

Autumn 2010

Align

Dear Reader,

One of the (few) useful outcomes of the Global Financial Crisis is that it has motivated investors to seek better understanding of the investments they hold and the assumptions made when investing.

Now is a great time to seek greater clarity about how your money is invested and to ensure the risks you are taking are in line with expected returns.

With this in mind, we have a look at how the 'Top Funds' published in mainstream newspapers compare to our investment approach.

Given our attention to minimising fees and taxes while exploiting the higher returns provided by Value and Small companies, it is no surprise that our investment approach delivers consistently higher returns when compared to funds which are widely advertised.

Our clients enjoy highly diversified investment portfolios which maximise expected returns for an agreed level of risk.

If you have friends or family that don't have an independently owned financial adviser working for them, which is the majority of people given over 85% of all financial planners are tied to banks, feel free to introduce them to us.

We have the capacity to take on 10 additional clients in 2010 and would love to work with friends and family of existing clients and supporters.

Until next time, enjoy the lovely Autumn weather.

Darren

Welcome Ashleigh

Some of you may have noticed a new smiling face in our office. Ashleigh recently joined the Align Financial team as the Administration Officer.

While completing her university degree Ashleigh is working with us part-time. She is delightful to work with and fits in perfectly.

Outside of work and university Ashleigh anchors the Mona Vale Surf Club women's boat crew, who will compete in the Australian Championships later this month.

GO Ashleigh!

News

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Performance Tables

Period	Top Performer	Worst Performer	Align Financial 80 Portfolio
1 year	20.1% ¹	-8.6% ²	25.6% ³
5 years	6.5% ⁴	0.9% ⁴	5.1% ³
10 years	7.1% ⁵	3.3% ⁶	8.1% ³

1. AusSAFE Super Balanced as published in The Herald Sun 24 Jan 2010
 2. MTAA Super Balanced as published in The Herald Sun Returns Program
 3. SuperRatings performance tables as published in the Sydney Morning Herald 27 Feb 2010
 4. BUSS Q Balanced Growth as published in The Herald Sun
 5. BT Super Balanced Growth as published in The Herald Sun
- Note: multi-year returns are annualised and per annum

It seems every time I flick on the TV or drive past a bus shelter, there is a fund manager advertising their recent 'award-winning' returns. They are spending millions on promoting their performance.

But is their performance really that good?

A recent article in The Herald Sun (24th January 2010) listed the best and worst super funds over 1 year & 10 years. It prompted me to look a little closer to see if the claims are at all justified.

The vast majority of managers in the article are using an approach which by its very nature means there must be losers and winners. The problem for the investor is: How to select the winner in advance? The answer is you can't, consistently.

By forecasting, stock picking, crystal-balling, market timing, using luck and hope, to endeavour to produce returns above a nominated benchmark (note: sometimes the benchmark selected is totally inappropriate, like comparing the speed of a Porsche to a Prius, but that is another story). This type of investing is known as 'active management'. This typically attracts higher fees and taxes (further lessening the likelihood of beating benchmarks), in the hope of out performance.

The table above shows our evidence based Enhanced Asset Class investment

approach results over 1, 5 & 10 years. Our approach to investing does not involve crystal balls or forecasting, attracts low fees and minimal taxes, and is based on more than 80 years of research by some of the smartest academic minds in the world. It sticks to basic principles.

A comparison of the two approaches (Active advertising vs. Asset Class academic) is shown in the table above.

So last year, an investor with \$1,000,000 would have \$55,000 more in their Christmas holiday account simply by investing a smarter way.

No crystal balling. No guessing. Just common sense investing.

But one year hardly makes compelling reading. The best 10 year result was BUSS Q Balanced Growth at 7.1% and worst was BT Super Westpac Balanced Growth at 3.3%.

Again, our Market 80 Portfolio delivered 8.1% pa over the decade.

We have real client portfolios that achieved similar returns to those listed above, and demonstrate that they outperformed all comparable publicly published fund managers with similar asset allocations.

As our competitors and product providers

spend millions promoting results that are worse, or far worse than ours, I thought you should know about it.

As you would appreciate, there is a commercial imperative driven by a multi-billion dollar industry that tries to focus your attention on the relatively unimportant aspects of market timing, stock picking and prophesising the future. They promote the great false hope that "we are smarter than the rest".

The past 3 years have been tough times for investors. But even so, clients who followed our advice and stayed in their seat have earned returns far in excess of those delivered by most big name investment firms.

Which begs the question: Why run the risk of chance, hope and luck, when it is not necessary? Successful investors don't. They know there is a better and easier way to receive the return to which you are entitled.

For further information, a copy of our white paper detailing our evidence based approach to investing, or individual measurement and 'benchmarking' of your investments, please call me.

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If you aren't in regular contact with your adviser or haven't reviewed your own circumstances recently, it may be time to call me to see if we can help you to ensure you are getting the return you are entitled to. We are pleased that we have been able to work with our clients through the GFC and keep them on track to achieving their goals.

If you aren't already, I'm keen to show you how to become a Successful Investor.

