Switzer Super Report
Advice you can trust

Thursday 17 December 2015

It's lift-off!

Janet has finally announced that hike that we have all been Yellen for. Wall St liked it and so did Charlie Aitken who (like yours truly) believes the rate lift-off will spur a shift from bonds to stocks as income-hungry investors look for yield. Charlie gives his take on the outlook for equities and how he is "nibbling" at one certain battered miner!

Also in today's *Switzer Super Report*, Tony Featherstone gives us an update on our takeover portfolio and reveals some less-obvious targets. In *Buy, Sell, Hold – what the brokers say*, Suncorp gets an upgrade but Sonic Healthcare gets a downgrade due to US health changes and proposed cut backs to pathology services from that MYEFO!

Sincerely,

Peter Switzer

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The Fed finally gets it right
by Charlie Aitken

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The Fed finally gets it right

by Charlie Aitken

Last week I wrote in detail about my expectation the Federal Reserve would deliver a “dovish hike”.

Thankfully at 6am this morning Sydney time, they did and the markets, led by Wall St, reacted the right way.

After 2,566 days of Zero Interest Rate Policy (ZIRP) we finally have US cash rate “lift off”.

In a unanimous decision, and 3,459 days since their last rate hike, the Federal Reserve raised its benchmark interest rate from near zero and importantly emphasised a gradual approach to future rate increases.

The Federal Open Market Committee (FOMC) raised the federal funds rate by a quarter percentage point to a range of 0.25% to 0.5%.

“The [Fed] expects economic conditions will evolve in a manner that will warrant only gradual increases in the fed funds rate,” according to the FOMC statement. To emphasise that gradualist approach officials later stated that they anticipate “gradual adjustments” in rates going forward.

New “dot” projections showed officials expect the benchmark rate to rise to 1.375% by the end of 2016, to 2.375% by the end of 2017 and 3.25% in three years.

Importantly that is a slower pace than projected by officials in September. Back then seven Fed officials believed the fed funds rate could rise to 3% or higher by 2017; now just four are of that view. The Fed said it would “carefully monitor” actual and expected progress toward the [inflation] goal. “There has been considerable improvement in the labor market,” the Fed said. The Fed also raised the rate it charges banks on emergency loans, by a quarter percentage point to 1%.

That is classic “dovish hike” speak and that is why Wall St liked it.

To quote from my SSR article last week:

“I believe the Fed will embark on a “dovish hike”. They are right to be keen to get away from 0% cash rates, but they also don’t want to undo all their heavy lifting of the last decade by having markets fear that rates are going to rise quickly.

My very strong view is they will accompany the rate hike with VERY dovish commentary. I have been highly critical of the Fed’s mixed messages this year and its absolutely crucial to all of us they get the wording exactly right that accompanies the rate rise and will set market expectations from that point.

In my opinion they will attempt to guide to very “gradual”, “data dependent”, “patient” rate rises in the future. The markets may even believe its “one and done” and if that happens there will be some very tradeable price action in anything US Dollar denominated.

We need to put in context that the markets are now fully discounting in a 25 rate rise. What they aren’t pricing in is the reaction to the “dovish” commentary I expect.”

What was most interesting was watching Wall St’s reaction this morning to the widely expected hike. The entire world expected the hike this morning, but as I wrote last week (above), the market reaction would all come down to the wording of the Fed’s statement and Janet Yellen’s press conference.

The initial reaction to the 6am rate hike confirmation was somewhat underwhelming. US equity futures rose a fraction and bond yields rose a fraction. However, from 6.30am when Yellen addressed the press US equity futures moved sharply higher as investors reacted positively to her words.

Most interestingly, Wall St was led by yield based equity sectors such as REITS, Utilities and Financials. This is a clear reaction to the Fed's dovish tone and investors reacted positively that interest rate rises will be measured and the era of ultra- low interest rates is far from over. On that basis the so called "yield trade" is far from dead and equity investors searched for yield in equities while debt investors even bid up the recently beaten up US Junk Bond market.

I can't stress enough how important the markets reassessing the pace of future Fed rate rises is. It means investors will still find no real yield in cash for many years yet. That is the key point. If you need investment income cash is still going to yield negative real.

