Switzer Super Report

Advice you can trust

Thursday 14 January 2016

Good value in down markets

It’s been a tough start to the year. Yesterday’s better-than-expected Chinese trade data buoyed the markets temporarily. However, falling oil prices and modest growth numbers from the US dragged down our markets. Investing can be tough and with a challenging outlook, Paul Rickard outlines stock additions and stock exits that we have made to our high income portfolio. This should better position the portfolio for the year ahead.

It’s also important to remember that there’s still good value to be found, despite these crazy markets. In the *Switzer Super Report* today, Tony Featherstone looks at buying prospects in today’s market sell off. Christine St Anne gives us a take on the key investment themes for 2016 and Tony Negline examines a number of traps when it comes to deceased estates and SMSFs!

Sincerely,

Peter

Peter Switzer

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5 stocks to buy in a market sell-off

by Tony Featherstone

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5 stocks to buy in a market sell-off

by Tony Featherstone

The bulls argue the latest rout in global share markets is a buying opportunity: that China's decision to devalue its currency is positive in the medium term; that the US economic recovery is proceeding; and that Australia's economy is slowly improving.

The bears say the yuan's devaluation and the Shanghai Composite Index's sharp falls suggest China's economy is much weaker than realised. And, worse, that China will export its problems to emerging economies, further hurt commodity markets, spark a capital exodus from developing nations, and eventually engulf the global economy. It's cheery stuff.

I favour a milder version of the bear argument in the first half of 2016 and a milder version of the bull argument into the second half and beyond. For investors, that means watching and waiting for better value over the next six months, having cash to deploy, and focusing on companies with strong economic moats (sustainable competitive advantages) and reliable dividend yield, preferably fully franked.

This is no time to dive into the market and aggressively buy cyclical growth stocks, even though sectors such as resources are starting to look cheap. The turning point for resource shares, particularly energy companies, is closer. But we're not there yet because more time is needed for the commodity supply-demand equilibrium to get back into balance, as minerals and energy supply adjusts and demand stabilises.

Nor is this the time to try to time the market and second-guess what might happen. Although claims that the world is on the brink of the next global financial crisis are overstated, there is cause for concern: the decline in global trade is a portent to a slowing global economy in 2016. The question is whether tumbling equity valuations have sufficiently adjusted to the deterioration.

In the medium term (3 years-plus), I am still a great believer in the emergence of a larger Asian middle class, the need to spend trillions on Asian infrastructure to supply and store food, and the efficiency gains from automation, robotics and machine-to-machine learning that could have a more profound effect on corporate earnings than many realise. I remain optimistic on China's potential to transition to a consumer-led economy this decade.

Taken together, long-term portfolio investors should use the next six months to add to portfolios, but slowly and cautiously. The market will be characterised by powerful short-covering rallies, possibly in the next few weeks given the speed and magnitude of falls, and equally intense bouts of selling on the slightest bad news from China. There is no need to rush in and buy just yet.

With the ASX 200 at 4970 points as I write, now looks a reasonable time to buy a small group of stocks, provided investors can withstand short-term market volatility. We'll know more next few weeks if the market can hold that important index level around 4900 from a technical-analysis perspective, or if a new leg of the sell off in Australian equities and our currency is unfolding.

Whatever happens, cautiously accumulate stocks on the big market dips, stick to the highest-quality companies with defensible earnings, and pay even more attention to stocks with reliable franked yield.

Yield has rarely been more important. With diminished prospects for capital growth in the next six months, portfolio investors will again find most of their total return is from yield. Also, China's decision to devalue the yuan will force the US Federal Reserve to delay the timing and speed of future interest-rate rises. The Reserve Bank of Australia, too, will be forced to keep rates lower for longer or cut them again in the first half.

Investors will favour equities with reasonably higher yield than cash deposits, given persistent record-low interest rates. The premium from equity yield over the cash rate will expand. Defensive yield will also limit share-price losses as investors return to blue-chip shares when the yield becomes more attractive, provided they believe forecast earnings can be maintained.

