Switzer Super Report
Advice you can trust

Thursday 10 December 2015

Yellen for a rise

In just under a week, the Fed will decide on a rate hike. The markets have certainly been Yellen for that rise, but the reaction is still unknown according to Charlie's column today. Like Charlie, I'm hoping for that rise as it will only confirm confidence in one of the world's biggest economy's and that can only be good for optimists like me!

We all know the media has been one of the big sectors to be hit by industry disruptors. In today's *Switzer Super Report,* Tony Featherstone looks at the new disruptors in the sector. Keep them on your watchlist! Our tax office has done some more fiddling to super borrowing. Tony Negline gives us the update. BHP has been on all our minds recently with its plunging share price. Today, Christine St Anne gives the low-down on buying BHP in these troubled times.

Sincerely,

Peter Switzer

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The dovish hike

by Charlie Aitken

The United States Federal Reserve (the Fed) will increase US interest rates for the first time in 9 years on December 17th. The long awaited “lift off” will be confirmed.

With 91% of economists now forecasting the Federal Funds Rate target range to be lifted by 25bp, the door is now wide open for the Federal Open Market Committee (FOMC) to confirm market expectations.

This is good news: we have finally made our way to the point where the FOMC believes the US economy, the largest in the world, can now do without both Quantitative Easing (QE) support and Zero Interest Rate Policy (ZIRP). They are right: the US economic data undeniably supports the case for “lift off”, in fact, in my view it has for the last six months.

However, what is more important than confirmation of “lift off” itself, it is the trajectory of the US interest rate curve.

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.

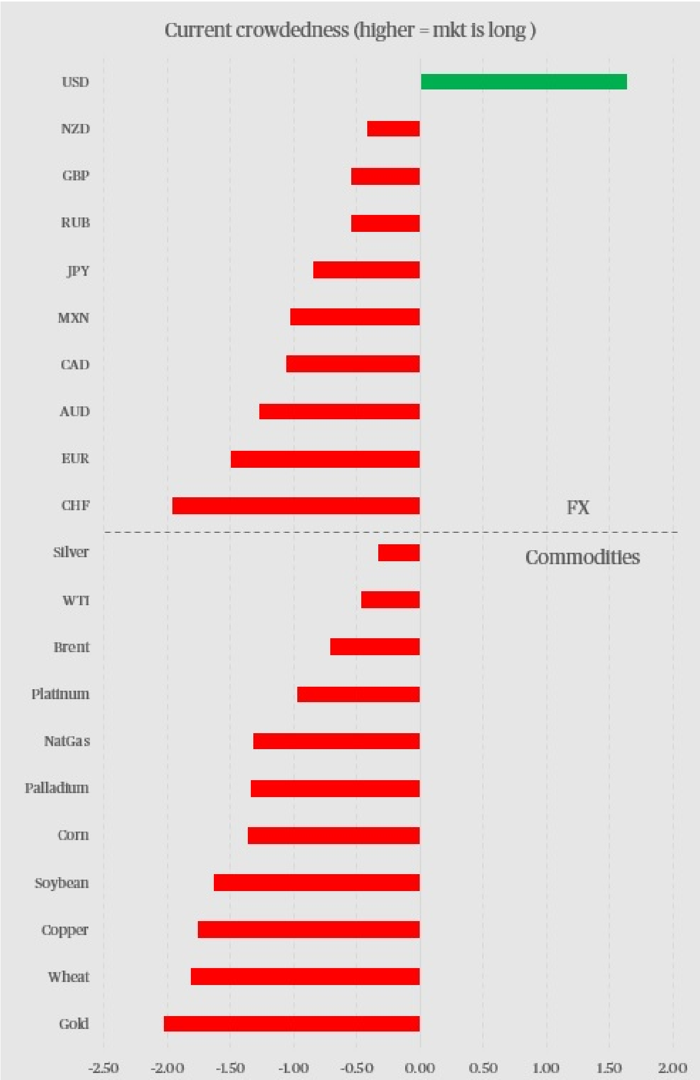
In my opinion, they will attempt to guide to very “*gradual*”, *“data dependent*”, *“patient”* rate rises in the future. The markets may even believe it’s “one and done” and if that happens, there will be some very tradeable price action in anything US Dollar denominated.

