Switzer Super Report
Advice you can trust

Thursday 4 February 2016

Bear scares

The good news is the Dow and S&P 500 headed higher overnight, but it's been a tough start to the year with the S&P/ASX 200 down 5.5% in January. So today, Charlie Aitken looks at whether we're looking at the start of a bear market, or another growth scare.

Also in today's *Switzer Super Report*, Tony Featherstone has three spin-off companies for investors to take a look at. And Melanie Dunn answers the age-old question, 'how much do I need to retire?' In *Questions of the Week*, we answer queries about ETFs and life/TPD and income insurances. Plus, in *Buy, Sell, Hold – what the brokers say,* brokers upgraded ANZ and Ramsay Health Care this week, but three decided to downgrade Ansell.

Sincerely,

Peter Switzer

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Start of a bear, or a growth scare?

by Charlie Aitken

2016 has seen a horrible start for global and local equity markets. Concerns about global growth, and therefore equity earnings, have intensified. This has resulted in a global P/E contraction in equities to reflect rising risks (higher equity risk premium), and a big rally in long government bond yields.

Outside of government bonds, gold and the USD there really has been nowhere to hide. In equities it has been the equivalent of a clearance sale at a department store, with just about everything marked down in price.

The speed of this sentiment change is somewhat stunning. Equity markets had ended 2015 with a decent rally and it appeared things had calmed down a little after a massive year of volatility. How wrong that assumption proved with global and domestic equity markets roaring back into bear mode with a vengeance.

The biggest problem we all face is that concerns about emerging markets that were apparent /obvious all last year have spread to developed markets, with the world now strongly questioning whether the US Federal Reserve made a policy mistake with its December rate rise just as US economic data started slowing.

This is a classic “growth scare”, but it’s a very serious and damaging one. Whether this is just another “scare” or the start of a “bear” only time will tell, but unfortunately I have to tell you there are several indicators that point to this being more than just another “growth scare”.

We have seen emerging market currencies collapse, commodity prices collapse (led by oil), junk bond markets collapse, Chinese equities collapse, inflation expectations collapse, global growth forecasts revised down, equity earnings forecasts revised down and many technical analysts saying that multi-year technical support for equity markets has given way. Similarly, instead of “dips being bought”, as was the case for the previous 5 years, any rallies are now being sold.

Probably the most interesting aspect is stocks that have led the bull market, such as Apple, have now run out of earnings growth (blaming weak global growth and the strong USD). Even market darling Amazon fell 15% after not meeting market earnings expectations.

You can understand why I think this is different to other “risk off” market moments over the last 5 years. There are simply too many top down macro and bottom up earnings indicators pointing to the world slowing down and having a genuine “growth problem”. If we have a growth problem we broadly have an equity earnings and dividend problem. It’s very hard for equity markets to broadly advance if earnings are going the other way.

What has also changed this year is the view that the US economy would be unaffected by weakness is the rest of world (ROW). All economic data from the USA from late last year and early this year has been unquestionably weak. It would appear the strong USD and weak trading partners have genuinely slowed US economic growth.

While the shining light has been employment growth in the USA, employment growth is the most lagging indicator of all. Forward looking indicators like purchasing manager indexes (PMI) have headed into recessionary readings which is genuinely concerning.

Don’t get me wrong, I’m not predicting a US recession, but a slow growth patch has started and it's clearly having an effect on Wall St. The simple fact is the US economy is NOT IMMUNE to global issues nor is Wall St. US 10yr bond yields @1.85% are trying to tell you this very point.

The issue has become that central banks simply can't drive global growth. Central banks can drive asset values and home currencies, which has been the case for the last 5 years, but sustained global economic growth requires concerted fiscal (government spending) and corporate support (capex and hiring).

There is only so much central banks can do to drive global growth. Ultra cheap sustained monetary policy forces savers up the risk curve and in turn drives risk asset prices, but risk asset prices also need earnings and dividend growth to sustain those prices. The missing piece globally remains fiscal policy support and corporate spending. Easy money monetary policy simply can't sustain lasting global growth unless they are supported by reforms to boost investment and private sector confidence. The problem is those moves tend to be tough, drawn-out, and socially disruptive, and governments often struggle to execute them. In the medium term the world remains in a clear "currency war". It's every country for themselves in attempting to devalue their currency to drive growth. Again this is a zero sum game and simply drives cross asset class volatility. You can all see the volatility even a small devaluation of the Chinese RMB has caused.

