Switzer Super Report

Thursday 18 June 2015

# Go your own way

Today my good friend Charlie Aitken, who is about to start up his own fund management business, has shared a great high-conviction call on NAB. His view on the bank is one shared by Paul Rickard – who put it out in front in his last analysis of the sector.

Also in the *Switzer Super Report* today, small cap fund manager Ben Griffiths from the Eley Griffiths Group explains why Auckland International Airport is such a great buy. And in a juicy *My SMSF*, member relationship manager for the SMSF Association, Alistair Shields, tells us why he recently set up his own SMSF and how it has been performing.

Roger Montgomery revisits Virtus Health following a growth guidance downgrade, and Tony Negline takes us back to the 1800s to try and work out what's going on in this property market.

Sincerely,

Peter Switzer

## Inside this Issue

NAB - a high-conviction buy
by Charlie Aitken
02


02 **NAB - a high-conviction buy**
by Charlie Aitken

05 **Come fly with Auckland International Airport**
by Ben Griffiths

07 **My SMSF – newbie enjoys control, transparency and better returns**
by Alistair Shields

09 **Virtus revisited**
by Roger Montgomery

11 **Buy, Sell, Hold – what the brokers say**
by Staff Reporter

12 **Could the land boomers go bust?**
by Tony Negline

14 **A falling dollar and starting a transition to retirement pension**
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.*

# NAB - a high-conviction buy

## by Charlie Aitken

***Key points***

- *Anyone who didn't take up the NAB rights issue has made a mistake. That was the closest thing to "free money" in Australian equities in a decade.*
- *NAB CEO Andrew Thorburn has quickly moved to get NAB's capital position to the top of its peer group, spin off the legacy UK assets, divest Great Western Bank, and consider what to do with MLC.*
- *Technically, NAB has "double bottomed" and the knife is now vibrating in the deep value floor. Time to pick it up.*

There should be absolutely no doubt that cross asset class volatility is rising. You can see it on your screens every minute of the global trading day. Whether it's driven by the ongoing "Greek tragedy", bond market volatility or simply debate about the first Fed rate rise in 9 years, there is no doubt in my mind that volatility is rising and all investors need to position themselves to take advantage of that volatility.

As I keep writing, in volatility there is opportunity but it does require conviction and contrarianism to profit from volatility. You shouldn't be scared of volatility in risk asset classes. That is why they are risk asset classes. You should selectively take advantage of it.

**A leap of faith**

As I come to the end of my broking career, I have been thinking back on what have been my best and worst ideas. There's a very clear pattern. The very best ideas were stomach churning at the time. They were the ones where I pressed the send button and had to look away from my computer screen, knowing the barrage of "you must be joking" emails that would come back at me. The single worst ideas were populist /momentum ideas that most readers cheered, yet turned out to be poorly timed and crowded.

At the end of the day, the idea is to buy low and sell high. It's easier said than done because both buying low and selling high involve contrarian actions that are against the psychological make-up of most humans. The other lesson I've learnt is that "over-analysis leads to paralysis". My best ideas were almost too simple.

You can talk yourself out of good investment and trading ideas by taking in too much outside opinion or analysis. My advice is to go with your gut. You have gut feel for a reason. Gut feel is telling you that you've been in a situation like this before.

After thinking about all that, I wanted to come up with one big last Australian large cap idea that had all the attributes that other successful ideas had. It had to be contrarian with a clear pathway to value release. The conclusion I came to is that the National Australia Bank (NAB) is the best risk adjusted prospective total return buy in the ASX20 Leaders index for the next 18 months. The way I approach things, the potential total reward in NAB now far outweighs the potential risk.

**The case for NAB**

Firstly, anyone who didn't take up the NAB rights issue has made a mistake. That was the closest thing

to “free money” I have seen in a decade in Australian equities.

So here we are today and the NAB rights issue is complete. Hopefully you all took up your rights. Today NAB is still trading below the theoretical ex-rights price of $33.79 and therein lies a further contrarian opportunity.

Obviously large equity issues lead to short-term indigestion. That in itself is an opportunity.

If I look at NAB today I don’t think I can ever remember it being stronger, better led, or more on a pathway to shareholder value release. However, when I look at NAB’s investment arithmetic, it is the cheapest since the peak of the GFC. That to me spells opportunity.