Ps. If you are a reader of financial papers,

you may recall the MTAA Super Fund getting a lot of media attention 2 or 3 years ago. Year after year it was the best performing balanced fund in Australia and was heavily promoted. You might notice that the Worst Performer last year was in fact the MTAA Super Balanced, delivering a whopping -8.58% loss to investors.

How could this happen? Simple. MTAA chose not to mark down the value of assets at a time when all other investors did.

The fund invests significant amounts in unlisted assets, such as property and private equity, which are not valued

on regular basis. When share markets declined in late 2007, the MTAA fund carried on crediting positive returns as the assets it owns were not publicly traded. Then, and there is always a then in stories like this, the time came for the fund to re-value their assets and (no surprises here) they concede that the value of their assets has fallen considerably so their members get dismal returns when most other investors are gaining ground.

For investors who moved into MTAA in the past year or two, they are leaning the hard way that chasing last years' winners is not the path to being a successful investor.

Super as a Piggy Bank?

There have been some articles in financial planning circles lately promoting the idea of an adult child putting money into their parents' Self Managed Super Fund (SMSF). The story goes that the child gives the money (borrowed or otherwise) to the parents as a kind gesture for the time and money spent raising the child. Being kind parents, they thank their child for the gift and re-assure the child that if they ever need money (as they may have done once or twice over the past 30 years), it can be drawn out of the SMSF at any time as Dad is 60 and retired.

Large amounts of tax can be saved due to the tax-free rate a SMSF pension enjoys.

When I read these articles, I wonder about the sole purpose test. That is, the premise behind every superannuation fund is that it is commenced and operated with the sole purpose of providing benefits to members on their retirement or death.

If such a scenario was ever tested in the courts, it might be hard to argue that \$250,000 drawn out of the child's bank account, placed into Dad's SMSF and later drawn out and paid back to the child's bank account will satisfy this test. The sole purpose does not appear to be to provide retirement benefits for Dad.

However, if you speak with the child and the father, they will tell you that the son is allowed to gift money to dad. They will also tell you that dad is allowed to gift money to his son. Both take place outside of the superannuation system.

Once at retirement age, Dad is entitled to spend or gift his super as he sees fit. Once it is paid out of the SMSF, it is his to do with as he sees fit. This is without reference to Superannuation Regulations.

Another potential benefit to this scenario is that the adult child may be able to claim they are financially dependent on Dad, if Dad was making regular payments towards the child's living expenses.

I haven't yet heard of an auditor argue a breach of sole purpose in this piggy bank approach. Perhaps it is something that may take a bigger place for the auditors and ATO's minds as it is becoming more common place.

It is an interesting area, and one which we are following closely.

Getting TANKED!

1 mm of rain on 1 m² roof area
= 1 litre of water in the tank

Have you noticed the recent rate increase on your water bill? Or have you queried why they lifted restrictions on your water usage when the dam is still at 50%? Well reality is it's the only way the government will be able to pay off the desalination plant at Kurnell by allowing consumers to use more water at a higher rate.

While I do think the Desal is a great way to secure Sydney's 'drinking' water supply with our ever increasing population, there is still no justification as to why we need to pump that pure crystal clean water onto our gardens or flush the toilets with it?

Sporting Clubs, Golf Courses, Councils and Large Organisations are opting for Stormwater Harvesting from our over capacity drains, but what is there for the domestic market?

Rainwater Harvesting is the answer for consumers wanting a sustainable way of life or wanting to help secure Sydney's diminishing water supply. Installing a rainwater tank and connecting to large water users around the home means you can substitute your mainswater usage with clean, fresh rainwater. It's a known fact that rainwater is much softer than mains water and doesn't contain any of the additives needed by Sydney Water in order to maintain its quality. An interesting fact about installing a tank is that:-

So if Sydney has an average yearly rainfall of 1300mm and the average user connects 80m² of roof to the tank, that's a staggering 104,000 litres of water harvested every year! Or 2000 litres per week for substituting your mainswater usage in and around the home. Got you thinking hasn't it.....

Visit us online at saverainwater.com.au or give Renni a call on 02 9979-8735 for a free consultation or onsite quotation.



One Last New Year's Resolution

If you find yourself not being able to keep your New Year's Resolution as long as you like, you might like to try mine. They don't involve physical exertion, alcohol or nicotine. Just a little commitment and awareness.

Darren's Seven Simple Rules for Money Mastery

1. Pause, take a breath, discuss, and look at the numbers before making any financial decision.
2. Spend less than you earn now, not as much as you might earn in the future.
3. Spend mindfully, not mindlessly, and periodically leave the credit card at home and pay cash instead.
4. Save something--regularly. Give something--regularly.
5. Diversify your investments into many different asset classes.
6. Buy low and if you must sell, sell high. Invest when an asset class is down and be cautious when an asset class is up.
7. Remind yourself that your net worth far exceeds your bank balance. It includes your talents, your future earnings, your family, your friends and your health.

Remind yourself to be thankful for all you are and all you have.

Disclaimer: This publication has been prepared for general information purposes only. It is not specific advice to any particular person. You should consult your licensed financial adviser before making investment decisions.

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