The key is companies with reliable yield. At $15.45, BHP Billiton has a trailing yield of almost 15% after franking, seemingly too good to be true. It is. The market is perhaps signalling that BHP will not be able to maintain its dividend policy as commodity prices fall further.

Here are five companies that fit the bill for defensive yield in this market:

1. Commonwealth Bank

The king of income stocks has tumbled from a 52-week high of $96.17 to $78.33, amid deteriorating sentiment towards the banks. Higher capital requirements, fear of slower credit growth, falling house prices and rise in bad debts have crunched share prices. Value is returning to the big four banks. None are screaming buys, but recent share price falls have made them worthy of accumulation, particularly given their attractive fully franked dividends and ability to maintain them. Claims that the housing market is about to tank – and ensuing spike in bad debts and deterioration in bank earnings – are overstated, given the persistence of record-low interest rates. Flat or slightly positive house-price gains are likelier.

Commonwealth Bank (CBA) remains the pick of the banks, given its technology advantage over rivals, superior brand and capital position. At $78.33, it trades on a grossed-up forecast dividend yield, after full franking, of 8.2 cents in 2016-17, consensus analyst estimates show. The forecast Price Earnings (PE) multiple is a reasonable 13.3 times.

CBA

Source: Yahoo!7 Finance

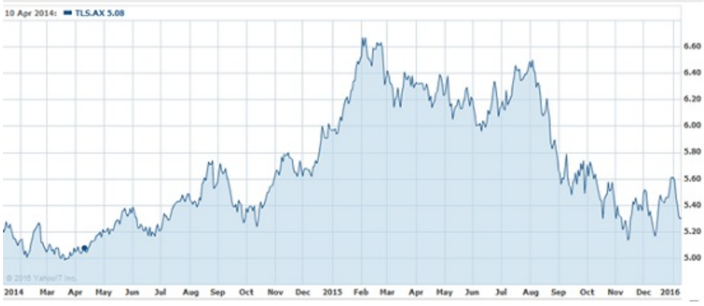
2. Telstra Corporation

The market's other great yield stock has fallen from a 52-week high of $6.74 to $5.30 amid the global sell off. A one-year total shareholder return (including dividends) of negative 14% is unfamiliar territory for Telstra investors after several years of strong gains.

At $5.30, Telstra has a forecast grossed-up dividend yield of about 8% in 2016-17, consensus analyst estimates suggest. Telstra reiterated in late October its guidance for mid-single-digit revenue growth and low single-digit growth in Earnings Before Interest, Tax, Depreciation and Amortisation – an outlook well flagged to the market.

Rising competition in mobile and fixed broadband is a headwind, but Telstra's economic moat – a superior mobile network and the scale derived from its market share and infrastructure – provide comfort. More than half of analysts who cover Telstra have a hold recommendation, and a median share-price target of $5.71 suggests modest capital growth from the current price. That's okay in a volatile market, provided Telstra slowly lifts its dividend per share.

TLS



Source: Yahoo!7 Finance

SYD

Source: Yahoo!7 Finance

3. Sydney Airport

The airport operator's 10% fall from its 52-week high of $6.69 looks almost tame compared with larger falls in the big-four banks and Telstra. Sydney Airport's wide economic moat, thanks to its monopoly asset, provides a haven in a sluggish economy.

The market has continually underestimated Sydney Airport's (SYD) earnings potential and its leverage to stronger inbound tourism growth from China. Several analysts over the years have argued it has too much debt, is overcomplicated and overvalued.

Sydney Airport's average annualised total shareholder return of 22% over five years has defied the sceptics. Its traffic performance for November 2015, up 4.7%, beat market expectation and underscored its leverage to Asian tourism.

Sydney Airport's forecast 4.2% yield, unfranked, is solid rather than spectacular for yield investors, although there is potential dividend upside as passenger traffic grows. Against that, lower economic growth in emerging markets and a lower yuan could constrain Chinese tourism, but few blue-chips in 2016 have such strong tailwinds in their market. The challenge is buying Sydney Airport when better value briefly emerges.

4. Sonic Healthcare

The pathology and radiology provider has had a challenging 12 months, falling from a 52-week high of $23.73 to $17.21. The market sell off and lower earnings guidance for 2016-17, due to healthcare fund cuts targeting pathology, diagnostic imaging and radiology, weighed on its price.