NAB CEO Andrew Thorburn will prove a winner. This really reminds me of when Ralph Norris came to CBA and embarked on a highly successful cultural change program. What I like about Thorburn is that he is man of action. He has quickly moved to get NAB’s capital position to the top of its peer group, spin-off the legacy UK assets, divest Great Western Bank, and consider what to do with MLC. Tick, tick, tick, tick on the pathway to higher sustainable ROE and higher P/E.

When you get a genuine agent of change in an underperforming and undervalued oligopoly business, you simply have to buy it.

Thankfully for contrarian investors, the market, as implied by NAB’s investment arithmetic, remains sceptical of Thorburn’s ability to “simplify” NAB. Let’s just look at the FY15 and FY16 investment arithmetic for NAB.

| | FY15 | FY16 |
|---|---|---|
| NPAT | $6.7b | $6.9b |
| EPS | 278c | 263c |
| EPS growth | 26% | -5% |
| Price to Book | 1.5x | 1.4x |
| ROE | 14.4% | 13% |
| NIM | 1.91% | 1.88% |
| Dividend | 198c | 200c |
| Yield | 6.03% | 6.09% |
| Grossed up yield | 8.62% | 8.71% |
| P/E | 11.8x | 12.4x |

I look at FY16 and I see both clear value and major dividend yield support for NAB at current prices. NAB UK is removed from our FY16 estimates and this leads to 5% lower group cash NPAT. However, our dividend estimates are unchanged and these have been previously reduced to account for the impact of capital dilution (and to preserve the 75% dividend payout ratio once the UK contributions are backed out).

**Next steps**

What happens from here is NAB slowly gets re-rated. We firstly work through the post rights issue indigestion, remembering $5.5 billion is a massive rights issue in an Australian context (it’s the equivalent of a huge IPO), and then the market will start getting confidence in the reliability of the dividend yield and start bidding that dividend yield down and inversely the P/E up.

My view is that investors will bid NAB’s prospective FY16 dividend yield down to 5.50%, which implies a NAB share price of $36.36. That would equate to a 13.8x P/E for FY16, which is still inexpensive.

For Australian investors who can value franking credits, I think NAB is a no brainer. The stock is trading 14% below recent highs, offers a prospective grossed up dividend yield of 8.71%, and if I am right about a $36.36 price target, NAB shareholders can also look forward to an 8.5% capital gain from this morning’s opening price of $33.50 – and potential prospective total return of 18% over the next 18 months in NAB equity.

That would sure beat having your money in a NAB term deposit or CMT. Cash rates in Australia will fall

further over the next 18 months.

NAB shares are the same price they were in 2006. This decade of underperformance is ending under Andrew Thorburn.

NAB has all the characteristics of industrial large cap contrarian ideas that I have had success in pushing in these notes over the years.

I rate NAB a high-conviction total return buy and encourage you to buy NAB shares while they are still on “sale”.

Technically, NAB has “double-bottomed” and the knife is now vibrating in the deep value floor. Pick it up!

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.*

# Come fly with Auckland International Airport

by Ben Griffiths

***Key points***

- *Auckland International Airport (AIA) holds freehold title over their site, which includes significant contiguous land holdings, versus Sydney Airport that leases land through a Federal Government concession.*
- *AIA has released a 30-year plan that sees a second runway and projects annual passenger numbers of 40 million, up from today's 15 million.*
- *Over time, AIA has managed its capital base very prudently, returning capital to shareholders when investment opportunities to accelerate growth do not present themselves.*

**How long have you held the Auckland International Airport (AIA)?**

We started accumulating our position in July 2013 at around $2.50-$2.60. We have since used periods of price weakness to add to our position, such as the months into September 2014. Occasionally, we have taken advantage of over-zealous trading activity to take profits too.

**What do you like about it?**

Auckland International Airport's (AIA) chief asset is the Auckland airport with smaller investments held in Queenstown, Cairns and McKay airports. Over 70% of visitors enter or leave New Zealand via Auckland airport, which handles over 15 million passengers a year.

AIA holds freehold title over their site, which includes significant contiguous land holdings versus Sydney Airport that leases land through a Federal Government concession. This gives investors an attractive dual exposure to the long-term growth in the airport business (blend of aeronautical, retail, hotel and car parking revenues) and a commercial property management and development business, which boasts a 308 hectare land bank.

This business combination has seen AIA deliver very consistent earnings growth over the last decade yet the business remains relatively unknown amongst the Australian investment community and trades at a 10% discount to Sydney Airport on forecast earnings.

