Switzer Super Report

Thursday 25 June 2015

Back to the future

In his first article as a fund manager, today Charlie Aitken goes back to the future and looks at 14 international calls he made last year after a European holiday. He didn't get them all right, but he got enough of them right to be way out in front. As he says, it is about the "power of observation".

Also in the *Switzer Super Report* today, Professor Ron Bewley discovers how frequently you should be rebalancing your portfolio and shares a quick sector review. In *Short n Sweet* we examine whether or not Seek is a good buy at these levels.

Tony Negline explains changes to the preservation age, and in *Buy, Sell, Hold – what the brokers say*, BHP, NAB and South32 all get upgrades. Our *Questions of the Week* answers readers' queries about international access and single asset risk for SMSFs starting a pension.

Sincerely,

Peter Switzer

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The power of observation

by Charlie Aitken

Key points

- *Good stock ideas come from direct observation, talking to people, clear-minded thinking on holidays or a combination of all three.*
- *Don't discount the power of observation as an investment tool, it may well be the best tool we all possess.*
- *Out of 14 stock picks, 12 have outperformed in 11 months*

I have no formal track record in global investing as such, but let's just see how some of my global macro, sector and stock specific calls went from nearly 12 months ago today after a European trip. I'll analyse the results at the bottom of this recap.

A step back in time – notes from 23 July 2014

I have to say at times over the last four weeks I did feel like Chevy Chase's character Clark Griswold in National Lampoon's European Vacation as I dragged my young family around Europe.

Holidays, particularly somewhat extended international ones, are great for clearing the mind and racking up credit card bills. Thankfully this time around neither the Australian equity market nor the Australian dollar collapsed while I was away, in fact quite the opposite, they remained relatively resilient, with low volatility as did all global markets.

Over the years, all 21 of them writing about equity and investment strategy, many of my best ideas have come from either direct observation, talking to people, clear-minded thinking on holidays or a combination of all three. When I don't have the daily/hourly dealing desk pressure of where the next ticket is coming from, and the associated "white noise", it makes it far easier to see the bigger medium-term picture and investment themes.

I strongly believe in the power of observation as an investment tool: in fact it may well be the best tool we all possess. However, I suspect we all under-utilise it in the investment process because we feel if we can see it, it is most likely a "known known" and priced in. In a world of high frequency everything and instant information, as far I can see, the present is discounted accurately, but the future is not.

I thought today I'd start writing again by making a few comments on what trends I observed in Europe over the last month.

1. The euro is overvalued

Europe remains very expensive in US dollar terms and I can't see how you can get a sustained Eurozone recovery with the euro/US dollar above 1.20. I remain of the view the euro at 1.3462 is great shorting versus the US dollar and will correct as the ECB starts expanding its balance sheet right as the Fed's balance sheet peaks (October QE end).

2. Cashless society is here

While I was negatively surprised by just how poor value Europe was due to the overvalued euro, I was positively surprised by just how little physical euro cash I required. Remember it wasn't that long ago that French/Italian shop assistants would decline every card in your wallet just to get cash, but this time around I found not a single service provider tried the old trick of saying "your Amex has been declined" in an attempt to get you to use Visa because of their lower commission rate, or physical cash. It was chip and pin technology everywhere and I could have pretty much existed without any physical euro cash.

The cashless society is a major global theme playing

out through VISA, American Express, PayPal, retail banks (less branches/ATMs required) and other financial intermediaries, but I think as Australians we need to realise we are quite a few years behind the rest of the world in terms of the percentage of transactions still using physical cash. This will change and we need further exposure to the cashless society theme. P.S. This is good news for the Australian Taxation Office (ATO) as eventually the vast majority of transactions will have an electronic record.

3. Mobile data addiction (MDA)

One of my big themes remains mobile data addiction (MDA) and in Europe I witnessed a whole new level of MDA. Everywhere you looked there were people on smartphones. I even saw a couple in a three Michelin-starred restaurant spend the vast bulk of their evening on their smartphones!
Similarly, just about everyone sitting on a beach on the Mediterranean was surfing a smartphone, not waves.

Points two and three above are obviously interrelated with the rise of Internet shopping etc. but all I could think was that this MDA theme is a HUGE one. I believe we are ALL underestimating the demand of high-speed mobile data and what incumbent telcos can charge for it. I remain of the view that the P/E arbitrage between telcos and the anti-social media sector, for example, is likely to narrow in favour of the telcos as the world works out they are GROWTH stocks, particularly the telcos with high leverage to mobile data.

