Superannuation embraces information technology

The industry has been a bit slow to see technology's potential

ANDREW MAIN

WHILE most of the talk in the super industry is about possible changes to the Future of Financial Advice regime brought in on July 1, most of the action is in bringing consumer technology into at least the last decade of the 20th century, says Rainmaker's Alex Dunnin.

"The big retail banks have been working to combine their mobile web banking applications with their MySuper products and the results look likely to put them ahead of the industry funds," says Dunnin, who as an information supplier is closer to being an independent than most people in the industry.

"Banks have been developing web banking internet applications since the internet began to be commercialised in the late 1990s and the lead they have over industry funds which have under-invested in this type of technology is unassailable, although this was largely due to their desire to hold fees low.

"They can catch up some of this ground but they've given the retail superannuation sector, and banks in particular, an amazing head start."

He believes that the bulk of superannuation fund members, notorious for not being closely engaged with the status of their superannuation accounts, will be amazed at how much easier it soon will be to get that information if they are using retail or corporate super products.

"With the deep penetration of online banking, smartphones and tablets for accessing the internet, these are the tools consumers are going to want to use to interact and transact with their superannuation. Because banks know how to build and use them, it will give them a massive strategic advantage."

He says the new capability to distribute retail superannuation products "isn't just a threat to industry funds, it's a threat to anyone in the value chain unable to adapt their business model to complementing this technology; for example, advisers that have resisted FoFA reforms such as fee for services, lower costs or those unable to justify their value proposition."

On the matter of whether FoFA should change, as the Coalition would like to see, "FoFA's playing catch-up, as the law usually does".

He adds that as long as planners act in the best interests of their clients, as FoFA now officially requires, "you can basically ignore the other 98 per cent of the legislation".

That's easier said than done, however, since there are moves afoot to amend the "best interest" test and delete the "opt in" requirement, and the two groups that recently forged an alliance, the retail industry's FSC and the Industry Funds' ISA, have differing views on both.

NIKKI SHORT

Alex Dunnin, director of research at Rainmaker Group

John Brogden, chief executive of the retail industry's Financial Services Council, agrees with Dunnin that the best interest duty "is what underpins the whole of FoFA" and says there is only one of seven clauses in the legislation that the FSC opposes.

"It's called 'little g'," he says, "and it's a catch-all that allows regulator ASIC to include anything else in the duty that it chooses to include."

The clause states that the provider of advice must have "taken any other step that, at the time the advice is provided, would reasonably be regarded as being in the best interests of the client, given the client's relevant circumstances".

His beef is that the industry is seeking certainty and that "little g" will have the opposite effect, by leaving a question mark over how the law will be interpreted. "Getting rid of little 'g' was part of the Coalition policy that Mathias Cormann announced before the election," he said.

Robbie Campo, deputy chief executive of Industry Super Australia, sits on the other side of the fence and wants the legislation left as it is. "There cannot be a qualified best-interests test. You either act in someone's best interests or you don't," she says.

Meanwhile, the opt-in arrangement forces financial advisers to be formally re-engaged by clients every two years and is aimed at weeding out the advisers who are still picking up trailing commissions for offering advice, often years ago, to clients who may not even be aware the commissions are being paid.

Brogden makes it clear that FSC was only a reluctant supporter of the opt-in proposal when FoFA was drafted and he'd like to see it unwound now.

"We fought to stop it being an annual event and it's currently every two years. We had come to terms with the fact that under the previous government it was a reality but the Coalition wants to remove it and we believe the government has a mandate to do that, so we support that move."

Campo quotes a submission that her organisation has just made to the Senate's review of the Australian Securities & Investments Commission, noting "the opt-in requirement is a compromise to prevent asset-based fees from replicating all the problems caused by commissions, including conflicted advice and consumers paying for advice that they do not receive. ISA estimates that 2.8 million Australians are paying commissions and ongoing fees for advice they do not receive".

Arthur Sinodinos hasn't laid out exactly what he is planning in relation to FoFA although the Assistant Treasurer told a conference last month that there were elements of "regulatory overreach" in the legislation and that he will produce a discussion paper on the issue before year's end.