The problem is central bank activity is becoming less and less effective. Think of it like a patient who has been on morphine for an extended period. The dose needs to get higher and higher to have an effect. You can also see what happens when the doctor tries to lower the dose (Fed).

A classic example of a central bank "pushing on a string" is the Bank of Japan. On the last day of January they surprised markets by taking cash rates negative. The Yen fell -3% and the Nikkei rallied +5% over two days, only to give all those moves back in February. It was a very short party because guess what the Bank of Japan can't do with monetary policy?? Fix Japans rapidly aging population.

My point is for the best part of 5 years an investment policy based off "front running" central banks worked very well. My strong advice to you all is those days are over.

My key message is that simply hoping for a rising equity index tide to lift all boats is not going to work. In fact, that approach will most likely continue to detract value as has been the case for the last six months.

What I believe is the right approach is high conviction stock-picking where you can see structural earnings and dividend growth. In a world lacking growth, paying a bit of premium for earnings and dividend growth where you can find it would appear to me a sensible approach.

The pending Australian 1H FY16 reporting season will confirm where earnings growth is and is not. I expect some pretty extreme share price action in that reporting season where those who confirm growth continue to outperform, and those that don't continue to underperform.

That may well sound like a ridiculously obvious statement, but in these markets we need to strongly resist the temptation to be premature contrarians. The trend has been your friend and will most likely continue to be.

In the weeks and months ahead I will write to you about stocks we think offer those structural growth attributes. Late last year I mentioned Baby Bunting (BBN) and Link (LNK) as having those attributes and both have done well in this deep broader market correction. There will be others and my investment team and I are looking for them right now.

I expect further volatility and high levels of stock price performance divergence. What we always need to remember, and its damn hard some days, is it is a market of stocks, not a stock market.

In the fact just about everything has been marked down in price there will be stock specific opportunities to invest and make money. There should be absolutely no doubt about that.

But make no mistake, this is different to the last 5 years. We will need to be highly selective in where we allocate capital. We will also need to be patient and disciplined.

I realise everyone wants to be told it's a buying opportunity. No doubt it is in the RIGHT THINGS, but if I look across what different indicators are telling me most are flashing "orange" and some "red", it is absolutely NOT the time to be BUYING EVERYTHING.

I'm sorry to start the year with a dose of bearish reality, but I think we first all need to get our mindsets into the right framework and acknowledge that we are in a serious global growth scare that has spread to the USA and that most likely won't end tomorrow. Keep your seatbelts fastened this is going to remain a bumpy ride. A bumpy ride with plenty of opportunities for the patient and forward looking.

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Three attractive demergers

by Tony Featherstone

Kudos to National Australia Bank for demerging its UK banks, Clydesdale and Yorkshire, through the listing of CYBG Plc in London this week and subsequent trading on ASX (under code CYB). Current sharemarket volatility is an awful backdrop to list any business, let alone one with a troubled history. But it can create opportunities.

I have followed CYBG for two reasons. First, demergers in Australia have had a knack of outperforming in the past five years. Second, difficult businesses such as CYBG can have a significant upside in the medium term when set free from their parent and managed independently.

Expect more demergers in 2016. Record low interest rates and a sluggish share market will encourage companies to engineer value for shareholders through corporate deals. A spike in mergers and acquisitions in the past 12 months reflects this.

Many listed companies will have modest capital growth prospects and an increasingly challenged outlook for dividends in 2016. Witness the pressure on BHP Billiton this week to cut its dividend and help its credit rating. As such, unlocking value by spinning off assets and listing them as standalone companies on ASX will have greater appeal. A partial divestment of the Domain property business from Fairfax Media and a spin-off of Qantas' valuable loyalty program, considered in 2014, are some of a long list of demerger candidates.

In many ways, demergers are a better bet than Initial Public Offerings (IPOs). Information asymmetries often work against IPO investors: the vendor knows a lot more about the company than its new shareholders and the odds favour the seller.