Sonic (SHL) said in December that the Federal Government's Mid-Year Economic and Fiscal Outlook, with its unexpected announcement of Medicare fee cuts, would lead to small single-digit declines in revenue and underlying earnings, if passed in the Senate.

Investors have over-reacted to the potential change and selling has been amplified in the market sell off. Sonic's Australia, United States and United Kingdom divisions are performing solidly, although the imaging business (a smaller proportion of revenue) was trading below expectation, in part because of regulatory uncertainty.

Seven of 14 broking firms that cover Sonic have a buy recommendation, five a hold and two a sell, consensus estimates show. A median share-price target of $19.76 suggests Sonic is undervalued at the current price.

Morningstar's fair value for Sonic is $22 a share ($21 if the Medicare cuts take effect) and Macquarie Equities Research valued it at $24 a share in mid-November. Sonic's grossed-up dividend yield of almost 6% in FY17 should start to attract income investors wanting exposure to a dominant medical diagnostics provider that is leveraged to an ageing population and has good long-term growth prospects offshore.

SHL

Source: Yahoo!7 Finance

5. Westfield Corporation

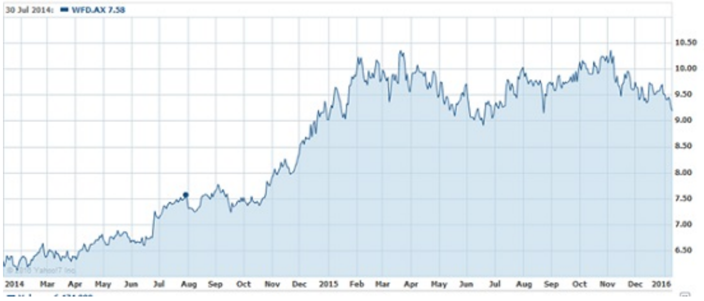
Retailers and shopping-centre owners would be among the last stocks to own if global economic growth slows and another financial crisis strikes.

Westfield Corporation (WDC), analysed in this column for the *Super Switzer Report* in early December, looks interesting after falling from a 52-week high of $10.66 to $9.19 – provided it holds technical support on its chart at $9.

Westfield's main attractions are its exposure to the US economy, which still has better prospects than most developed economies, and potential for significant rental increases when some leases are reviewed from 2017. Asset-valuation revisions and potentially a lower Australian currency in 2016 are other potential tailwinds.

At $9.19, Westfield's expected yield in 2016 is just below 4%, unfranked, consensus estimates show – a touch low for income investors. However, it arguably has better growth prospects than most ASX 20 stocks, provided the US economic recovery continues, which seems likelier as US interest rates remain low for longer than expected.

WFD



Source: Yahoo!7 Finance

– 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. All prices and analysis at January 12, 2016.

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Our high income stock portfolio for 2016

by Paul Rickard

The objective of the high income stock portfolio is to deliver tax advantaged income, whilst broadly tracking the S&P/ASX 200. Following above market performances in 2013 and 2014 and marginal underperformance in 2015 (24.36% in calendar year 2013 for outperformance of 4.16%, 8.13% in 2014 for outperformance of 2.52%, and 1.95% in 2015 for underperformance of 0.61%), we have made some changes to the income portfolio. These changes reflect our view on the dominant investment themes for 2016, which we expect to be:

- Continued low interest rates (yield sectors will continue to perform);
- The US Fed will be very cautious about further US interest rate rises;
- Australian dollar at around 0.70 US cents, but with risk of breaking down;
- Commodity prices remaining weak;
- A positive lead from the US markets; and
- Growth running below trend in Australia.