Telstra (TLS) remains my number one Australian play on this theme and I note the stock is performing well into the FY14 result and final dividend lift in August. I still think Telstra will be a $6.00 stock over the next 12 months as earnings and dividend upgrades come through and the market pays a higher multiple each day for a stock the increasingly digital economy simply can’t open for business each day without. As I have said before, I can see Telstra moving to a consumer staple multiple over the next few years and it remains an absolutely core high conviction buy in my view.

For investors who can invest internationally, I also like the smartphone makers, but particularly Apple ahead of the iPhone 6 launch. A bigger screen iPhone with better battery life is what we all want and we are about to get it and “Google” more and therefore pay Telstra more each month. I suspect if you hold TLS, AAPL, and GOOG for the next few years, you won’t regret it. You must be exposed to the mobile data addiction theme: it’s becoming a global epidemic.

4. Smoking: so yesterday

On the other side of the “addiction” trade I was pleasantly surprised by a clear fall in smoking rates in Europe. Europe is probably only second to China in the smoking stakes, but this trip I didn’t have smoke blown in my face on any occasion. Not in a lift, not in a restaurant, not at a beach, not even in the street. It was amazing and a sign of the times, as it becomes harder and harder to be a smoker. Short tobacco stocks, long Telcos is the “utility trade” of the 21st century.

5. Chinese tourists

Another of my big macro themes is the rise of the Chinese tourist. They are now everywhere, but particularly in the capital cities of Europe. The Chinese are the Japanese of 20 years ago and I saw this with my own eyes at the Hermes flagship store in Paris. Without incriminating my wife, I may have been in the store for other reasons, but there was a 50-person queue to buy handbags. Now I am not talking about the special super high end Hermes handbags, I am talking about their standard ready-to-wear type bags.

When I asked the shop assistant is this an “unusual queue” she told me it happens every single day from open to close, with some Chinese tourists missing out on buying a bag when the shop shuts, only to return the next morning to be at the front of the queue. It was stunning and anyone who thinks you’ve seen the top in Chinese demand for luxury goods I think is mistaken.

Sure, anti-corruption laws have taken some of the demand out of high end wine, whiskey etc, but to me, to bet against luxury jewellery, fashion, accessory, accommodation, entertainment or lifestyle brands will remain a medium-term mistake. The recent dip in

Chinese GDP growth rates to 7.5% has seen P/E indiscriminately take from all China facing stocks. I think that's a buying opportunity in plays on Chinese outbound tourism and its structural growth. I remain long luxury and my core Australian play on this theme remains Crown Resorts (CWN).

6. Airports

Airports are actually becoming a more pleasant and efficient experience. Even the worst European airports have some sort of retail offering now and, a bit like telcos, I suspect, the absolutely critical nature of airports to today's economy will lead to further re-rating. Airports are truly irreplaceable assets and with global tourist numbers increasing annually, and airline capacity rising in line with that increase in tourists, it's hard to see how airports are not GDP+ plays.

Interestingly, all the flights we were on were full, yes including QANTAS ones, and the airline industry is clearly doing better. Airlines are trading stocks and airports are investments: either way I think we all need more "air" exposure in portfolios despite the tragic events of last week.

7. Trophy property prices

Sydney prices are CHEAP compared to London, Paris etc. I remain of the view that Asian money will drive Sydney high-end property prices into the same stratosphere as leading European cities. As we make it easier for high net wealth global money to buy Australian property, you will see a further re-rating of Sydney trophy homes. Sydney, and only Sydney of the Australian capital cities, has the ability to attract that true trophy home/trophy apartment buyer. They are coming and Lend Lease (LLC) is the listed play on that theme.

8. Disney

Let it go, let it go.. the cold never bothered me anyway… Yes, even I now know the songs from Frozen after my four-year-old daughter watched it 6,789 times on our holiday. Walt Disney (DIS.US) are content creation and marketing geniuses as again evidenced by the success of Frozen. On 20x earnings, Disney is cheap.

I will expand more on these themes in the weeks and months ahead, but after a 30-hr flight home, that will do for now.

Back to the future – today

Now let's analyse the price movements of the companies and currencies I mentioned over the past 11 months.