Interestingly, yield sectors including Australian banks, Australian REITS and Telstra (TLS) have been de-rated in the six months leading into the Fed hike. I think those sectors have seen their worst and the world will once again seek the reliable dividend yield in these sectors in the months ahead.

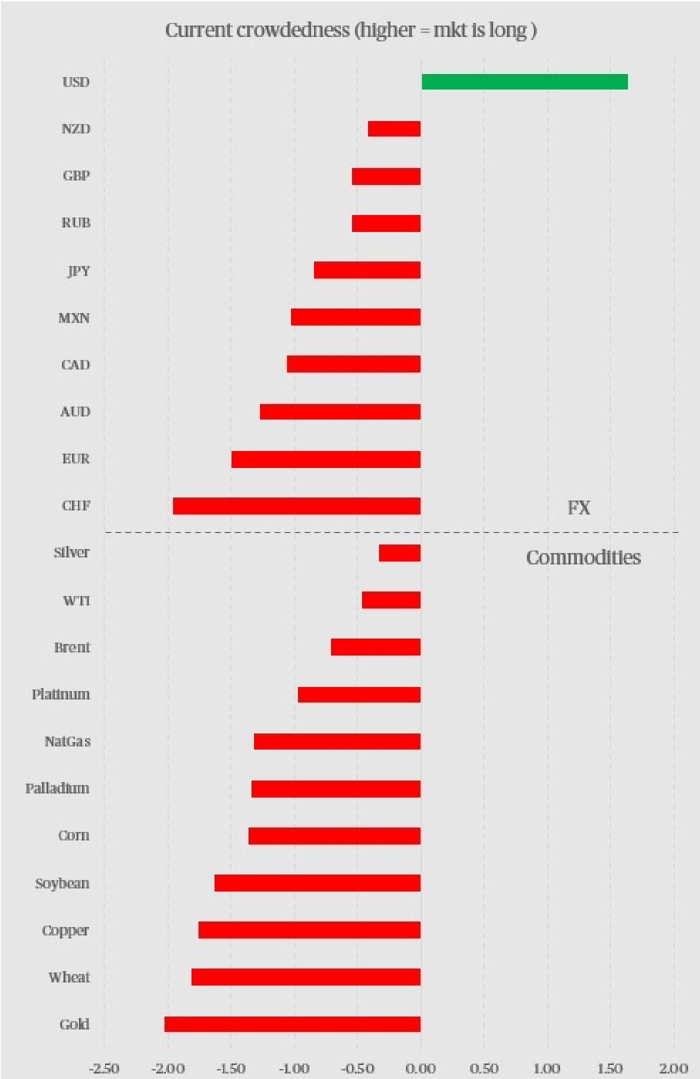
The other clear point is the dovish Fed may well take some heat out of the mighty US Dollar in the short-term. You saw, as I forecast, the US Dollar Index (DXY) fell on confirmation of the hike and the Australian Dollar and other commodity currencies are up despite Oil being down on inventory issues again.

As I wrote last week,

The world, led by markets, are very ready for the rate rise. The US Dollar is up +23% in a year, commodities denominated in USD have been crushed, emerging markets have been crushed, emerging market currencies have been crushed, and as we all know, commodity currencies have been crushed. Yield based equity sectors have started to underperform globally.

In the way I approach markets the rate hike is a "known known": the market reaction to it is the "unknown unknown" that professional investors like myself have to get broadly more right than wrong.

To confirm markets are now positioned for the "known known" of "lift off", independent global macro research house Vanda Securities who analyses overall investor positioning, published the following chart this week.



What this table tells you is investors are over 1.5 standard deviations long the USD, and 1.5 standard deviations underweight/short pretty much anything else denominated in USD.

This is highly believable because investors have had so much time to get ready for this event, "lift off".

What could easily happen on confirmation of "lift off" is a reversal in many of these very crowded positions, led by some profit taking in the mighty USD which in turn would trigger short-covering in commodity currencies, commodities and emerging markets.