The changes to our portfolio include:

- We have exited our positions in Primary Health Care, South32 (which came as a result of the BHP demerger) and Woolworths. While Primary now looks super cheap, its performance has been horrible and as leverage is high, it remains vulnerable. With Woolworths, it is largely a matter of preferring Wesfarmers, while noting that Woolworth's fundamental issues remain unresolved;
- We have added IAG, Medibank and Sydney Airport. Although an insurance stock, IAG has recently announced that it has $7bn gross reinsurance cover and many also argue that the abandonment of a proposal to move into the Chinese market is a good thing. Medibank has been a solid but unspectacular stock since listing, while Sydney Airport is a leveraged infrastructure stock. A disadvantage of the latter is that the dividend is unfranked;
- We have moderately increased our weighting to the financial sector (now that the bank capital raisings are out of the way), and marginally reduced our exposure to the resources sectors. Otherwise, sector biases are small;
- Our stock selections are in the main relatively defensive, with a bias to stocks that are trading on lower multiples.

The portfolio is forecast to generate a yield of 5.26%, franked to 84.2%. Importantly, we expect that this portfolio should moderately underperform relative to the benchmark price index in a strong bull market, and moderately outperform in a bear market.

Construction rules

Before detailing the portfolio, let's recap on the construction rules that have been applied to develop the portfolio. These are:

- we used a 'top down approach' looking at the industry sectors, and introduced biases that favour lower PE, higher yielding sectors;
- so that we are not overly exposed to a market move, we have determined that in the major sectors (financials and materials), our sector biases will not be more than 33% away from index. For example, the 'materials' sector weighting on the S&P/ASX 200 is currently 11.9%, and under this rule, our possible weighting is in the range from 7.9% to 15.9% (i.e. plus or minus one third or 4.0%);
- we require 15 to 20 stocks (less than 10 is insufficient diversification, over 25 it is too

hard to monitor), and have set a minimum stock investment of $3,000;

- we confined our stock universe to the ASX 100;
- we have avoided stocks from industries where there is a high level of exogenous risk, such as airlines;
- we prioritise stocks that pay fully franked dividends and have a strong track record; and
- within a sector, the stocks are broadly weighted to their respective index weight, although there are some biases.

On a sector basis, we are underweight materials stocks and marginally overweight financial stocks, otherwise our sector biases are relatively small. Our portfolio compares to the S&P/ASX 200 sectors as follows:

Sector	ASX 200 Weight*	Portfolio Weight	Difference
Consumer Discretionary	4.7%	4.0%	-0.7%
Consumer Staples	7.1%	5.0%	-2.1%
Energy	4.0%	4.5%	0.5%
Financials	41.3%	46.0%	4.7%
Health Care	6.9%	5.0%	-1.9%
Industrials	7.8%	9.0%	1.2%
IT	0.9%	0.0%	-0.9%
Materials	11.9%	8.5%	-3.4%
Property Trusts	7.5%	7.0%	-0.5%
Telecommunications	5.5%	7.0%	1.5%
Utilities	2.3%	4.0%	1.7%

** ASX 200 index weights as at 31 December 2015*

Portfolio

Our income-biased portfolio per $100,000 invested (using prices at the close of business on 31 December 2015) is:

Sector	Stock	Price 31-Dec	Value	PE (F)	Div (F)	Franking
Consumer Discretionary	JB Hi-Fi	$19.52	$4,000	13.9	4.76%	100%
Consumer Staples	Wesfarmers	$41.61	$5,000	18.4	4.95%	100%
Energy	Woodside	$28.72	$4,500	17.1	4.87%	100%
Financials	AMP	$5.83	$5,000	15.6	4.92%	100%
	ANZ	$27.93	$6,000	11	6.55%	100%
	CBA	$85.53	$12,000	15.4	4.98%	100%
	IAG	$5.56	$5,000	14.8	5.56%	100%
	NAB	$30.20	$8,000	11.5	6.59%	100%
	Westpac	$33.56	$10,000	13.3	5.69%	100%
Health Care	Medibank	$2.15	$5,000	19	3.91%	100%
Industrials	Brambles	$11.57	$4,000	21.9	2.96%	30%
	Sydney Airport	$6.35	$5,000	60.5	4.06%	0%
Materials	BHP	$17.86	$4,500	27.7	8.69%	100%
	Boral	$5.91	$4,000	17.9	3.47%	100%
REIT	Dexus	$7.50	$7,000	13.5	5.72%	0%
Telecommunications	Telstra	$5.61	$7,000	16	5.65%	100%
Utilities	AGL Energy	$18.08	$4,000	17.3	3.79%	100%
			$100,000	**18.1**	**5.26%**	**84.20%**