AIA has released a 30-year plan that sees a second runway and projects annual passenger numbers of 40 million, up from today's 15 million. This is predicated on rising middle class wealth in Asia (GDP per capita), airline capacity growth (aircraft size, frequency, routes to Auckland) and the growing NZ tourism profile.

Over time, AIA has managed its capital base very prudently, returning capital to shareholders when investment opportunities to accelerate growth do not present themselves. We believe AIA can deliver 4 to 6% revenue growth per annum, which should leverage through the profit and loss to deliver 8 to 10% compound annual growth in earnings. The stock is a core holding across Eley Griffiths Group portfolios.

**How is it better than its competitors?**

Being the sole provider of international aircraft access to Auckland, the county's principal city, AIA simply doesn't have a competitor. Regionally, it dwarfs Wellington, Christchurch and Queenstown. It offers greater efficiencies over Australian airfields as a transit point, with its surfeit of land, zero curfew and expanding provision of commercial services within close proximity of the airport precinct.

Additionally, Auckland airport's retail and car parking

formulae and aeronautical pricing are yet to be fully optimised, offering upside to owners.
The company's capex program will be staged and carefully controlled, versus the looming 'big-bang' facing Sydney Airport if it opts to be involved in the Badgerys Creek second airport project.

**What is your target price?**

We do not set target prices but our internal investment process indicates the stock to be attractive at current valuations.

**How has the stock performed for you?**

The stock has performed well since our initial buying campaign in mid 2013. We have carefully added to our position along the way, as our comfort with the business model and macroeconomic environment grew and market corrections provided buying levels. Our average entry price sits at about $3.43.

**Is it a liquid stock?**

AIA is capitalised at $5.5 billion and is tradeable on both the ASX and NZX.

**Auckland International Airport**

***Source**: Yahoo!7 Finance, 18 June 2015*

***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 – newbie enjoys control, transparency and better returns

by Alistair Shields

**Name: Alistair Shields**
**Age: 51 years**
**Other members of the SMSF: My wife, Jane Macnaught, aged 53 years.**

**How long have you had your SMSF?**

We began planning the SMSF in May / June 2014. By the time we had arranged a trust deed, ABN and tax file number, opened a bank account and then requested the rollover of our funds, it was September 2014 before we actually had money in the fund.

**Why did you start it up?**

We wanted more control of our retirement savings. We had noted that the super fund we were in had not grown by much more that the contributions our employers had been putting in. In fact for several of the past ten years it had gone backwards. Our combined super was enough to comfortably start our own fund.

**How big is it?**

We began with just over $217,000 between us.

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

It is probably easier than I thought. My wife has done share trades before and has experience with those. We had an appointment with a financial adviser who set us on the right track with a statement of advice (SOA) and advice regarding our investments. We are yet to complete our first tax return, I am hoping it will be straight forward.

**Do you enjoy managing it?**

Yes, it is nice to be able to see the account growing. I have it visible on my online bank account. I keep an eye on the share portfolio within the fund.

**Are you pleased with its performance?**

At this stage the fund has not grown as much as I thought. The last month or so has been tough in the Australian equities market. We have some ETFs that are performing well and paying regular dividends. We are in it for the long term.

**Can you give us some numbers around performance?**

We are in our first year. Our fund has grown by about 6.5% since September.

**What is your asset allocation?**

We have a balanced portfolio, including local shares and Vanguard ETFs, and Vanguard international ETFs. We hold a little in cash, and so far have transferred the cash periodically into shares when the cash account builds up due to contributions and dividends.

Just over 25% is held in the two US Vanguard ETFs, 5% in cash and the remaining 70% in Australian equities.

Our current share mix is:

Utilities **3.23%**
Financials **39.01%**
Materials **21.69%**
Telecom Services **16.53%**
Consumer Staple **19.54%**

**What are your favourite investments/stocks and why?**

I haven't really developed favourites yet. The ones which pay good dividends are obviously attractive. The market growth has not been as strong recently. I will see how the next twelve months goes and then assess whether we should sell-off or change any particular stocks.

**What investments do you have outside of superannuation?**

My wife has a separate share portfolio, we do not have any other investments at this stage. When I have finished paying school fees at the end of next year, we will assess whether we purchase an investment property or just start catching up our balances by topping up the SMSF.

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

Yes, we have an adviser who has provided us with an SOA, advice on insurance and help with our investment strategy. We will engage an auditor annually and we have an accountant to complete our tax return.