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

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 that 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.

Recently we saw a classic example of “short the rumour, short cover the fact” when the ECB cut deposit rates further. The ECB, via their words, let EVERYONE know months ago that they intended to loosen monetary policy further to fight deflationary pressures. The EURO fell from 1.14usc to 1.05usc in anticipation of the ECB rate cut. EUR short positions got to 3 standard deviations away from normal positioning.

Where it gets interesting is when the ECB confirmed the rate cut, the EUR shot up from 1.05usc to 1.09usc, a massive and instant move that mostly has been held onto. The EUR is now being bought on dips by short-coverers on the view that was the last piece of monetary policy help from the ECB. Eurozone equity markets, which rallied hard into the ECB confirmation, have all fallen by around -5% on confirmation of the fact.

I tend to feel the ECB/EUR reaction could well be the market playbook for the reaction to confirmation of Fed “lift off”. It could easily turn into a profit taking event in the US Dollar and a short-covering event in dollar denominated assets. If that was the case, equity markets, including Australia, will have a solid end to the year. Under that scenario, I would be surprised to see the S&P500 and NASDAQ end at fresh al-time highs.

However, as I say, this reaction function in markets all comes down to The Fed getting its message on the pace and scale of future rate rises dead right, and investors believing them.

To me, all the factors are aligned for this outcome. Everyone appears to be already positioned for “lift off” and hedge funds are sitting on very large unrealised gains in long USD/short everything else trades. The temptation to lock some of those gains in ahead of the end of the performance (and performance fee) year will be large.

Don’t start thinking I believe this is the end of the US Dollar’s dominance. But in big up moves, there can be violent counter-trend moves when extreme positioning meets a major event. This is particularly so when many hedge fund models follow momentum. Just as we have seen in the Euro, if momentum changes, they will chase it in the short-term when locking in trading profits.

What tends to happen is the extreme positioning is flushed out and then the trend returns. This is exactly what happened as the Fed turned off the QE tap in stages.

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 USA 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”.

While nobody can be certain of the market reaction to the Fed, my gut feel is to be positioned in portfolios ahead of the confirmation of “lift off”. As you saw in the Euro example, markets move so quickly nowadays that you have no time to react. You have to be positioned ahead of the confirmation of the event.

History suggests US equities continue to advance through the first four Fed rate hikes. I believe this will no different this time around and I truly hope we do get “lift off” on December 17th 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.

Let’s see what comes.

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3 new media stocks making headlines

by Tony Featherstone

Technology has affected few sectors more than media. As disrupted old-media companies struggle, a handful of disruptive new-media stocks have delivered huge gains. And now another generation of media hopefuls are following in their footsteps. The best-known disrupters, Seek, REA Group and Carsales.com, used technology to innovate classified advertising markets and steal market share from print-media providers. Other media companies are using technology to innovate old and new media platforms.

Out-of-home advertising providers oOH! Media, APN Outdoor Group and QMS Media are turning outdoor billboards into digital ones and transforming their advertising category.

iSentia Group is using technology to monitor what is said about organisations in online and print media and help them use content-marketing (editorial with promotional purposes) strategies.

Vista Group International's software is helping the global cinema industry better manage content and become more efficient.

Smaller media companies are rapidly emerging. The Initial Public Offerings market has been a strong source of new-media companies in the past 18 months, so much so that it resembles the late stages of a bull market. Backdoor listings, where listed shell companies buy private enterprises or their assets, are also attracting micro-cap media/tech stocks.

Asia-focused digital media group Migme has more than doubled this year. Recent backdoor listing Newzulu is using user-generated video and story content to create a news platform and syndicated stories worldwide. The Paris terrorist attacks again highlighted the growing use of user-generated content in mainstream media coverage.

Other new-media companies are targeting offshore markets. iProperty Group, trying to be the realestate.com.au of South East Asia, has produced stellar returns since listing in 1997, and attracted a takeover offer from REA Group this year.