I broadly believe Fed "lift off" is a positive event. It ends a year of uncertainty and shows confidence in the US economy's self-sustaining growth profile. I also believe it paves the way for US equities to ADVANCE in late 2015 and into 2016, after Wall St's global underperformance in 2015, driven primarily in my view by Fed uncertainty and the Fed's previously woeful communications policy that in itself trigger volatility in risk asset markets.

What I expect to see from December 17th and onwards in the United States is a rotation from long bonds to equities. The long awaited *"great rotation"* from bonds to equities might just be trigged by the Fed's "dovish hike".

History suggests US equities continue to advance through the first four Fed rate hikes. I believe this will no different this time around and now we have "lift off" and end a year of uncertainty and volatility on a more positive and certain note. Markets like certainty that is one thing that is certain. You can see that this morning on Wall St.

While you know I am bullish on Australian equities around these 2.5 year index lows, and I expect a better total return from the ASX200 in 2016, for that to happen we need resources, but particularly BHP Billiton (BHP) to bottom out and start regaining a little ground.

I get endless questions on BHP, particularly since it fell below $20.00. The more the stock fell, the more questions I got. Fair enough, I don't think anyone ever thought BHP would have a $16 in front of it.

BHP has suffered from a series of "unfortunate events", the final one being the dam collapse.

However, I believe this is no different to three other deep value large cap situations I have been involved in my career, Telstra (TLS), Wesfarmers (WES) & Qantas (QAN).

At $2.80 in Telstra with the Future Fund dumping stock and the company in a fight with the government I called TLS " a gift from the Nation". I went on to be my best contrarian call ever. Similarly, with Wesfarmers getting creamed down to $15.00 after buying Coles I also aggressively recommended buying the stock. That one went onto triple and pay about $10.00 of divs along the way. In Qantas, I wrote a thesis at a $1.00 that you were "buying the airline for free" because the frequent flyer business was worth more than the enterprise value of the company at the time. Sure I also got a bit lucky with the oil price collapse in Qantas but the thesis about valuation and rational competition was correct. Qantas rallied +200% from that point.

The current BHP share price reminds so, so much of TLS, WES and QAN at the bottom. None of those made instant share price recoveries, but if you bought the nadir of pessimism you bought value and value was eventually released.

The way to approach these situation is to "have a nibble" and that's exactly what I've done in the AIM Global High Conviction Fund in BHP Billiton. I just couldn't resist the temptation below $17.00. Have I bought the bottom?? I can't be sure of that, but I know I've bought value driven by extreme pessimism. That's what I did in TLS, WES and QAN, and I'm confident this BHP situation is no different.

Just remember it's always darkest before the dawn and right now in terms of BHP Billiton's share price it is pitch black. If you want to do something in reaction to the Fed's "dovish hike" I would suggest there are worse things to do than "have a nibble" in BHP shares around $17.00.

Takeover targets update: Ansell and 3P Learning

by Tony Featherstone

There are obvious locations for takeover activity in 2016: the media sector as media-ownership laws are reformed; transport and agriculture stocks as global firms target the Asia middle-class; and beaten-up resource stocks that are priced for Armageddon.

But the best takeover battles could come from unexpected paths: the left-field ideas that few predict and are based on company-specific ideas rather than themes. That was the case in 2015 with Japan Post's takeover of Toll Holdings, and bids for Asciano and Broadspectrum.

Protective gloves firm Ansell rarely features on takeover targets lists. The maker of condoms and medical, industrial and household gloves does not have obvious takeover appeal or a high market profile. It operates in mostly commoditised markets that have lower barriers to entry, and faces sluggish organic growth in developed markets.

That's hardly the stuff to get predators swooping. But the market is undervaluing Ansell's dominant position in several key markets, at the current price, and factoring in too much bad news based on non-recurring problems around tax and foreign-exchange expenses.

The market could not get enough of Ansell last year. It soared 40% between January 2014 and April 2015, amid expectations of stronger earnings growth.

Then reality struck. Ansell's 2014-15 profit result broadly met market expectations, but the strengthening US dollar and uncertainty in emerging markets led to a significant downgrade in earnings guidance. Its organic growth limped in at 0.6% in FY15.