Demerged assets are typically well known in the market, if not always appropriately valued. For example, institutional investors in BHP Billiton spin-off South32 were familiar with its assets and information through it being subject to ASX Listing Rules. Compare that with an IPO where all you really have to go on is a prospectus that is sometimes more fiction than fact, and are bombarded by management and market hype.

Demergers also have better alignment of incentives. It is in the parent company's interests to ensure the demerger is a success for shareholders who receive scrip in the new entity. Compare that with IPOs where assets can be bundled up by private equity firms or other vendors and the float's main purpose is as a quick exit mechanism for deal doers.

The rationale for demergers is another attraction. Some assets struggle for attention in large companies or are not valued appropriately. That is why BHP Billiton demerged South32 last year: its mostly tier 2 assets (in the production cost curve) could not compete for capital because BHP had more deserving tier 1 operations elsewhere.

That does not mean all demergers succeed or that they should be favoured over IPOs. Every company must be analysed on its merits. South32's poor share-price performance since listing, albeit in a sector where almost everything is falling, is a case in point. But there's enough evidence to suggest investors should put demergers on their watchlist.

Australia has had some cracking demergers in recent years: Macquarie Group's spin-off of its remaining shares in Sydney Airport; the Orora spin-off from Amcor; and the Brambles divestment of Recall Holdings are among the best. Woolworths spin-off Shopping Centres Australasia Property Group has performed well, as has the much smaller Asia Pacific

Data Centre Group, a property spin-off from the fast-growing NEXTDC. Orica's spin-off of Incitec Pivot and the DuluxGroup is another example.

Macquarie Group last year did some outstanding quantitative research on demergers. In an analysis of demergers over the past 20 years, it found the child (demerged) company tends to underperform for the first six months, before delivering stronger outperformance from about 12 months after that spilt.

The potential for early underperformance and the problematic outlook for the resource sector was one the reasons I suggested in May 2015 that readers of the *Super Switzer Report* watch and wait for better value in South32 because there was no compelling need to buy.

It is also one of the reasons why prospective investors should watch CYBG rather than dive in. With a new strategy and largely new management team, CYBG's performance should improve. There has to be upside after being the underperforming division of an underperforming bank for so long.

However, buying shares in NAB, which will have less baggage after the divestment, and is now attractively priced after underperforming the other banks in the past year, is the better option. NAB looks the pick of the big banks at current prices.

Three demerged companies to own

Three divestments in this market appeal: a large-cap (Sydney Airport), mid-cap (DuluxGroup) and small-cap (Asia Pacific Data Centre). South32 is getting close to value territory and it fits the thesis of buying demergers after their first year of being listed. But there is the risk of further asset write-downs from South32 as commodity prices fall and the turning point for resource stocks, while getting much closer, is not here yet.

1. Sydney Airport

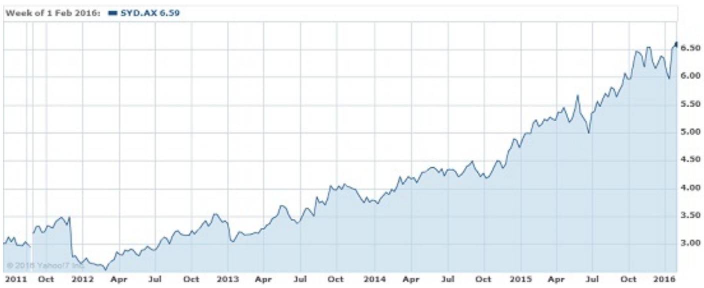
I first outlined a bullish view on Sydney Airport for this publication in March 2014, and again in January this year, nominating it as one of five stocks to buy during this correction. The market has continually underestimated Sydney Airport. For years, analysts have said it has too much debt, a complicated balance sheet, a distribution payout ratio that is too high, and that it is overvalued. But it has kept rising.

Sydney Airport's three-year annualised total return (including distributions) is 35 per cent. My central thesis for the airport owner and operator – that it is superbly leveraged to growth in inbound and outbound tourism over the coming decade – is strongly intact. Sydney Airport is benefiting as Chinese and Indian tourists travel to Australia, and as low airfares encourage more Australians to travel overseas, despite our lower currency.