Sister company iCarsAsia has a similar strategy in vehicle advertising and appears an obvious target for its shareholder, Carsales.com.au. LatAM Autos, a late 2014 IPO, is doing the same in Latin America. In fact, a growing number of new information providers are classified as technology rather than media stocks on ASX, such is the blurring between the two fields.

Most are too small and speculative for portfolio investors, and micro-cap IPOs and backdoor listings of new-media stocks, in particular, need to be approached with care.

Those seeking exposure to new-media companies should focus on more established, profitable players benefiting from significant tailwinds — companies that can gain as their media segment grows, or as they target new markets, rather than have to win market share from larger tech rivals. Companies need deep pockets to go head-to-head with Seek, REA Group or Carsales.com in Australia, such is their dominance.

Here are three new-media companies with interesting prospects. None are cheap: the market recognised their potential and valued them accordingly. But each has good long-term prospects and should be on the portfolio radars during bouts of market weakness.

1. iSentia Group

The media-monitoring group listed on ASX in June 2014 through a $284 million IPO at $2.04. It has soared to $4.66 after beating prospectus forecasts with its 2014-15 earnings result and providing guidance in line with market expectation. iSentia provides media monitoring, social-media monitoring and analysis, media management and analysis, contract management services around communication strategies, and media-release distribution.

It is the market leader in an attractive industry: as internet content proliferates and content marketing grows, companies will have to spend more to monitor what is said about them here and overseas, and understand how customers view them. Like all good software companies, iSentia has a scalable business model, can grow without massive investment, earns higher margins, and benefits from recurring revenue.

It is growing quickly in Asia and its acquisition of Content King this year was a smart move as organisations invest more in content marketing. However, iSentia's valuation is becoming an obstacle. It is due for a pause or share-price pullback after strong recent gains.

The median price target of $3.97 from a consensus of five broking firms suggests iSentia is best bought on price weakness.

Chart 1: iSentia (ISD)

Source: Yahoo!7 Finance

2. 3P Learning

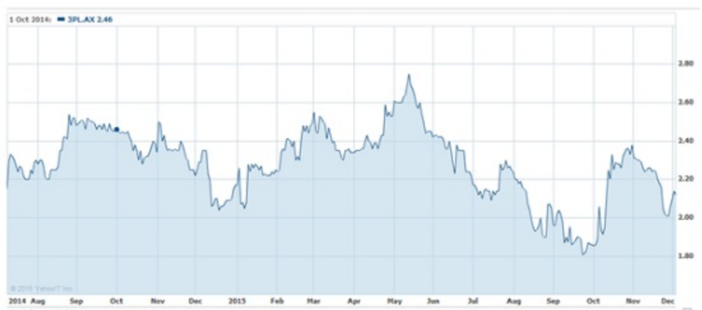
3PL provides content of a different kind: educational software programs for school children. About 5 million children in more than 200 countries use its products, the best known of which is Mathletics. 3PL also distributes the popular Reading Eggs program and has developed Spellodrome and its latest release, IntoScience.

It listed on ASX through a $282 million IPO at $2.50 a share in July 2014. Unlike several other new-media or software IPOs, 3PL has struggled to trade above its issue price, despite beating prospectus forecasts. It trades at $2.14 after touching $1.80 in September. Some fund managers are concerned 3PL is having to discount its licence to gain traction in the United States, and recent acquisitions, where it is a minority shareholder, may have worried the market.

3PL was in high demand during it oversubscribed IPO. It has a large user base, a growing global footprint, recurring licence revenue, high margins and a capital-light business model – traits of exceptional companies.

Also, education software has high switching costs once schools and children get used to a product, and 3pL is a market leader in its field. Some of its clever animation is almost movie-like. The question, of course, is valuation. At $2.12, 3PL is on a forecast Price Earnings (PE) multiple of about 18 times 2015-16 earnings, broking estimates show. That is not excessive for a high-growth software company with good traction in the US. Macquarie Equities Research has a 12-month price target of $2.92.