	27/06/2014	12/06/2015	% change
EUR/USD	1.3464	1.1261	-19.5%
VISA	US$55.30	US$69.33	25.3%
Telstra	$5.45	$6.03	10.6%
Apple	US$97.19	US$127.17	30.8%
Google	US$594.38	US$532.33	-10.4%
British American Tobacco (BATS)	£35.50	£34.17	-3.7%
LVMH	€ 125.99	€ 162.35	28.8%
Hermes	€ 267.15	€ 358.60	34.2%
Crown Resorts	$15.66	$12.93	-17.4%
QANTAS	$1.27	$3.22	153%
Sydney Airport	$4.33	$5.28	22%
Sydney Trophy Homes	No data	No data	UP ↑↑↑
Lend Lease	$13.10	$15.88	22%
Walt Disney	$86.04	$109.95	27.7%

12/14 predictions from that holiday were accurate. The two that didn't work, Crown and Google, were not disasters and would have only been a slight flesh wound if the portfolio above had been constructed on an equally weighted basis.

Funnily enough most of the replies I got to this note at the time, were about Disney's *"Frozen"* and how insane *"Let it go"* was driving most parents. This is the greatest example of investing by observation. Disney shares are up 27.7% since that point in US dollar terms, but up 56% in Australian dollar terms. That was possibly the most obvious 56% return any Australian parent could have made. That would have paid for next year's school fees.

As the great Peter Lynch said ***"the best investment ideas you can see with your own eyes in everyday***

life". That remains more accurate than ever as the table above confirms.

You need to get out to find out, then set a high conviction portfolio looking out 18 months and wait for the market to come to you.

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Was it time to pounce?

by Ron Bewley

Key points

- *Taking advantage of sudden drops in prices isn't necessarily trading but rebalancing based on mispricing.*
- *Rebalancing every three months gains precious little over doing so every six months, but rebalancing every six months could be much better than once a year.*
- *There are many great companies in the healthcare sector but how high can investors push prices with such small dividends?*

Last month, I posed the question, 'Is it time to pounce?"

In my opinion, all sectors had become very reasonably priced or cheap last month. I sold some more Cochlear on May 13 as it looked like its brilliant run might end in tears. As it happened, the stock price has levelled out at around the price at which I sold.

I then 'pounced' on Santos on June 4 because it had been really quite beaten up but looked to have a great future – measured by sector forecasts and exuberance in the then equivalent of Table 1 below – and its own broker recommendations. That stock price has too has moved sideways since – for now. I think it has a great future or I wouldn't have added nearly 50% more to my previous position!

I am hoping that my trade of the month was my buy of Westpac at $31.25 on June 15, following the logic and heat spot chart I showed last month. In effect, I bought back the Westpac I sold at $37.61 on 26th February 2015 but I missed out on the dividend and franking credits amounting to about $1.33 per share. I have set out the history of this parcel of shares in Chart 1 because it so clearly explains how I use my measure of exuberance to gauge market sentiment.

Chart 1: Westpac share price and financials sector exuberance

***Source**: Thomson-Reuters Datastream & Woodhall Investment Research*

Back on the 19th November 2008, I had the financials sectors seriously underpriced – by -32.4% on the day. Many people didn't take me seriously because being underpriced by 32.5% means that the 'fair value' was about 50% higher [1/(1-.324) = 1.48] than the then current price. Fair value for 19/11/08 is shown by the horizontal purple line in Chart 1.

Because the fear index was then so high, it unsurprisingly took a while to reach that estimate of fair value – but then it traded largely sideways for a year or two. That helped me have even more faith in my exuberance measure.

The high-yield play from the second half of 2012 took the price of Westpac up from the mid $20s to the low to mid $30s for much of 2014. Then, at the start of February 2015, the RBA rate cut made the market go wild. I sold on 26th February because I wanted to gain greater exposure to the S&P 500 (i.e. I was rebalancing and not trading) and that looked like a

good time to do it.

Then, I had the sector overpriced by +7.9% and 'fair value' on 26/2/15 was as shown by the horizontal red line.

I had intended that to be the end of that story, but when Westpac's price fell sharply to $31.25 – the sector then being underpriced by 5.0% – it seemed too good to be true – especially as the senior executive was going through a very interesting shake-up.