A jittery market hammered Ansell. It slumped from a 52-week high of $30.40 in April to $18.48 in October, before edging up to $19.96. The heavy price falls wiped out almost two years of share-price gains, even though the main causes were related to currency and tax rather than ongoing operational issues.

Chart 1: Ansell (ANN)

Source: Yahoo

That's the bad news. The good news is that Ansell is in value territory after heavy share-price falls. It meets the first criterion for the *Switzer Super Report* takeover target lists: an attractive investment at the current price with or without a takeover approach. It has good earnings consistency and defensive qualities – valuable attributes in an uncertain market.

At $19.96, Ansell trades on a forecast Price Earnings (PE) multiple of about 13 times FY16 earnings, according to consensus analyst estimates. On Macquarie Equities Research numbers, Ansell trades at a 16% discount to the ASX 300 index (based on a $20.84 share price).

Macquarie has an outperform recommendation and a $26 target price over 12 months. Morningstar has an accumulate recommendation and values Ansell shares at $25. Share-valuation tool Skaffold values Ansell at $24.38 in three years. These and other broking forecasts suggest the firm is among the more undervalued blue-chip industrial stocks.

So why is Ansell trading at a big discount to the rest of the market when it has leading global brands in its segments and strong, growing exposure to emerging markets that will have higher demand for protective gloves and condoms? My guess is that some large medical-supplies companies are asking the same question as Ansell's share price falls.

Like other firms, Ansell is struggling with sluggish organic growth and having to find opportunistic, bolt-on acquisitions to boost sales. A multinational US consumer goods company, facing the same weakness in organic growth, could find Ansell a neat acquisition given its leading market position in industrial, single-use and medical gloves, and number-two position in branded condoms.

Ansell is arguably more innovative than the market appreciates. It has launched more than 100 new products and innovations over the past three years and achieved 35% new-product sales growth in FY15 – an excellent result. A solid balance sheet and economies of scale provide scope to innovate and achieve higher margins than competitors, without huge outlays in capital expenditure or research and development.

Although Ansell is suffering from its exposure to Brazil and Russia, its growing presence in emerging markets is a significant long-term strength. An expected boom in middle-class consumption in emerging markets over the next 15 years will surely drive stronger demand for protective gloves and clothing and sexual wellness products.

Yes, Ansell has plenty of immediate challenges. But the market appears to have over-reacted to the earnings guidance downgrade and become too short-sighted.

That has created an opportunity for a predator with a longer-term focus to bid for an Australian industrial business with a genuine offshore footprint, market-leading position in key segments, and valuable emerging-markets exposure. Such businesses are rare in Australia.

3P Learning has strategic appeal

I confess a great interest in online education. Few business models are more powerful than selling the same digital content over and over, in a global market, and benefiting from recurring income and high margins. It's a beautiful business when it works.

I've followed online education provider 3P Learning since its float in July 2014 and recently wrote on it for the *Switzer Super Report* in an article on new-media stocks.

About 5.3 million children in more than 200 countries use 3P Learning products, the best known of which is Mathletics. It distributes Reading Eggs, another favourite online education tool among parents eager for their children to learn to read early.

However, 3P Learning has struggled to trade above its $2.50 issue price, despite exceeding its prospectus forecasts, making smart investments in US educational businesses that complement its product suite, and generally performing well.

At $2 a share, 3P Learning trades on a forecast PE multiple of about 18 times, based on a small consensus of broker forecasts. Deutsche Bank reportedly had a $2.90 share-price target for 3P Learning in September.

Most software companies expanding rapidly overseas and delivering 20 % annual revenue growth demand higher valuation multiples.

3P Learning's relationship with 17,000 schools worldwide and growing US presence are significant assets that are hard to replicate. A bigger educational company could bolt-on 3P Learning's products and distribution channel and harness its creativity and innovation to develop other products.

Like Ansell, 3P Learning is an interesting long-term investment at the current price, regardless of any takeover approach, for investors comfortable with small-cap stocks. If the market cannot see the value in a fast-growing global education company with 5.3 million users worldwide, a larger education-software company eventually will.

Chart 2: 3P Learning

Source: Yahoo

Takeover targets update

It was another busy month of the *Switzer Super Report* takeover targets list.