Chart 2: 3P Learning (3PL)



Source: Yahoo!7 Finance

3. QMS Media

Outdoor advertising companies are among the more interesting new-media stocks. oOHMedia! Group and APN Outdoor Group, two IPOs from late 2014, have soared since listing. oOH! has a one-year total shareholder return of 127%, and APN Outdoor has delivered 117%. Not bad in a struggling advertising market.

Out-of-home advertising continues to increase its share of the total advertising market. The industry enjoyed record growth in 2014, with net revenue up 10% year-on-year, Outdoor Media Association (OMA) data shows. Outdoor audiences have consistently increased over the past five years.

Population growth, traffic congestion and more outdoor signs along major roads and transport interchanges, and in airports and shopping centres, are creating opportunities. The move to digital signage has terrific potential, as advertisers can better tailor adverts to current conditions and as more advertising content, with higher margins, is rotated through the eye-catching and sometimes annoying (especially at sporting grounds) signs.

oOH! Media and APN Outdoor have good prospects, but look fully priced after stellar gains. A third player, QMS Media, raised $90 million through an IPO and listed on ASX in June 2015 at 65 cents. It trades at $1.25 – a handy gain in a flat sharemarket.

QMS was established in 2014 to roll up several outdoor advertising companies. It has a stronger focus in New Zealand and South East Asia than oOH! and APN Outdoor. The $200 million QMS is about half the size of oOH! Media by market capitalisation and a third the size of APN Outdoor, so it suits investors comfortable with small-cap stocks. QMS is growing quickly. It recently acquired iSite, one of New Zealand's two largest outdoor advertising companies for $44.4 million. New Zealand is lagging behind Australia on digital outdoor advertising and there is potential to offer Trans-Tasman advertising packages.

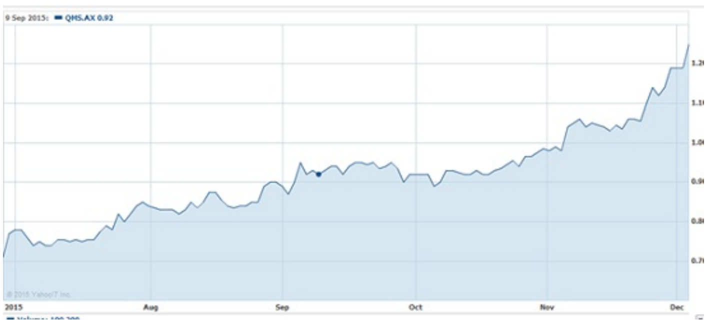
Managing director Barclay Nettlefold has a strong following in this industry after developing several leading outdoor advertising businesses in Australia and across Asia over a long career. A strong board and management team, and backing by Qatar investors, has attracted plenty of attention for QMS and upped the stakes with its valuation for a company made a $2.6 million profit in 2014-15 after significant items.

QMS is so far delivering on its promise. The New Zealand acquisition gives it a strong foothold in that market and contract wins this year in Auckland and Indonesia are good signs.

The rollout of digital billboards is the key to QMS. Digital revenue, 24% of its Australian media revenue in FY15, has grown to more than 40% in the first half of FY16. QMS added 18 digital billboards in FY15 and is rapidly rolling out more. It appears to have made a good start to FY16, judging by commentary in its December presentation. Investors at this stage are betting on management to repeat its success with other outdoor advertising groups and are paying up for the potential.

QMS' Asia Pacific and digital focus provide potential for rapid growth to take the valuation higher over the next two years – albeit with commensurate risk.

Chart 3: QMS Media (QMS)



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.

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Investa Office (IOF) Upgrade to Neutral from Underperform by Credit Suisse B/H/S 0/4/0

Credit Suisse expects the price of Investa Office to be underpinned by the bid from Dexus Property (DXS). The broker considers the bid a good outcome for Investa investors. A competing bid may still emerge, the broker believes, although the company has indicated potential acquirers were approached before a deal was struck with Dexus.