Sydney Airport's December traffic performance showed total customer growth of 6.7 per cent year-on-year. Most other large Australian companies would kill for this type of annual growth in customer volumes in a patchy economy.

Sydney Airport is due for a price pullback and consolidation after such strong gains, but it is a core long-term portfolio holding for income investors and its defensive characteristics from owning a monopoly infrastructure have even greater appeal in a volatile sharemarket.

Chart 1: SYD



Source: Yahoo!7 Finance

2. DuluxGroup

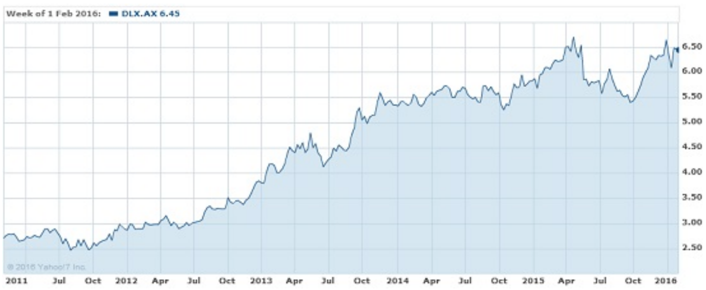
Australia's leading paint maker is one of this columnist's favoured mid-cap stocks. I wrote in the *Super Switzer Report* in November 2015 that it was approaching value territory after falling from a 52-week high of $6.88 to $5.88. It has since rallied to $6.45.

Short-term gains might be slower from here: the housing market has probably peaked and the renovations and refit market could slow as consumers struggle with anaemic wages growth and high debt, and become less confident in 2016.

Longer term, DuluxGroup has an enviable position in the Australian paint market. It should benefit from a stronger performance in its Alesco garage-door and openers business, and has clearly backed the right horse in Bunnings choosing it over the troubled Masters chain. DuluxGroup should grow as Bunnings benefits from Masters' demise.

DuluxGroup's FY15 result was slightly ahead of market expectation and an increase in market share in the crowded renovation and repaint market was a good sign. Product launches under the Wash 'n Wear brand and good cost control were other features. An expected yield of almost 4 per cent this financial year, fully franked, is another attraction.

Chart 2: DLX



Source: Yahoo!7 Finance

3. Asia Pacific Data Centre Group (AJD)

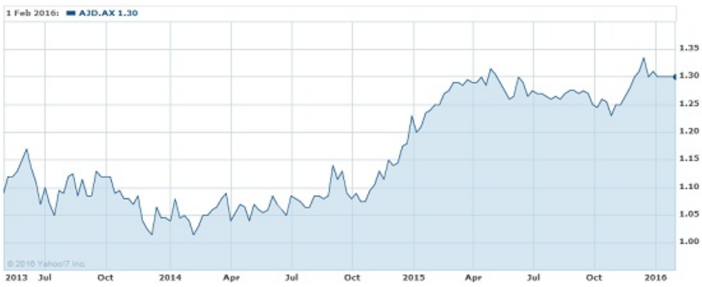
I nominated the data-centre property owner, a lower-risk play on growth in cloud-computing, as one of five specialist Australian Real Estate Investment Trusts (A-REITs) to watch in September 2015 for this publication. It has edged higher to $1.30 – a reasonable result in a falling market.

Growth in outsourcing of data storage shows no signs of slowing and AJD's former parent, NEXTDC, is building a strong first-mover advantage in this market. The alliance between AJD and NEXTDC expired in December, but they can collaborate on data-centre properties on commercial arms-length terms.

I suspect the market is underestimating the value of state-of-the-art data centres in capital cities. They require large amounts of water and power and central locations, and are not easy assets to replicate. AJD's properties received valuation uplifts in FY15 and should continue to do so as the value of data-centre assets rises.

AJD is trading slightly ahead of its book value of $1.24 and is expected to yield a touch over 7 per cent, unfranked, in FY16. That is attractive for long-term income investors and comes with reasonable capital growth prospects given the positive outlook for cloud-computing and outsourced data storage. AJD suits experienced investors who are comfortable with micro-cap, specialist A-REITs that have higher risk than traditional A-REITs.