**Is there anything else you would like to tell us about your SMSF?**

I was surprised by the length of time it took to start up the fund. There is a very structured process to follow, and it is not possible to jump any steps. We chose to have a corporate trustee for the fund.

I am hoping that we will be able to build a fund to a size where we will have a comfortable pension payment on retirement. We have a blended family with five children between us, and decided not to involve any of them in the fund and instead rely on our wills to distribute our funds fairly at the time of death.

***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.*

# Virtus revisited

by Roger Montgomery

***Key points***

- *Virtus was one IPO in 2013 that focused on the creation of life and was well-positioned to capture a growing trend in Australia of women delaying the birth of children.*
- *But it was difficult to justify the projected high future earnings growth forecast by the company without an associated increase in referring doctors.*
- *At this stage, no more fertility specialist acquisitions are likely in the foreseeable future.*

Experience over the years has led us to form a range of evidenced-based opinions on a number of investing topics. One of these opinions relates to new business coming to market as an Initial Public Offering (IPO), and in particular, when private equity passes around the hat in an attempt to raise large amounts of capital simply to fund the buyout of current shareholders.

There's a simple reason for this. Even if you have the time and ability to intensely research the business' past and future prospects, the seller will always be in a more knowledgeable position than you. This is because private equity will have already been hands on in its management and growth of the business for a number of years.

And buying an asset from someone who's more informed than you means that you've got your work cut out. This is why we endeavour to ensure that we are not left holding the baby so to speak, a fitting pun for today's column.

**Don't be fooled**

We have found that it pays to be prudent when it comes to the forward earnings projections that many of these IPO's can be anchored (sold) upon.

Time and time again, despite confident management heading into an IPO, we see numerous new floats fall short of their projected earnings in just the first 12 months as a public entity, blaming all forms of external factors from the economic climate to even then weather!

When we assess any IPO with strong growth forecasts, of paramount importance to us is that we can perform our own intensive research and financial modelling to ensure a more "independent" view of the company's prospects.

One float that we thought captured this perfectly is Virtus Health Limited, which we will revisit today (ASX: VRT) following their recent downgrade to growth guidance and subsequent negative share price reaction.

**The Virtus view**

There are many companies that focus on extending the life of their patients, but Virtus was one IPO in 2013 that focused on the creation of life and was well positioned to capture a growing trend in Australia of women delaying the birth of children.

The average age of women giving birth is now 30 years, but this advancing age leads to a material reduction in fertility and if this trend continues, then demand will continue to grow for Assisted Reproductive Services (ART) which is what Virtus Health specialises in through a network of clinicians, scientists and researchers.

At the time of our initial review, the company was exposed to longer-run earnings potential due to favourable demographics and a well-regarded specialist network. We did, however, note an important issue, which caused us to adopt some conservatism.

A red flag is raised whenever strong, abnormal growth is 'likely' to be generated in the years preceding a float and is justified based on the fact that similar growth rates have been achieved in the recent past.

In the year before its IPO, Virtus materially bolstered its network with 14 fertility specialists. These specialists, unsurprisingly, brought in their own patients, which contributed largely to earnings growing by 27%.

To the casual observer, this would appear to be a high-growth business and could be worthy of a higher price. We noted that Virtus' core growth drivers were simply the recruitment of specialists and their ability to source and perform IVF cycles. We questioned the sustainability of the earnings growth given it would ultimately be highly correlated with the number of new specialists.

Digging a little deeper, in the preceding year, we discovered that only two net specialists were acquired which translated into earnings growing just 1.6% over the following period. On this basis, it was difficult to justify high future earnings growth without an associated increase in referring doctors. After all, a doctor's ability to refer patients is limited by the amount of hours in a working day.

What was then noteworthy was that the company had only planned to add three doctors in the foreseeable future (its IPO forecast period) and yet earnings growth rates in excess of 20% per annum were being applied by analysts marketing the IPO.

This was clearly questionable, given that unless Virtus could rapidly increase scale in surgeries or add new services, it would become quickly obvious that more specialists would need to be acquired to justify such a bullish outlook. As such, we chose to be conservative in our forecasts, adopting growth rates much lower than those that were kindly pre-prepared for us.

## Still a good price

Even after conducting this, the offer price provided a sufficient margin of safety to warrant investment and we participated in the float. What did surprise us, however, was when the company floated on the ASX on 11 June 2013, the market exuberantly considered that the higher growth projections were more appropriate. This was something we subsequently took advantage of by disposing of our shareholding.