Speedcast International (SDA) Upgrade to Buy from Neutral by USB B/H/S 1/2/0

UBS believes the share price has underperformed as the company is now more highly geared after several acquisitions and intends to still make 2-3 acquisitions per annum going forward, so investors are worried about a capital raising.

A weak oil price and subdued commentary from peer RigNet also implies a weaker performance for the energy division, the broker observes.

In the not-so-good books

Estia Health (EHE) Downgrade to Equal-weight from Overweighty by Morgan Stanley B/H/S 1/3/0

The acquisition of Kennedy Health Care is both earnings accretive – at 10% in fiscal 2017 – and provides a foothold in NSW, Morgan Stanley maintains.

Nevertheless, concerns about a reliance on acquisitions and debt leads the broker to consider the stock is now fully valued.

Platinum Asset Management (PTM) Downgrade to Underperform from Neutral B/H/S 1/1/1

The share price is up 20% in the quarter to date and Credit Suisse expects inflows to slow from this point with the trust funds unlikely to benefit from reinvestment of distributions as was the case in the September quarter.

Premier Investments (PMV) Downgrade to Underperform from Neutral by Credit Suisse B/H/S 3/2/1

The broker has downgraded the stock as the share price has appreciated. The current price includes all foreseeable upside in earnings from expansion initiatives, in the broker's view.

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Revisiting LRBAs

by Tony Negline

It looks like trustees will now need to revisit limited resource borrowing arrangements under new rulings by the Australian Taxation Office.

Before we look at the recent developments, let's just re-cap of how super funds can borrow for investment purposes:

1. You're fund can invest in another vehicle that contains gearing – for example, a company. There are restrictions in place if that other entity is controlled, or deemed to be controlled, to you or your relatives or some of your business associates.
2. Your fund itself borrows money to purchase an asset. To comply with the law, the asset must be held in a Holding Trust and the loan must not allow any recourse against your super fund's other assets. This structure is called a Limited Recourse Borrowing Arrangement or LRBA.

Change to Government tax legislation

Earlier this year, the Parliament passed tax laws that impact how these super funds are taxed.

For many years, it hasn't been crystal clear that many of the income tax issues, including capital gains taxes, would be imposed on the ultimate owner of the asset held in LRBA Holding Trusts and other similar investment structures.

This new legislation seeks to clarify this point.

These new rules have been many years in the making – they were first announced in the 2010 Federal Budget and apply from 1 July 2007.

Related Party Lending

One of the more interesting features of LRBAs is that there is no requirement for the lender to be a bank or other financial institution.

In fact the lender could be you or entities such as companies and trusts that are related to you.

Suppose you run your own business via a company and it owns your business premises without any debt. You might decide that your super fund is a better place to hold this asset, but the problem is that your super doesn't have enough money to buy the premises outright.

So you solve this by getting the super fund to pay some of the purchase price and your company loans your super fund the remainder via vendor finance.

The premises would be held in a Holding Trust under the LRBA rules already mentioned.

Just some background information here:

1. There can be some tricky issues to sort out here – purchase price, transaction costs including stamp duty, capital gains tax on disposal by the company and so on; and
2. Your super fund can only acquire certain types of assets from you or your related parties. Premises used wholly and exclusively in the running of a business or listed shares are two common examples.

The key issue here is the terms of the company's loan. There is nothing strict here and this is where life can get a bit complicated.

There are two aspects– one is the super laws and the other is the tax laws.

Let's look at the super laws first – under the super laws, it is a requirement that fund trustees mustn't enter into any transaction that would see the super fund lose out and pay more than it could obtain on the open market.

For example, suppose your company decided to charge an interest rate of 30% per annum. This is clearly way over current market conditions and would be a breach of this rule.

But this law doesn't prevent the super fund from receiving an outrageously good deal. For example, what about a 0% interest rate with no requirement to repay the loan, which has an indefinite term?

Are these possible?

Yes, they are under the super laws.

Now we come to the tax laws. In the tax laws that apply to a super fund is a provision called Non-Arm's Length Income or NALI.