Online foreign-exchange provider OzForexGroup received a preliminary takeover approach from Western Union in November and granted it exclusive due-diligence rights later that month. OzForex's share spiked by almost a third on the news.

Among other stocks, insurance and utilities products aggregator iSelect wisely ended discussion with suitor Providence Equity Partners. After a procession of CEOs, iSelect was in no shape to get the best shareholder outcome.

Finally, thanks to readers for their support of this column over the past 18 months. I wish you a safe and happy holiday period and look forward to resuming this column in 2016, in what should be a boom year for mergers and acquisitions.

Takeover targets	One-year total shareholder return* %
Treasury Wine Estates	75
Nufarm	66
Gold Road Resources	49
Challenger	33
Reckon	32
Monash IVF Group	20
NIB Holdings	18
Automotive Holdings Group	17
Aurizon Holdings	17
OzForexGroup	16
Ansell	-4
3p Learning	-5
Qube Holdings	-6
Australian Agricultural Company	-8
iSelect	-9
Myer Holdings	-9
OrotonGroup	-26
Ten Network Holdings	-27
South32	-48
Santos	-48
AWE	-56
Median return %	**-4**
1-year total return S&P/ASX 200 index %	**-1**

Source: Morningstar for one-year total return (assumes dividend reinvestment). Standard & Poor's for ASX 200 return. South 32 return calculated against its listing price.

Tony Featherstone is a former managing editor of BRW and Shares magazines. This column does not imply any stock recommendations or offer financial *advice. Readers should do further research of their own or talk to their adviser before acting on themes in this article.*

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Aurizon Holdings (AZJ) Upgrade to Hold from Reduce by Morgans B/H/S 4/4/0.

Morgans suggests recent announcements of coal production cuts by Glencore and Anglo American are indicative of a weak coal price environment and reduced haulage volumes ahead. Add in increased interest costs in the near term and the broker has trimmed Aurizon forecast earnings.

Add in the Paris Agreement and coal haulage may face long-term structural headwinds, Morgans says. The broker expects downgrades to consensus earnings forecasts but believes the share price fall captures concerns.

BHP Billiton (BHP) Upgrade to Outperform from Neutral by Credit Suisse B/H/S 4/3/1.

The fall in commodity prices has been so precipitous, Credit Suisse suggests, that a supply-side response must be imminent in the broker's view. Bulks still offer downside risk but base metals are further progressed towards supply-side adjustment. Alumina and aluminium nevertheless remain challenged, the broker says.

BHP's earnings impact (ex energy) is not as significant as peers, but the broker suggests the company must rebase its dividend by half, in order to hold debt levels steady. However as this is already priced in by the market, therefore the broker upgrades the stock.

Iluka Resources (ILU) Upgrade to Neutral from Underperform by Macquarie B/H/S 3/4/0.

Contracting demand for most commodities and falling cost curves have driven a material reduction to Macquarie's outlook for commodity prices, particularly bulks and base metals, with the outlook for mineral sands little changed. The broker upgrades the stock because of a weaker outlook for the Australian dollar.

Suncorp Group (SUN) Upgrade to Overweight from Neutral by JP Morgan B/H/S 2/5/1.

The broker suspects claims trends will unwind and margin pressures ease in coming months and the steep falls in the stock post the trading update present a buying opportunity. Rating is therefore upgraded.

The extent of the downgrade to underlying margins, however, was large and the broker observes the company was having trouble explaining the trends. While believing the trends are real, the broker suspects some of the issues are volatile and could unwind.

In the not-so-good books

BC Iron (BCI) Downgrade to Underperform from Outperform by Macquarie B/H/S 0/2/1.

BC Iron has announced the temporary closure of the Nullagine joint venture (BCI 75%) because of depressed iron ore prices. Exports will cease in January. Macquarie suspects the closure will be permanent.

The broker observes the company has done a good job in cutting costs but this has not been enough. The company's fortunes are now envisaged to be in the hands of Mineral Resources (MIN), given current weakness in prices could result in Iron Valley being at risk of closure.

Newcrest Mining (NCM) Downgrade to Neutral from Outperform by Macquarie B/H/S 0/5/3.