Perhaps unsurprisingly today is the company has recently downgraded its growth guidance, rebasing its forecasts from mid-teen growth to mid-single growth. Whilst a number of reasons have been given for this, what we do know from our discussions with management is that at this stage, no more fertility specialist acquisitions are likely in the foreseeable future.

It has taken a number of years, but it seems that our reservations were justified which brings us to another point. With the share price having materially corrected – is now the time investors should again be revisiting this one?

**Virtus**

***Source:*** *Yahoo!7 Finance, 18 June 2015*

***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 Staff Reporter

**In the good books**

**Credit Suisse upgraded ANZ (ANZ) to Outperform from Neutral. Buy/Hold/ Sell 4/2/2** The more positive view reflects improved valuations for both the bank and the sector. ANZ offers relative value and growth and is the best sector play on US monetary tightening, Australian dollar depreciation and the recent strength in New Zealand.

**Macquarie upgraded Caltex (CTX) to Neutral from Underperform and Citi to Buy from Neutral. Buy/Hold/Sell 2/4/1** As the first half comes to a close for Caltex, Macquarie anticipates the company's result release will include an outlook highlighting lacklustre underlying marketing growth. However, as the management-imposed window for acquisition opportunities closes, the broker believes there is a prospect of capital management. The fall in the Caltex share price since the Chevron exit has brought the stock back to reasonable value, the broker suggests. Citi considers recent share price weakness a function of Chevron's sell down being recycled through the market. The broker considers Caltex a well-run business and optimised post the Kurnell shut down.

**In the not-so-good books**

**JP Morgan downgraded IAG to Underweight from Neutral and Macquarie to Underperform from Neutral following the IAG's strategic hook-up with Berkshire Hathaway. Buy/Hold/Sell 0/6/2** JP Morgan estimates the revised guidance following the deal implies a 6.5% dilution to earnings for FY16 from the deal alone. The prospects for the stock centre on the use of the capital that was raised. Until that is clear, the broker believes downside risk for the share price prevails. Macquarie says current insurance market conditions remain challenged and premiums remain under pressure.

**Credit Suisse downgraded Ten Network Holdings to Underperform from Neutral. Buy/Hold/Sell 1/2/4** The company will raise up to $154 million with the issue of $77 million in new equity to Foxtel and a $77 million entitlement offer at the same price of 15c a share. Foxtel is expected to hold a 14.2% stake. The deal removes immediate funding pressure and improves the ability to maintain ratings but Credit Suisse downgrades because of the dilutive impact of the capital raising.

**JP Morgan downgraded Woolworths (WOW) to Underweight from Neutral. Buy/Hold/ Sell 0/3/5** JP Morgan analysts have cut their target to $24 (was $28.25) and pulled back their rating to Underweight from Neutral. The direct catalyst is the premature departure of the CEO, news that came with yet another profit warning. The analysts now believe the turnaround strategy comes with a lot of risk and uncertainty and consensus expectations are heading south yet again. A new CEO, yet to be found, further adds to uncertainty.

*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.*

***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.*

# Could the land boomers go bust?

by Tony Negline

The price of Australian real estate is all over the news.

Some areas have had very strong rises over the last three years (Sydney and Melbourne for example), while others have struggled (such as Townsville and many remote towns near mines).

This variation in prices makes me think talking about Australian real estate price rises and falls as a single item is dangerous and often misleading.

Former speaker of the US House of Representatives Tipp O'Neill once said all politics is local. In a similar vein, we all know that all Australian real estate is local.

That said, Shane Oliver from AMP Capital says that the value of Australian residential housing has, on average, been above its long-term trend for more than 10 years.

**Just another asset class**

On the whole there's no doubt Aussies love real estate and our admiration for it sometimes blinds us to the fact that it's just another asset class like stocks or government or corporate bonds. Its price will be determined by the market. I know this is obvious but it amazes me how some people don't seem to recognise this basic fact.

There are many influences on the market price of property, particularly government policy.

For example:

- State and Territory transaction tax (called stamp duty) when a property changes hands;
- Federal government incentives such as depreciation, borrowing cost deductions and building allowances;
- State planning laws which see high charges for the provision of essential infrastructure; and
- State and local restrictions on new developments.
- We also have to add in the emotional aspect of owning our home.

I'm sure you don't need to be reminded of the significant property price corrections that took place in the US and parts of Europe during the GFC.