Chart 3: AJD



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 Feb 3, 2015.

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How much do I need to retire?

by Melanie Dunn

"How much do I need?"…the question most commonly asked at the backyard BBQ by those approaching retirement.

It can be daunting to stop work and rely on your savings for the rest of your life. The Age Pension does provide a minimum level of income if things don't go to plan, but most people wish to make sustainable spending decisions to ensure they don't end up solely on the Pension.

However, knowing the question and finding the answer are two quite different things. Determining a spending pattern for retirement that is sustainable given the wealth you have accumulated is not a simple calculation.

Questions have been raised about the appropriateness of common retirement calculators relied upon by members to estimate whether they have enough in savings for retirement. There can be wide variations in assumptions, and some exclude fees and the Age Pension. This can lead to materially different results to the same question. The future is uncertain and any advice or tool that forecasts your retirement is just that, a forecast, one scenario of what retirement might look like.

The key question to ask is how likely is that outcome? In reality, the chance of that forecast playing out exactly as predicted is extremely small. Consider, however, that your retirement was forecast many thousands of times to fully cover off on what might happen to inflation, investment returns, Age Pension entitlements and your lifespan during retirement. This comprehensive set of outcomes can then be examined to determine how likely it is that you can afford your desired retirement without running out of money.

Although this tailored advice is useful each year to check your retirement is on track, it isn't something you can do while enjoying a beverage and cooking a sausage in the backyard.

However, a set of retiree saving benchmarks have been developed that provide a guide so that a detailed analysis, tailored to your individual financial situation, can wait until next week.

Accurium has estimated the amount of savings a retired couple would need today to achieve different levels of spending throughout their retirement with 80% confidence and 95% confidence. These different levels of certainty represent a 1 in 5 chance of running out of money, and for those who require greater certainty, a 1 in 20 chance.

Savings required to support $70,000 p.a. for life and assuming spending reduces at older ages.

Couple's Age	With 80% confidence	With 95% confidence
55	$1,375,000	$1,755,000
60	$1,202,000	$1,494,000
65	$986,000	$1,289,000
70	$782,000	$1,017,000

Savings required to support $100,000 p.a. for life and assuming spending reduces at older ages.

Couple's Age	With 80% confidence	With 95% confidence
55	$2,192,000	$2,810,000
60	$2,001,000	$2,457,000
65	$1,769,000	$2,207,000
70	$1,504,000	$1,833,000

A copy of the full Accurium retiree saving benchmarks can be downloaded here.

Case Study: Bruce and Shirley's retirement

Consider Bruce and Shirley. They are both 60 years old and are winding down into retirement. They have approximately $2 million of wealth in their SMSF.

Bruce and Shirley have worked out a budget. They desire an active start to retirement. Enjoying international holidays, helping out family, and getting involved with their local golf and sailing clubs is important to them. They feel they need to spend around $100,000 p.a. to enjoy the lifestyle they want in retirement. As they get older and become less active they are comfortable for spending to reduce in real terms.

Accurium's retiree saving benchmarks show that their $2 million in SMSF savings are broadly sufficient to meet this $100,000 lifestyle with 80% confidence.

However, this still leaves them with a one in five chance of running out of savings and falling back on the Age Pension. To reduce the risk of reliance on the Age Pension to one in twenty they would need around $2.2 million in savings.

Being a conservative couple, Bruce and Shirley might decide to keep working for a year or two to accumulate more savings to meet their goal of a $100,000 lifestyle. Or if they are serious about retiring now they could obtain tailored advice to determine a spending plan that provides 95% confidence in their retirement given their current $2 million in savings. Some concessions might have to be made…Bruce may need to decide between the yacht club and golf club membership!

Melanie Dunn is SMSF Technical Services Manager and a Consulting Actuary at Accurium

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Australia and New Zealand Banking Group (ANZ) Upgrade to Overweight from Neutral by JP Morgan. The new CEO, Shayne Elliot, is restructuring the institutional and investment banking divisions. JP Morgan notes an additional $200m in provisioning for FY16. The broker reduces FY16 earnings and pay-out estimates.