The Cochlear sale from a while earlier funded the buy. But I do not call this behaviour of mine trading – it is rebalancing based on mispricing. I now have very little spare cash (1%).

The best rebalancing strategies

In a very different line of enquiry, I presented a paper at the 2nd Annual Asset Allocation Conference on June 12th. It's a long story but the conclusion (so far) is that rebalancing my portfolio every three months gains precious little over doing so every six months (and it requires a lot more effort and increases the risk of making a mistake!).

However rebalancing every six months would have been much, much better than once a year over a dozen different start dates for these monthly portfolios. Portfolios get tired and my results-to-date suggest that once a year is too infrequent. Of course, investors who pay tax need to take any CGT into account.

Readers might recall I rebalanced the particular portfolio that I first invested in late June 2014 after about 9 months (March 5th, 2015) based on a less rigorous assessment of the situation. So I now do not plan to rebalance that portfolio until September 2015 after the next reporting season. I so love having evidence – even if it is preliminary – to back my behaviour in the market!

Sectorial review

So while I am sitting on my hands, I plan to evolve a suitable strategy for reducing my equity exposure for when the future looks bleak – as one day it certainly will. My thoughts so far centre on around how I currently populate my sectoral allocations of the S&P/ASX 200 with stocks. Since a stock has to pass certain hurdles to get selected from the total number allocated by my algorithm to that sector, sometimes a sector gets no stocks allocated at all.

There may be no standout stocks in a sector even though the sector as a whole is reasonable. In that case I currently redistribute the sector's potential allocation across those sectors containing quality stocks.

As a first pass, instead of redistributing potential allocations to vacant sectors, that wealth can be assigned to cash. At a second pass, if there are insufficient stocks to fill the prescribed quota for a given sector, then the excess allocation too could be re-assigned to cash, rather than to the surviving stocks.

This path seems preferable to just selling a portfolio in proportion across all stocks. I want robustness! But I do think it is far too early for me to go to cash. However, the day will come.

It is one thing to set (or buy from cash) a portfolio in times that might become turbulent but another to sell-down a legacy portfolio that was bought in happier times.

There seems to be to me two guiding principles. One is to sell down as in accord with the rules outlined in the previous paragraph. Another is to partially sell down stocks in sectors that are over-exuberant. I reckon I have at least a few months to a year before I need my cash strategy in place! I'll let you know what I think is best – and hopefully in time – but I am not inclined to make up ideas on the fly just because they sound good.

For interest I am showing my current sector forecasts and exuberance – and for the index – in Table 1. I can't stress enough the importance of having a great sectoral allocation plan before one tries to populate it with stocks but, with that proviso, all of the high yield sectors have yields between 4.8% and 5.3% with modest prospective capital gains for FY16.

Staples look great, but the water has been muddied

by the possible influx of competition from European supermarket chain and Woolworths' woes. Energy, too, looks excellent but the big boys can move commodity markets quickly. I still own, and like, Santos and Woodside.

It's hard not to want to own some BHP (and now, also, South 32) and Rio but I won't dig in any deeper. But I do worry about Healthcare stocks. There are many great companies in the sector but how high can investors push prices of them with such small dividends? I went through most the GFC with about 30% healthcare stocks (which served me very well) and now I have a negligible proportion – after selling lots of Cochlear and CSL at a nice profit.

I could well be proven wrong but I don't want to manage my super on the roll of the dice. I just feel a big correction coming in that sector – and sometimes gut feeling should influence hard-headed stats. Resmed took a big hit recently based on one adverse clinical trial. The sector has a great future – but isn't it going to take a breather and/or correction sometime?

Table 1: 12-month-ahead sector forecasts of exuberance, yield and capital gains

	Sector	Exuberance	12 month forecasts	
			Yield	Cap gain
Resource-related	Energy	-2%	3.3%	37%
	Materials	-3%	3.7%	14%
	Industrials	-2%	3.7%	16%
High yield	Financials	-2%	5.3%	6%
	Property	1%	4.8%	3%
	Telco	0%	5.0%	8%
	Utilities	2%	4.9%	5%
Other	Discretionary	-5%	3.9%	17%
	Staples	-11%	5.1%	15%
	Health	-3%	2.1%	15%
	IT	-2%	2.8%	11%
	ASX 200	-3%	4.6%	11%

Source: *Woodhall Investment Research; at close 22nd June 2015*

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Credit Suisse upgraded BHP (BHP) to Neutral from Underperform. Buy/Hold/Sell 3/5/0 The broker downgrades commodity price forecasts, continuing to be bearish on iron ore. Even with below-consensus earnings forecasts, BHP's balance sheet holds up reasonably well.