Forecast returns

Using consensus analyst forecasts from FN Arena (and making a couple of adjustments for the commodity-based stocks), the portfolio has the following characteristics:

Forecast PE for 2016: **18.1** (15.9 if Sydney Airport is excluded)
Forecast Dividend Yield for 2016: **5.26% pa**
Franking: **84.2%**

For an SMSF in the accumulation phase, the **5.26%** dividend yield will translate to an income return of **6.21% pa** (after tax), and for a fund in pension phase, the income return will increase to **7.16% pa.** In a bull market, we expect that the income-biased portfolio should **underperform** relative to the standard S&P/ASX200 price index, due to the underweight position in the more growth-oriented sectors and the stock selection being more defensive, and conversely in a bear market, it should moderately outperform.

We will monitor the portfolio and report back each month in the *Switzer Super Report* on its performance. On Monday, we will take a look at our growth-oriented portfolio.

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4 key investment themes for 2016

by Christine St Anne

1. How low can the Australian dollar fall?

It certainly has been a choppy ride for the Australian dollar. Back in September 2015, the Australian dollar fell to a new six-year low of $US695 cents, just shy of the psychological $US70 cents threshold. Quite a few analysts are predicting that the Australian dollar could fall to $US60 cents. *Switzer Daily* expert Shane Oliver admits that he "doesn't have a clue how low the $A will go" but he reckons that "in the context of commodities being in the long-term downtrend, the Australian economy struggling and the interest rate gap in favour of Australia likely to narrow further, the $A has a lot more downside."

This year has already seen the Australian dollar plunge amid concerns over China's growth outlook, falling commodity prices and US Federal Reserve rate outlook. It is still trading at around the $US 70 cents mark but expect a bumpy ride ahead.

Implications for investors

Investors can benefit from a falling Australian dollar by investing in companies with overseas earnings. Australian stocks that have large US-dollar revenues and earnings include the healthcare companies CSL (CSL), Cochlear (COH) and Resmed (RMD). Companies like James Hardie (JHX), Brambles (BXB), Amcor (AMC), Macquarie Group (MQG) also derive a large portion of their earnings from offshore.

2. The China syndrome

The year did not kick off well for China, with the world's largest economy reporting weak manufacturing data. Concerns about Chinese economic growth sparked falls on major markets around the world. The decision by China to depreciate its currency and halt trade in Shanghai stocks for the second time in the New Year added to market turmoil.

The economic outlook for the country is worrying. Growth in China is now projected at 6.5% in 2016 and 6.2% the following year, according to the Organisation for Economic Co-operation and Development (OECD).

Peter Switzer notes that there is too much of a focus on manufacturing, which will become less important as the Chinese economy transforms into a greater services economy.

Implications for investors

China's mining boom may have eased but the country has an insatiable demand for food. We have already seen a stellar performance in companies such as Blackmores (BKL) and Bellamy's (BAL) who have both benefited from China's 'dining boom'. Companies like Bega Cheese (BGA) is also set to do well, having secured a joint venture with Blackmores to become a supplier for a range of foods, including infant formula.

3. Income the focus but dividend sustainability is the key

Income will remain a big focus for retirees in 2016, particularly given the paltry cash rates still on offer. With low rates, investors, particularly retirees remain attracted to Australian companies offering high dividends. In fact, the banks and Telstra (TLS) remain the "darling" dividend stocks. According to data from FN Arena, the banks are expected to deliver in fiscal 2016 an average grossed up yield of 8.4% – ANZ the highest at 10%. The issue is that these juicy dividends come out of company earnings and therefore may not be certain. A big question therefore is: can these darlings still deliver?

Telstra's share price performed rather poorly in late 2015, after it failed to meet analysts' expectations for its full-year results. Weak economic growth and capital-raising pressures also confront the banks. Despite these challenges, the four majors have still managed to increase their payout ratios. Some brokers argue that the banks may have to review their dividends, with Morgan Stanley noting that "the probability of a dividend cut is rising".