Contracting demand for most commodities and falling cost curves have driven a material reduction to Macquarie's outlook for commodity prices, particularly bulks and base metals, with only modest cuts for gold. Gold producers earnings changes are mixed, with those with exposure to a weaker Australian dollar receiving some benefit.

However, the broker says that stocks with elevated levels of gearing such as Newcrest will put pressure on cash flows and therefore has downgraded the stock.

Oz Minerals (OZL) Downgrade to Underperform from Outperform by Macquarie B/H/S 5/2/1.

Macquarie has downgraded OZ Minerals' rating given its exposure to copper and the downgrade to the broker's medium-term outlook for that commodity.

Sonic Healthcare (SHL) Downgrade to Sell from Buy by Citi B/H/S 4/2/2.

October's Medicare stats indicated a grim industry outlook and now the mid-year economic and fiscal outlook statement has brought substantial cuts to pathology and imaging benefits. US Medicare has proposed changes to become effective in 2017 and Citi also expects a fee cut in Germany, all of which are negative for Sonic.

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New rules for SMSF art & collectibles

by William Fettes

Self-managed superannuation fund (SMSF) trustees should be aware that the grandfathering relief that currently applies to collectables and personal use assets held prior to 1 July 2011 will come to an end on 1 July 2016.

This means that the strict rules under reg 13.18AA of the *Superannuation Industry (Supervision) Regulations 1994* (Cth) ('SISR') which apply to collectables and personal use assets bought from 1 July 2011 will soon apply to older such investments as well.

To avoid potential penalties by the Australian Taxation Office (ATO), SMSF trustees with grandfathered investments in collectables and personal use assets will need to carefully review the rules under reg 13.18AA and take appropriate action before 1 July 2016 to ensure their investments are compliant.

Background

The current rules in the superannuation regulation (reg 13.18AA) arose in response to the 2010 Super System Review (also known as the Cooper Review).

The Cooper Review recommended a total ban on SMSF trustees making investments in collectables and personal use assets on the basis that there was an unacceptable risk and that SMSF trustees may be using these assets for present day benefits rather than for the purposes of retirement.

However, the Government at the time rejected the recommendation of a blanket ban and instead legislated the restrictions in reg 13.18AA of the SISR, which on commenced 1 July 2011 to address the concerns raised by the Cooper Review.

Firstly, let's recap what are collectables and personal use assets?

The regulation (reg 13.18AA) defines these assets as artwork, jewellery, antiques, artefacts, coins, medallions or bank notes, postage stamps or first day covers, rare folios, manuscripts or books, memorabilia, wine or spirits, motor vehicles, recreational boats, and memberships of sporting or social clubs.

The end of grandfathering

When the rules commenced on 1 July 2011, existing investments in collectables and personal use assets were excluded under reg 13.18AA(9) which provides that sub-regs (2)–(7) do not apply to investments in collectables and personal use assets that were held by the SMSF trustee on 30 June 2011.

However, the rules will begin to apply to these 'older' assets from 1 July 2016 because reg 13.18AA(9) will cease to be enforced as of 1 July 2016.

Thus, SMSF trustees with grandfathered collectables and personal use assets must conform with reg 13.18AA by July 2016.

Therefore after 1 July 2016, all SMSFs holding collectibles and art (as defined by the ATO) will have to comply with the new rules.

The new rules

Under the new rules, trustees must not lease collectables and personal use assets to a related party of the SMFS or enter into lease arrangements in respect of these assets with related parties.

Trustees also much not store collectibles and personal assets in the home of related parties.

The ATO also has rules around storing artwork in the business premises of a related party. The ATO says that if the SMSF invests in artwork, it can't be hung in the business premises of a related party where it is visible to clients and employees.

It is also important to keep a record of the reasons for deciding on where to store the assets.

Trustees must also insure collectibles and personal use assets in the name of the SMSF within seven days of acquiring such items, excluding memberships of sporting or social clubs.

Finally, an asset sold to a related must be sold at a market price determined by a qualified independent valuer.

Penalties for contraventions

The prescribed penalty for contravention of any of the above rules is 10 penalty units (ie, $1,800 currently) for each SMSF trustee.