It's often thought that Australia has never suffered a similar correction. But this is not true. Melbourne, in the 1830s and 1880/90s, had two enormous falls in property prices. Both were caused by nothing more than asset price bubbles bursting.

**The land rush**

In the 1960s, Michael Cannon published a book called "The Land Boomers" about the second boom/bust. His book is still in print and I recommend it.

The gold rush had made Victoria rich and it also had a growing population. Because of rapid development, its capital city became known as 'Marvellous Melbourne'. Business and banking boomed and money poured in from overseas, especially money from British banks.

Cannon relates a story of large parcels of land being subdivided and then sold and resold on multiple occasions each time for a higher price. During the rapid increase in profits, Cannon says it was easy to believe that any mug could make his or her fortune.

And that is what happened. Almost all of Melbourne became active speculators and sought quick gains

via the investment of their savings and, in many cases, borrowing to invest the equivalent today of vast sums.

The whole city mistakenly thought it had found the secret to eternal prosperity. The first phase of the bubble was caused by some property developers, who were less than scrupulous, and the banks, which applied lax lending standards.

By the mid-1880s some of the banks became concerned and raised their interest rates on loans. To get around the hassle of higher rates, “land banks” began to appear and the bubble was able to continue.

At the same time some could see the disaster that would probably unfold and predicted a terrible outcome. By 1888, one newspaper said the boom was over but it argued the awful foretold outcomes wouldn’t happen.

By the early 1890s every land development company was in liquidation. Many important members of the business community took their own lives because they couldn’t face the shame of financial ruin.

Others attempted to manipulate, in some cases with success, the sharemarket by publishing incorrect financial statements, paid dividends when no profit had been earned and gave false forecasts of future good business performance. One purpose of this charade was to ensure the share price remained higher than it should have been so they could sell their personal holdings before the truth came out.

In early 1893, the Victorian Government had to force the temporary closure of the banks for a week to prevent some of them from becoming insolvent. Two banks ignored this order and remained open.

**Lessons to be learned?**

Is our current residential property market grossly over-valued? Wiser and more knowledgeable heads will have a better opinion about that than I.

What I do know is that property values fluctuate in unpredictable ways. One could argue that five issues that might see property maintain its value are:

- Insufficient housing developments to soak up demand;
- An increasing population via natural increase and elevated immigration numbers;
- Some interest from overseas buyers;
- Record low interest rates; and
- Federal government tax incentives.

Recently some property gurus have been saying that they don’t see any correction in the real estate market in the near future.

I have to confess I get very nervous as soon as someone says “this time it’s different” or “don’t stress, prices aren’t going to collapse anytime soon, if ever”.

These ‘experts’ didn’t predict the collapse of “Marvellous Melbourne” or the GFC either.

***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.*

# A falling dollar and starting a transition to retirement pension

by Questions of the Week

**Question: Given an expected Grexit, and European Central Bank money printing (quantitative easing), the Aussie is probably at its highest relative to the euro for the moment. Do you have any ideas on how to diversify a portfolio slightly to take advantage of this arbitrage?**

**Answer (By Paul Rickard):** There is no really easy way for a private investor to take advantage of an expected lower AUD/EUR.

If you are happy to take on equity risk, buy some shares (or ETFs) on the London Stock Exchange or the German DAX. Try iShares or Vanguard for local (UK or German listed) ETFs.

Alternatively, try some of the Australian listed ETFs – Vanguard All-World ex-US Shares Index ETF (VEU) or iShares Europe ETF (IEU) are probably the closest.

On the currency side, you could open a euro or GBP bank account. HSBC, CitiBank and Commonwealth Bank all offer these (possibly the other majors as well). Don't expect to earn any interest – and watch the buy/sell spreads on transfers!

**Question 2: With June 30 fast approaching can you convert your SMSF to a TTR at this late date?**

**Answer 2 (By Paul Rickard):** Yes, you can convert your SMSF to a TTR at any stage – provided you have reached preservation age (for most people, this is 55 years).

While there is benefit in doing it at any time, there is nothing magic about 30 June. In regards to taxation on your fund in 14/15, you will only get the benefit for that fraction of the time that you were drawing a TTR – likely to be only a few days. Your effective tax rate for 14/15 will still be very close to 15%.

***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.*

# Don't miss this!

In this *Super Sessions* update we shift the focus from Wall Street to talk about the London Stock Exchange.