Implications for investors

Paul Rickard believes Telstra will maintain its growth, as it plans to make the necessary investments to become a world-class technology business, not just a phone company. Barring some "black swan event", he says Telstra shareholders can have a high degree of confidence that they will get a fully-franked dividend of 31.5 cents per share, maybe even 32 cents per share in the fiscal year 2016.

Capital raisings have impacted banks, however, they have passed the costs on to their customers via out-of-cycle interest rate hikes. Paul Rickard notes that the banks are keeping a very tight control on costs. While economic growth challenges remain, unemployment is not about to explode and there is still no risk to bad debts. Investors can still keep their faith in dividends for the fiscal year 2016.

4. Commodity and energy prices

An oversupply spurred commodity prices to tumble in 2015. Oil prices fell from $US54 a barrel to below $US37, iron ore from $US68 a tonne to under $US39 a tonne and copper from $US285 per pound to $US207 per pound.

Paul Rickard and *Switzer Daily* expert, David Bassanese, do not believe prices have bottomed – let alone started to find a floor.

Tepid growth is only part of the reason for weak commodity prices – the issue is largely due to overproduction.

"The belated lift in supply in recent years – just as demand from China has slowed – has led to a progressive slump in prices over the past four years, that as yet shows little sign of abating," Bassanese says.

Rickard notes that production is starting to pare back but the question will be how quickly supply and demand get in balance again.

Implications for investors

It's going to be tough going for resource and energy companies. Long term investors who can ware some pain should acquire cautiously, but otherwise, most investors will remain underweight resources. The low oil prices, however, will benefit other sectors. Low oil prices generally mean a rise in consumer spending in Australia so expect consumer stocks to benefit from this price rout. As Peter Swizer notes: "lower oil prices are giving the global economy a massive tax cut and business cost cut that should actually be a plus for economic activity.

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Deceased estates

by Tony Negline

We recently received an interesting question from a reader:

"A [deceased] close relative has left me (via their deceased estate) a share in a property zoned business, which was acquired pre September 1985. I understand CGT (capital gains tax) will accrue from when ownership passes to me.

"The property will need a fair amount spent on it for repairs and upgrading before it could be leased, however it could just remain vacant. The business ended when the relative became ill, and it closed. He lived in a small house next to the shop, but no one remains there now. When they changed the zoning to business, Council advised they don't throw out existing residents, but due to the changed zoning, it can't be used for residential purposes in future. No leases or tenants remain, the place is empty … it's very run down and would need money to upgrade for tenancy … if we don't upgrade it, then at a sale, only the land would be of value.

"The solicitor organising probate suggested transferring my share (a bit over 1/2) to my personal name however I'm wondering if it might be better to transfer it to my Family Trust, or start an SMSF and transfer it there.

"The solicitor doesn't know what's best. Any thoughts or considerations?"

There is a lot to consider here. What follows is a discussion about some of the issues as I see them:

1. How will ownership be determined? Once the property is transferred, it'll probably be best if both parties own the property as tenants in common because this will make it easier for you or your preferred entity, such as an SMSF, to dispose of your portion of the real estate separately if this would ever be necessary.
2. The other owner – are your needs and wants aligned with the other owners? For example, do you both want to retain ownership for roughly the same period? In the event of disposal, would the other party have first right of refusal to buy the other party out? Will the other party ever want to use their portion of the asset as a security for any borrowings? If yes, and they're related to you, then assuming your portion is held in an SMSF then this can lead to problems complying with a specific super law that prohibits using super fund assets to provide financial assistance to fund members or their relatives.
3. The asset itself – does it satisfy the super law definition of "business real property" or BRP? That is, is it used wholly and exclusively in the running of one or more businesses? At present, the land is vacant and no business is carried out on it.

In a ruling about this legislative term issued in 2009, the ATO (Australian Taxation Office said:

a. "The key is that there must be use of land – that is, there are activities, operations or actions occurring on the land."; and
b. "… if the freehold interest holder abandons plans to lease the property, the property will no longer be business real property."