Where contraventions involve a number of items, the potential for a penalty multiplier to apply to the facts should also be considered. Case law, such as Olesen v Eddy [2011] FCA 13 [32], Vivian v Fitzgeralds [2007] FCA 1602 [33] and Australian Prudential Regulation Authority v Derstepanian (2005) 60 ATR 518 [31] suggests that a multiplier approach is unlikely, however, no guarantee can be given about this and SMSF trustees should be very careful to ensure they comply with the rules.

Conclusion

The grandfathered protection for collectables and personal use assets held prior to 1 July 2011 comes to an end in July 2016. Therefore, SMSF trustees with such grandfathered investments will need to take appropriate action to ensure they meet the strict requirements of the SISR prior to 1 July 2016.

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My SMSF

by Richard McDonald

Why did you start it up your SMSF?

I was in a company superannuation fund. I decided to take advantage of the choice-of-fund legislation (which came into effect in 2005) and do-it-myself, so I transferred out of the corporation fund and into my self-managed superannuation fund, which I set up with my wife. SMSFs offer many tax advantages and offered flexibility in transition-to-retirement strategies which suited me at the time.

How big is the fund?

It is $3 million.

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

I used to manage the fund myself but now I have an accountant that takes care of all the compliance issues rather than providing just the audit function. I do enjoy managing the fund as it gives me the satisfaction that I am doing it myself and I am responsible for my own financial security.

Are you pleased with its performance?

I think I made the right call back in 2008 when I went to cash because I predicted a sort of market correction. That decision has helped the performance of the fund over the past few years.

Can you give us some numbers around the performance of the fund?

Over the past five years, the fund has delivered a 5.6% return.

What is your asset allocation?

I have 75% in domestic equity, of that 18% is in listed property, 2.8% in international equity (unhedged) and 24% in cash.

Do you have plans to change that asset allocation?

I am thinking of increasing my international exposure when the time is right particularly to Europe and the United States but the currency and valuations have to be right. Valuations in the United States are quite high and the Australian dollar needs to fall further.

What are your favourite investments and why?

I really like the big four banks, they have certainly provided some good returns over the years. I also like businesses like Sydney Airport because it is essentially a monopoly and companies like that are positioned very well to offer sustainable returns. I will definitely be watching BHP Billiton given that it is very cheap at the moment.

As a direct investor and chair of the Australian Shareholders' Association (New South Wales), I have a good insight into the companies I am looking to potentially invest with and to possibly sell!

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Bellamy and Bare Trusts

by Questions of the Week

Question: What are your thoughts on Bellamy's share price? It's had a great run over the last 12 months.

Answer (by Paul Rickard): Bellamy (BAL) has been an outstanding performer.

I note that the broker Morgans recently lifted its target price from $8.70 to $13.90 – apart from that I can't find anything else responsible for its latest run up.

While I would be inclined to take a little off the table, it might just be one of those stocks that you hang onto for the ride.

Question: I have noted the price of oil dropping yet the price of our fuel stays well over the dollar. Is there such a thing as a graph showing the comparison of the barrel cost vs the pump price say over the last 10 years.

Answer (by Paul Rickard): I don't have immediate access to such a graph.

You are right in that the price at the bowser is currently too high, and no doubt, will come down in time (after Christmas?).

That said, the relationship between the oil price and the bowser price will never be linear due to these other factors:

- The oil price is in US dollars, while we pay in Australian dollars. As the Australian dollar has fallen, this reduces some of the impact of a falling oil price;
- The Federal Government takes a fixed excise of about 38.6c per litre – this doesn't vary as the oil price changes; and
- Distributor margins (and profit margins for the retailer) don't change materially as the oil price changes.

As you can see from the above, the price of oil is just one factor (but obviously, a very important factor) in determining the price we pay at the bowser.

Question: Our special purpose corporate trustee holds real estate for our super fund. The titles are in the name of the trustee and no money is owed on the properties. Do we still need to set up bare trust?

Answer (by Tony Negline): If there is no debt on the property then there is no need for a bare trust. This is only needed for Limited Recourse Borrowing Arrangements.

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