To reflect the challenges the target is lowered to $27.79 from $31.59. The broker upgrades to Overweight from Neutral on valuation, believing the stock is also a switching opportunity as investors move out of Commonwealth Bank (CBA) when it goes ex dividend on February 16.

Downer EDI (DOW) Upgrade to Overweight from Underweight by Morgan Stanley. Despite the weak conditions for the sector Morgan Stanley believes the conditions required for a bottom to emerge are converging.

Macro conditions for the engineering & construction sector are not expected to improve in 2016 so the broker warns it is too early to become structurally bullish on the sector.

Still there is scope for some optimism the broker maintains and, with Downer EDI's modest debt position and positive potential catalysts, makes its first upgrade in three years, to Overweight from Underweight.

Healthscope (HSO) Upgrade to Buy from Hold by Deutsche Bank. Deutsche Bank expects subdued first-half results from domestically focused health companies due to a softening in demand.

Internationally focused names are offering more safety and benefit from a weaker Australian dollar but the broker believes this is largely reflected in valuations.

Deutsche Bank believes the hospital sector is well positioned, despite the reports of slowing activity.

Incitec Pivot (IPL) Upgrade to Outperform from Neutral by Credit Suisse. Credit Suisse maintains that, while the market is likely to downgrade earnings estimates, the issue underpinning those downgrades are largely cyclical and Incitec Pivot represents value at its current share price.

The broker downgrades forecasts on a reduction in the fertiliser price and coal production assumptions. Still, the outlook for fertiliser prices is positive, Credit Suisse believes.

In terms of the North American market explosives are being affected by the switch to gas from coal. While this may have more permanent features the broker assumes a partial recovery in coal production in FY17.

Credit Suisse finds the valuation undemanding and upgrades its rating to Outperform from Neutral.

Japara (JHC) Upgrade to Hold from Sell by Deutsche Bank. Deutsche Bank has lifted FY16 estimates for aged care providers to reflect the timing of funding reforms.

Ramsay Health Care (RHC) Upgrade to Buy from Hold by Deutsche Bank. Deutsche Bank expects subdued first-half results from domestically focused health companies due to a softening in demand.

Internationally focused names are offering more safety and benefit from a weaker Australian dollar but the broker believes this is largely reflected in valuations.

Deutsche Bank believes the private hospital sector is well positioned to continue its strong growth, supported by capacity expansion.

Regis Healthcare (REG) Upgrade to Buy from Hold by Deutsche Bank. Deutsche Bank has lifted FY16 estimates for aged care providers to reflect the timing of funding reforms.

After share price weakness Regis Healthcare's rating is upgraded to Buy from Hold, reflecting a preference for organically-driven growth.

UGL (UGL) Upgrade to Equal-weight from Underweight by Morgan Stanley. Despite the weak conditions for the sector Morgan Stanley believes the conditions required for a bottom to emerge are converging.

Macro conditions for the engineering & construction sector are not expected to improve in 2016 so the broker warns it is too early to become structurally bullish on the sector.

The broker upgrades UGL to Equal-weight from Underweight, reflecting the easing of a number of risks, Cautious industry view retained.

In the not-so-good books

Ansell (ANN) Downgrade to Underperform from Neutral by Credit Suisse. Ahead of the first half results, the company has reduced FY16 guidance on the back of lower-than-expected January sales and volatility in current conditions. Management expects an improvement in the second half.

Credit Suisse observes any improvement is premised on a recovery in sales growth and this is a concern, given recent results from key US industrial product distributors.

The broker downgrades earnings forecasts by 7.0%. Rating drops to Underperform from Neutral.

Ansell (ANN) Downgrade to Sell from Hold by Deutsche Bank. Deutsche Bank finds little cause to own the stock at current prices, given the exposure to the increasingly challenged economic outlook.

Sales deteriorated in January and the weak start to the year appears to the broker to be at odds with revised guidance, which implies a recovery in second half earnings.

Deutsche Bank revises estimates down 10% for FY16. Rating is downgraded to Sell from Hold.

Ansell (ANN) Downgrade to Neutral from Buy by UBS. The company has signalled a weak first half, with guidance for FY16 downgraded. UBS reduces FY16 forecasts by 6.0%. The broker emphasises the company is strongly aligned to global industrial recovery and this remains unclear.