This law says that certain types of income will be taxed at 47%, not the normal concessional rate of 0% for pension income or 15% for all other income. This rule includes any income paid from a discretionary trust – such as your family trust – and potentially from companies and fixed trusts that are related to you.

There is a range of tests here, but would NALI apply to the fantastic loan conditions suggested above?

There are some who argue no, and for a while, the Australian Taxation Office agreed (ATO). It issued some Private Binding Rulings to some taxpayers. These rulings are binding on the ATO, unless the government specifically changes the relevant NALI tax laws. Good luck to you if you have one of these rulings!

Of great importance to most of us is the fact that last year, the ATO changed its mind and said that NALI would apply. It said this applied under old tax rules.

It has now looked again at this issue, taking into account the new tax laws that were passed earlier this year that I referred to above. It says that NALI still applies.

This ATO view is quite controversial and it may be that in time, at least one taxpayer will take the matter to a Tribunal or Court.

What do you do if you have a non-arm's length LRBA that doesn't have a Private Binding Ruling?

The ATO have announced that it will not take any action on super funds with these arrangements as long as they have re-organised these arrangements by 1 July 2016 and placed the borrowings on an arm's length basis. If this impacts you, then you should consider seeking advice to ensure you change the loan's terms to place it on an arm's length footing.

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Professional Pick – SG Fleet

by Anton Du Preez

What is your professional pick?

SG Fleet (SGF). SGF is a leading diversified fleet manager across both corporate and salary packaging sectors. It has a presence in Australia, New Zealand and the UK. The corporate sectors constitute 70% of fleet size, with the remainder salary packaging. SGF provides comprehensive asset management services to customers, including among others insurance, maintenance services, additional products e.g. tools-of-trade applications and disposal of vehicles. SGF recently announced the purchase of nlc for $200m, a specialist manager and provider of consumer finance and novated leases.

How long have you held the stock?

We initiated our position in March 2014. The stock traded at around 10% after tax yield at that stage which represented compelling value in our view.

What do you like about it?

SGF has a well-diversified business model across industries, its client base, product mix as well as fleet composition. Income streams are relatively predictable and the business is highly cash generative. It has established long-term relationships with the majority of its client base (average 8 years) and offers not only essential but value added fleet management services to its client base. These create very high barriers to entry to new entrants.

Where do you see the value?

We like SGF for the following reasons

- Resilient business model with diversified cash flow certainty;
- High industry barriers to entry and innovative product offering;
- Well-developed risk management systems spanning client and product exposure;
- Experienced management team with deep knowledge of the industry;
- High cash flow conversion through business cycles

How is it better than its competitors?

The business is well-diversified and does not have an over-reliance on any one sector, unlike many of its peers. It also provides a range of services that “lock-in” its clients and adds substantially to its clients’ asset utilisation and efficiency. SGF is also a market leader in developing innovative products.

What do you like about its management?

Management has deep industry knowledge. Management has demonstrated to have a healthy common sense approach and to date has executed very well on strategy. They are on the forefront of developments in the industry, both technical and political. They also have substantial personal investments in the company, which align them with shareholders.

What is your target price on the stock?

We have a price target of $3.95 based on a sum-of-the-parts basis which represents a 15% upside from the current market price. However, this is based on conservative estimates for the newly acquired nlc.

At what point would you sell it?

We would sell the stock when it breaches our valuation metrics. Having said that, SGF has a very attractive growth profile and is well placed to participate in industry consolidation.

How much has it added (subtracted) to your overall portfolio over the last 12 months?

Since initiation, the stock has added 1.4% to our portfolio.

Is it a liquid stock?

SGF has a market capitalization of circa $800 million. Average weekly trade is 1.1 million shares or 0.5% of the market cap. It is therefore relatively illiquid, taking into account the free float of 46%.

SG Fleet (SGF)

Source: Yahoo!7 Finance

Anton du Preez is a fund manager with Pengana Capital

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Short n' Sweet – BHP, battered but not out

by Christine St Anne

Switzer Super Report expert Charlie Aitken almost "feels sorry for BHP". Aitken was presenting in our recent Q&A session on the topic: Finding value in battered blue chips.