It would seem to me therefore that there is some doubt about this property currently satisfying the BRP definition.

Given that the asset could be transferred from a relative's deceased estate, is this a problem?

Yes because a transfer from the estate is the same as an acquisition from the relative. Super fund acquisitions of relatives' real estate that isn't business real property are prohibited. In fact, you can receive a one-year jail sentence, or monetary equivalent for breaching this rule. The ATO could also elect to fine or penalise you in other ways.

The only logical approach therefore is to seek advice about this issue from a lawyer experienced in superannuation matters, or request the ATO to issue a SMSF Specific Advice about this question.

Some additional issues about using a super fund:

a. Does the trust deed for your potential SMSF allow for the acquisition of the property?

b. Are you eligible to be a member of the fund?

c. Who else would be members and trustees of the fund?

d. What type of trustee would the fund use – a corporation or individual trustee(s)?

e. It is likely that any deemed distribution from the deceased estate would be classed as a non-concession contribution.

Do you satisfy the associated age limitations for NCCs? These contributions can be made when a person is aged under 65 but between 65 and under 75, a work test must be satisfied. Once you turn 75, no further contributions are permitted.

f. Does the value of the property, when it is placed into the fund, cause problems with the contribution caps? At present the maximum NCCs you can make in a financial year is $180,000. If you're aged under 65 at the start of a financial year, you can contribute three times this amount in one financial year, that is $540,000, but this restricts what you can contribute in the future years.

Let's assume that you obtain approval for a super fund to receive your share of the property. Is super better than other structures?

1. Holding the asset personally – any income will be taxed at your marginal rates and cannot be split with any relatives. Capital gains tax will accrue from the date of death. In addition, in the event that you personally face financial difficulty, such as bankruptcy, then the asset may be seized by creditors.
2. Family trust – income can be split with eligible dependants; distributions to minor children will be taxed heavily once their income goes above a very low threshold; CGT will again accrue from the date of death. However, depending on the wording of the trust's deed, this could be split between eligible beneficiaries. If the asset is gifted into the trust, then it could still be seized by creditors in the event of personal financial difficulty.
3. SMSF – as you would be aware, super funds are taxed at 15% for non-pension assets and 0% for pension assets, including capital gains on realised assets – these can be particularly attractive for some investors. However, there are many rules that have to be followed for pensions. Under the preservation rules, this includes the ability to pay yourself a pension as well as the need to pay increasing pension amounts each year, based on your age and the market value of the underlying investments.

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Questions of the week - Primary Health Care and super changes

by Questions of the Week

Question: I am looking at buying Primary Health Care. What is your opinion of the stock in light of its fall in price and possible legislative changes?

Answer (by Paul Rickard): I have been wrong on this stock – it dropped by exactly 50% in calendar 2015. Unfortunately, the company has provided no guidance on the impact of the change announced on 15 December in the MYEFO (mid-year economic fiscal outlook) statement.

While Primary looks horribly oversold, I am a bit wary on jumping back in because:

1. I have been so wrong on the stock; and
2. The short sellers have been active – and even in the latest ASIC figures, 6.27% of the shares are short sold.

Question: I'm worried about my super as I just turned 60 and am concerned about proposed government changes. What are the changes being touted in summary? How soon might they come in and will they be grandfathered?

Answer (by Tony Negline): The Government has announced that early this year they will release a Tax Green Paper, which will contain a range of options they're considering and ask interested parties to provide their thoughts. The expected timing of this paper is sometime in the next six to eight weeks.

Sometime later, they have indicated that they will release a Tax White Paper, which will contain form proposals to take to the election, which can be held anytime between 6 August 2016 and 14 January 2017, unless the government attempts a double dissolution election. In the meantime, we have a Federal Budget and election policies to be announced by all the major parties.

The bottom line is that it is too difficult at this stage to say with any certainty what the tax and superannuation landscape will look like.

The NAB/CYBG demerger

During the festive break, we had a number of readers asking questions regarding NAB's demerger of its UK banks, Clydesdale and Yorkshire and what the transaction will mean for shareholders. Paul Rickard wrote a timely article on the transaction for *Switzer Daily*. You can read the article here.

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