
- *You need to consider whether you want to segregate your assets.*

An investor recently asked me how someone should go about running a super fund if you're old enough to take a pension but still working? It's a great question and here's my response.

Contribution issues

Firstly, Super Guarantee contributions have to be made for all employees over the age of 18, if they earn more than $450 each month.

So if you're employed, then there's a high chance your employer will have to make super contributions for you.

If you want your employer to contribute to your SMSF and your employer has more than 19 employees, then after June 2015, your SMSF can only accept employer contributions via a payment gateway. Smaller employers get another 12 months before they have to use one of these gateways. This link has more details on what's required.

Alternatively you might want to make personal contributions to your super fund. There are issues about tax deductibility of those contributions, which you will need to think carefully about. Further details are here.

Remember that personal contributions claimed as a tax deduction and all employer contributions will be taxed at 15% in the year they're made. If you're a high-income earner then you might also have to pay the Higher Income Earners tax, which will see you pay an additional 15% upfront tax payable on these contributions.

You need to keep in mind the various contribution caps and think carefully about exceeding these, as penalty tax applies if you keep the money in super.

Also, if you're aged at least 65, then there are two restrictions that apply to making contributions.

One applies if you're at least age 65 but under 75 and the other if you've had your 75th birthday. Under the first rule, you need to satisfy a work test before personal or non-compulsory super contributions can be made to super.

If you're aged at least 75, then only compulsory employer contributions can be made for you. All other contributions are prohibited after 28 days after the month in which you had your 75th birthday.

Further information about super contributions can be found at this link.

Structural issues

As you're receiving a pension from your super fund and also receiving or making super contributions, this means you will have at least two "interests" in your super fund.

Each pension you receive from your super fund is deemed to be one superannuation interest in your super fund. The contributions made to your super

fund since your pension commenced are considered to be another interest in your super fund.

The point here really is that you can't simply add the contributions that have been made since your pension commenced, to that pension. This is considered to be adding a new capital sum to the pension, which isn't allowed. However the same effect can be achieved but it requires a five-step administration process.

Assuming the documentation governing your pension permits, you have to stop your pension, which is called commuting the pension. Before the pension is commuted, your super fund administrator will make sure that the pro-rata minimum has been paid from the pension. When the pension is commuted, the pension assets stop being taxed at 0% and return to the 15% tax part of your super fund. That is, the old pension money and the new contributions and their earnings are combined in the taxed part of your super fund. (There is some administrative work to complete to determine your Taxable and Tax-free components.)

You then commence a new pension and all your money in the fund then returns to the 0% tax rate. Obviously, the tax saving here would need to be higher than the costs of implementing these steps.

If you want all your money in the super fund to be used to pay pensions, then you could also just run more than one pension – your original pension and new ones that you commence from time to time with additional contributions. The hassle here is that you have multiple pensions, which may be unnecessary and costly.

Depending on your super fund's trust deed, you can choose to allocate specific assets of your super fund for the payment of the pension and other assets for your non-pension accounts. Obviously income and capital gains made on the assets used to pay the pensions belongs to those pensions. If you want this, then you will have elected to use what is called "segregated pension assets".

Running segregated assets is a more expensive option than the alternative, which is called "unsegregated pension assets" and means you simply leave the super assets as one amount of money and income and capital gains are allocated to your various member accounts using information given to you each year by an actuary. You can find out further details here.

Conclusion

As you can see, there are many issues to consider. In most cases, you won't need to make decisions quickly and you will have time to think through the various options available to you in order to decide what is best for you.

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.*

The best way to invest when you're young

by Questions of the Week

Question: My daughter is 24 and has a reasonably good job. She wants to invest a regular amount of her income. She has about $3000 to start with and then can invest about $600 per fortnight. Being young, she is after long-term growth. Can you suggest a suitable managed fund or approach?

Answer (By Paul Rickard): Most managed funds offer a regular investment plan (with periodic debit). If it is an Australian equities fund, I don't really think there is much to choose between the active managers, so I would go with a low fee, index fund. She could try the Vanguard Index Australian Shares Fund. While the management fees reduce as the funds invested increase, they are still relatively high – 0.75% per annum up to the first $50,000.

A second option (not as easy) would be to buy an exchange traded fund – probably the SPDR S&P/ASX 200 Fund (STW) or Vanguard Australian Shares Index ETF (VAS). She will have to open an account with a broker and pay brokerage (on $3,000, this will be in the range of $14.95 to $19.95 or 0.50% to 0.67%). Management fees are typically 0.15% to 0.20% pa. There is no regular investment option – so she would need to save up her $600 fortnightly amount and reinvest by buying additional units on the market when the brokerage becomes economic.

A third option would be do the same as the second – however, rather than buying ETFs, buy one of the major broad-based Listed Investment Companies, such as AFI, Argo (ARG) or Milton (MLT).

The fourth option (again a hybrid of the second and higher risk) is to buy some individual shares and start to develop a portfolio. The main advantage of doing this is to start fostering an interest in investments. Have a look at my article on this.

Question 2: In the event of a fall of the underlying asset in an ETF, is there any protection in the management of the ETF to reduce the effect of that on the value of the ETF? Do you have any comments as to the effectiveness of trailing stops of this strategy? Half the stocks sold as a result of the triggers firing have rebounded i.e. BHP, BXB.

Answer 2 (By Paul Rickard): No – no protection. ETFs are passively managed – the manager takes no action except to replicate the index.

I don't use trailing stops. I invest for the long term – "crashes" (as the media likes to beat them up) are just hiccups. If I felt that I might need to liquefy my portfolio in the short to medium term, I might take a different approach and consider their use. The downside (as you point out) is that they get triggered – and the stock/market rebounds.

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