It certainly has been a tough recently for the miner, but as Aitken notes, the Samarco damn disaster was out of its control and just exacerbated a bad situation in the market. Aitken "never dreamt BHP Billiton could be trading at $18".

Well BHP fell to $17.05!

BHP Billiton (BHP)

Source: Yahoo!7 Finance, 10 December 2015

The broker report on FN Arena currently has 3 buys, 4 hold and one sell on BHP.

Last month, *Switzer Super Report* expert Paul Rickard took a look at how to play BHP and noted that shares could be trading the $18 price levels. At those prices, Paul said he would consider adding to his portfolio.

Peter Switzer also sees the price falls as buying opportunities. Buying the stock at $18 or $20 is still a bargain play, after all the long-term growth outlook for the demand for energy should support further price rises of BHP in the future – a point that has been made often by Peter.

While BHP is not in Charlie's portfolio, the share price has sparked his interest and is keeping watch on the global miner.

"BHP is very cheap at the moment but given where commodity prices are (that is falling) I would still prefer to keep a watch on the stock," Charlie says.

BHP's much lauded progressive dividend policy is proving to be a bit of a noose around its neck. Paul already had doubts over the miner's commitment given earnings pressures, falling commodity prices and now the Samarco disaster.

Banning the dividend policy will be a good decision for BHP, according to Charlie and he reckons the "whole world would see it as a positive step for the miner."

"Paying a dividend you can't afford is foolhardy. I believe they should move to a payout ratio of say 50% of the after tax profit in good times bad times and in different times.

"The share price would be rated a lot higher than it is today," he says.

Even if the dividend is halved, superannuants are still getting an OK deal. Let's look at the number. Last year's dividend was 124 US cents per share. Using Wednesday's closing price of $17.16 and an exchange rate of 0.72 cents, maintenance of its progressive dividend would see BHP trading on a yield of 10.%, grossed up to 14. 3%. If the dividend is halved, yield would by 5% grossed up to 7.1%.

Still not too shabby given the paltry cash rate available to retirees.

Hit the road Jac

Charlie also believes it’s time for the “largely invisible chair” Jac Nasser to leave, a call already made by Paul in his article for Swtizer Daily, Time to Go Jac.

Beyond resources, Charlie does not have much interest for Santos and Origin, even if their prices bounce back.

“LNG reminds me of iron ore given massive oversupply and falling prices,” he says. Even Woodside does not appeal to Charlie given that remains a high-cost producer outside of Gladstone.

“The one thing that really interests me now is BHP.”

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Macquarie and SMSFs

by Questions of the Week

Question: Which would be the better investment, Macquarie shares or the new Capital Notes 2?

Answer (by Paul Rickard): They are two very, very different investments. Macquarie Capital Notes are more like a fixed interest security than a share. There is no potential for capital growth. You cannot get back more than the $100 you pay for the Note. If your objective is income, then Macquarie Capital Notes. If your objective is capital growth, then Macquarie Ordinary shares. Both have downside risk, but in all likelihood, your price risk on Macquarie Capital Notes is lower than on ordinary Macquarie Shares.

Question: "My husband and I are beneficiaries of our own SMSF that has a corporate trustee where we are both directors. We are both 56. I work part time in 30% tax bracket. I am administering our fund. We have most of our super in Australian shares and US shares and small amount in cash. I was thinking of commencing a transition to retirement with re-contribution strategy. I use cloud based SMSF software so I know my account balance at any time. In order to commence a transition to retirement it's my understanding assets in the fund have to be divided up between my husband and myself. How is this possible when 95% are in shares? Do I need to make a decision as to which shares would be moved to the asset base for paying the pension?

Answer (by Tony Negline): There is no need to split assets between members, unless it is mandated by your fund's trust deed. Some trustees want to do this for personal reasons (they have an emotional attachment to a particular fund asset) or estate planning reasons (they want a particular asset bequeathed to particular beneficiaries) or tax planning purposes. You might consider taking advice about this issue.

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