UBS has upgraded Healthscope (HSO) to Buy from Neutral. Buy/Hold/Sell 3/2/1 Healthscope has announced the sale of its Australian pathology business to private equity, which the broker sees as a positive move. The business has always been problematic, lacking sufficient scale to make it work. The funds can now be used to finance brownfield hospital expansion, which the broker sees as offering earnings turnaround potential.

JP Morgan upgraded NAB to Neutral from Underweight. Buy/Hold/Sell 3/5/1 The bank has underperformed the sector since its first half result and JP Morgan upgrades to Neutral from Underweight, given a more evenly balanced risk/reward. The bank has now ruled a line under its UK exit which provides some certainty and the broker suspects the bank may be a relative beneficiary upon transition to Basel 4.

JP Morgan upgraded Seek (SEK) to Overweight from Neutral. Buy/Hold/Sell 4/2/2 Seek has been forced to issue a profit warning, with most of the impact in FY16. While disappointing, JP Morgan analysts point out the company retains a track record of delivering growth, and opportunities to grow remain. On this basis, the rating has been lifted to Overweight with the analysts suggesting recent share price punishment now offers investors with a favourable entry point.

Credit Suisse upgraded South32 (S32) to Outperform from Neutral. Buy/Hold/Sell 5/1/0 The broker downgrades commodity price forecasts but upgrades South32 to Outperform from Neutral to reflect the fact it has capital management options which its large cap peers do not. The company's FY16 estimates are cut substantially. South32 has plenty of leverage to an expected lift from cycle-low commodity prices, in the broker's view.

In the not-so-good books

Credit Suisse downgraded Flight Centre (FLT) to Neutral from Outperform, Macquarie from Outperform to Neutral, and Morgans downgraded to Hold from Add. Buy/Hold/Sell 2/3/2 The company has downgraded FY15 estimates amid more competition and a slowing market. Credit Suisse downgrades FY16 forecasts by 7.4% on the expectation the current rate of growth continues. The impact is small and should not materially affect the packaged holiday market where Flight Centre dominates, in Macquarie's view. However, it raises concerns around the margin outlook for FY16 and FY17. The rate of decline in Australian operations during the second half is of concern to Morgans, given Flight Centre was already cycling a weak comparable period. Morgans notes FY15 has been impacted at all levels from a tough consumer environment, revenue margin contraction, higher costs and lost market share.

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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Short n Sweet – seek out some Seek at these prices

by Penny Pryor

Employment services and training company Seek has long been a favourite of *Switzer Super Report* writers. Last July, CEO of investment manager EC Pohl & Co, Manny Pohl, wrote about why he has held it for eight years and George Boubouras analysed it way back in June 2012.

But a downgrade earlier this week has hit the stock hard – shaving nearly 15% off the share price.

Source: *Yahoo!7 Finance, 25 June 2015*

In the scheme of things it wasn't a particularly big downgrade. NPAT in the second half was downgraded from "moderately greater than 1H 15" to "broadly in line" with 1H 15. EBITDA for Seek Learning moved from "greater" than $32.6 million to "$31 million-$33 million."

"The main cause of SEEK Learning's results being lower than our prior expectations relates to one-off issues with an IT systems upgrade undertaken by TAFE NSW. SEEK Learning had fulfilled its sales obligations but TAFE NSW's IT issues resulted in errors and significant delays in the enrolment process, ultimately leading to incomplete enrolments and very high withdrawal rates," CEO Andrew Bassat said in a statement to the market on Monday.

Seek Learning is only responsible for about 18% of Seek's earnings, and as Paul Rickard says in his Switzer Daily article today, it's a pretty minor downgrade.

"It appears to be symptomatic of the problems a group undertaking rapid offshore expansion can encounter where management's attention is distracted by bedding down the new businesses, and loses focus on issues closer to home, such as an IT upgrade," he says.

The brokers are reasonably positive on the stock and have four Buys, two Sells and two Neutral rankings. The consensus target price of $16.26 is a 15% premium to the current market price.

"Seek's long term growth record is pretty impressive, and despite the challenges in the Learning Division, Seek International and Seek Domestic are on track to post higher earnings," Paul says.