Cleanaway (CWY) Downgrade to Hold from Buy by Deutsche Bank. Deutsche Bank downgrades Cleanaway Waste (formerly Transpacific) to Hold from Buy on valuation grounds with an unchanged target of 80c.

The broker expects solid earnings growth in the first half, driven by sales initiatives, the Melbourne landfill acquisition and cost cutting. The industrial segment is expected to remain under pressure from the lower oil price and increased competition.

Perseus Mining (PRU) Downgrade to Underperform from Neutral by Macquarie. Problems at Edikan continue, leading Perseus' production to again miss Macquarie's forecast in the Dec Q. The issue is one of access to higher grades and FY16 production guidance has been lowered.

Given the low grade of the deposit, Perseus has limited tolerance for inevitable disruptions in West Africa, Macquarie suggests. Risk is therefore to the downside and the broker downgrades to Underperform.

REA Group (REA) Downgrade to Hold from Buy by Deutsche Bank. With the stock now trading above Deutsche Bank's price target the rating is downgraded to Hold from Buy.

The broker expects REA Group to deliver underlying double digit revenue growth, but the negative trends in new property listing in the second half limits further upside.

The broker continues to believe in the long-term value potential of the stock.

Shine Corporate (SHJ) Downgrade to Hold from Add by Morgans. Shine Corporate has revised down earnings guidance to $43.3m from $52-56m, with an additional $17.5m provision. The main concern for Morgans is the deterioration in the underlying business.

The company is reluctant to provide the non-cash component of the earnings so the broker is unable to confidently determine the detail of the downgrade at this time. The broker notes the company has elected to suspend dividend payments in the current half.

Until cashflow issues are resolved the broker’s rating is downgraded to Hold from Add.

ETFs and Life/TPD and income protection insurances

by Questions of the Week

Question: Thank you for Peter's marvellous article on Fangs.

I nearly always get my dealings in ETFs wrong, so I was wondering if you could suggest a managed leaders fund that specialises in the top 20 or 50 shares that might hold substantial holdings in some, or all, of the nominated companies.

Answer (By Paul Rickard): Thanks for the comment about Peter's article.

There probably is an ETF listed on one of the US exchanges that specialises in investing in these companies (and their like), however, I am not aware of what it is.

Locally, you may want to consider an active manger like Magellan.

Have a look at this ASX quoted fund, which trades under the ASX code of MGE (product update attached). I am not sure whether he has positions in these companies, but they do sound like the sort of companies he would consider.

You could also look at a local ETF – the NASDAQ 100 ETF from Betashares. Tracks the NASDAQ 100 index. ASX code is NDQ.

Hope this helps.

Question: I currently have a small portion (about $130k which is about 30% of total) of my super with MLC, and the rest in our SMSF, which is largely invested in a residential property (which so far has been doing well).

My question is about Life/TPD and income protection insurances for myself.

I would like to roll over most, or all, of my super from MLC to my SMSF. However, as above insurances are through MLC, I am not sure if I can get cheaper insurance elsewhere if I completely leave MLC!

Are you able to help me make a decision, or make any recommendation? As additional info – my employer contributions are now going into my SMSF and I have the option of splitting the payments to two different funds. Should I decide to leave some in MLC to keep the account open and pay the premiums?

My main goal is to save the rolled over money in an offset account to reduce the interest on the loan, while also being able to buy shares.

Answer (by Paul Rickard): It is not unusual for a member of an SMSF to maintain a super account with a major industry or retail fund provider with the express purpose of accessing their insurance cover. Retail and industry funds will typically have "bulk buying" power when it comes to the provision of life/TPD and income protection insurances – and in theory, should be able to offer you insurance at a cheaper price than you can access it directly.

That's the theory.

So, you now need to test this out (I can't tell you whether your MLC policies are or are not more expensive). I suggest you contact some alternate providers (try BT Life, One Care, Macquarie Life etc.) and arrange some quotes.

A couple of points to note: a) you can no longer purchase "own occupation" insurance from super; and b) even if MLC are cheaper, I doubt you need to keep $130,000 in your account. You could probably roll over (say) $100K to your SMSF, leaving a balance of $30,000 to pay the insurance premium.

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