So it may not be a bad time to buy if you're thinking of holding for the long term.

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About to retire? You need to read this

by Tony Negline

For those born after 1 July 1960 an important change will take effect on 1 July 2015 that will alter your ability to access your super.

This rule, which was introduced some 23 years ago, changes your ability to access your super after retiring permanently.

Everyone who belongs to an Australian superannuation fund has a "preservation age" according to the following table:

Date of birth	Preservation age
Before July 1960	55
After June 1960 — before July 1961	56
After June 1961 — before July 1962	57
After June 1962 — before July 1963	58
After June 1963 — before July 1964	59
From 1 July 1964	60

The key is what happens on 1 July this year. For those born after June 1960, 56 will be their "preservation age" but for others, you need to take note of the following.

If you're:

1) Aged at least your preservation age but under 65 and ceased work before age 60

If you ceased work before you had your sixtieth birthday then you have to pass two tests before you can access your super money as a lump sum.

Firstly you must be aged at least your "preservation age" – 55 for those born before July 1960 and 56 for those born during the 1960/61 financial year.

Secondly you must be able to satisfy your super fund trustee that you've ceased work and never intend to work again for more than 10 hours per week.

APRA regulated super funds will typically ask you to sign a declaration. For SMSFs, your auditor will probably want to see a signed letter to your trustees requesting the benefit be paid and that retirement is evidenced by a signed document – maybe a statutory declaration – stating that you've retired and won't be seeking paid employment in the future. A letter from your employer might be helpful.

By making this declaration, can you never return to work? The key issue is your frame of mind when you make the statement. This doesn't mean your life won't change at some future point in time.

In relation to making these declarations about ceasing work and your future intentions, it's important not to be silly. Super monies accessed illegally are taxed at the highest marginal tax rate and SMSF trustees can be fined for super law breaches.

Once you hit your preservation age then you can elect to take your super money as a transition to retirement (TTR) pension. A key feature of these pensions is that lump sums aren't allowed until an access rule discussed here is satisfied.

2) Aged at least 60 but under 65 and ceased work aged at least 60

If you ceased work on, or after, you turned 60 years of age then full access to your super is immediately allowed. Note you don't have to fully stop work. You just need to stop one job.

A super fund will need proof that you have ceased employment via signed declaration, employment letters and so on.

3) Aged at least 65

Full access is permitted even if you're working full-time. There are no restrictions – you can take some or all of it as a lump sum or pension or multiple pensions.

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Overseas exposure and SMSF single asset risk

by Questions of the Week

Question: I follow your articles with interest and like your ideas. I understand that we are heading for a bit of volatility and perhaps, with this in mind, we should be looking outside the square. My question to you all is: how to target the markets that our “cousins” in the US can get access to? I think India will eventually get going and was wondering if you think the India Fund currently being offered would be a good investment?

Answer (By Paul Rickard): I think if you want to target the markets “that our cousins in the US get access to”, then it may be easiest to open an international share trading account (try Nabtrade or CommSec) and buy units/shares in these funds directly that are listed on the major US exchanges. Back on the Chinese market, there are funds locally like the AMP Capital China Growth Fund (ASX Code AGF), however it is only investing in China A shares.

With regard to the India Fund, I won’t be investing (at least not in the IPO), and not now since the huge run up in their market. My impression of India is huge potential, missed opportunities. Maybe this time it will be different.

Question 2: My wife and I are 52 years old and established our SMSF about four years ago. We had about $300,000 and we decided to purchase a unit for about $700,000. We have about $30,000 worth of shares in the fund. I am concerned I may have to sell our property upon retirement to satisfy government regulations that I have to draw down 4% of my SMSF if I’m under 65, 5% if I’m between 65-74 and so on. Can you shed some light on this issue if your SMSF is mainly comprised of real estate?

Answer 2 (By Paul Rickard): This is the law – so yes, if you start a pension and only have one asset – then you will need to sell it so that you can take the minimum pension.

You don’t have to start a pension – ever! If you don’t, your fund will continue to pay tax at 15% on earnings – rather than 0% if it is in pension phase.

So, bottom line, if you are planning to start a pension (potentially, you will be eligible at circa 58 – assuming you were born between 1 July 62 and 30 June 63) – then you should be planning to get some other assets into your fund.

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