Dunnin has seen legislative proposals come and go and believes it's not so much the legislation as how it's applied by ASIC, that will affect how the industry moves forward and in particular whether it will move the retail advisory industry more towards consolidation or fragmentation.

"To date, the banks have done brilliantly out ot FoFA," he says, adding that in recent years they have assembled vast wealth management arms, "and lots of shoe leather to distribute products" while the global financial crisis has driven lots of supersavers straight into their control.

"But this legislation, depending on how much it's followed through, may turn planners into individual fiduciaries, and individuals can never outsource the trustee-fiduciary role."

In other words, advisers could find themselves bound by the processes and rules of a big organisation but still retaining individual responsibility.

"The regulator may ask planners to prove why they are putting clients into a product that is issued by their parent organisation and those planners would have to be able to put their hand on their heart to explain the full rationale for their advice.

"The fee-for-service fiduciary model may produce an endgame where there is a fragmentation of the planning industry and indeed we're already seeing that in some instances where financial planners are finding their organisation has been taken over by one of the big banks, over their heads, but they can actually go out and get an Australian Financial Services Licence for themselves, ironically because of the advances in technology.

"We're seeing that already in the proliferation of smaller adviser groups which have gone up from around 650 to close to 800 in recent times. That way they can get away from the perception of having a conflict."

And what about self-managed super funds? Are they going to take over the superannuation world? "We're still getting the hang of SMSFs but it was worrying to note how many trustees involved in the Trio-Astarra collapse were unaware that SMSFs are not regulated and therefore not protected like the pooled funds are," he says. "Some of those cases are tragic."

He says he has been a bit startled recently to hear a senior executive from the ATO say that "90 per cent of SMSF trustees are trying to do the right thing".

"On that arithmetic, with almost 500,000 SMSFs out there, that means there are 50,000 whose trustees aren't even trying to do the right thing," he says.

"If even 1 per cent of pooled funds were doing wrong, it would be classified as a national scandal," he says, adding that even if 1 per cent of SMSFs do the wrong thing, "that's 5000 funds on the wrong side of the law".

"If funds are unregulated, and they are, of course this is going to happen," he says, making it clear that we'll probably have a fresh batch of tragic SMSF tales to exchange before long. And that suggestions of the eclipse of pooled superannuation funds are entirely fanciful.

Investors back bold founders' Asia thrust

UNDER THE RADAR

RICHARD HEMMING

THE prices of iProperty and iCar Asia have both doubled in the past six months, and the leap of faith investors are making that the two young founders' vision comes off is breathtaking.

It is no accident that these two companies, putative followers of Realestate.com.au and Carsales.com, are among the few counters that you can buy on the ASX with operations directly exposed to Asian consumer markets. They are looking to dominate the online sales of property and motor vehicles and their online classifieds business model is one that has what investors love: big operating margins of 50 per cent plus, low capital investment, and big dividend-paying potential.

The problem is that these two companies are many years behind their bigger brothers and are trying to make headway in the online markets of Southeast Asia that are much less mature. Unlike their bigger brothers, they also don't have market dominance, which is the real secret behind their success (Realestate.com.au owner REA has a market cap of $5.5 billion).

Filling this gap is the investors' faith in management, and more importantly, in the strategic direction of the founders Patrick Grove and Luke Elliott. The share price rise means that their joint-owned company, Catcha Media, which has stakes in both iProperty and iCar Asia, is now worth just under $300m.

> 'They are passionate about online classifieds'
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> SHAUN DI GREGORIO, IPROPERTY CHIEF EXECUTIVE

Grove and Elliot are in their mid-30s and have left the running to experienced operators. iProperty chief executive Shaun di Gregorio was previously a senior executive at Realestate.com owner REA.

He says that despite their youth, Grove and Elliott have the knowledge and experience in the fast moving Asian online space: "They are passionate about online classifieds and have been in the region for 15 years. They have the relationships, the networks and haven't made the mistake of landing here and within six months thinking they can achieve wins. They have gone the distance."

iProperty is based in Malaysia, which is the only market in which it is currently profitable. It also has a presence in Hong Kong, Singapore, Thailand and Indonesia. Its big market is property developers rather than real estate agents, which reflects these countries' fast economic growth.

The company listed on the ASX in 2007, has a market cap of $330 million and should only make about $18m in revenues this calendar year.

It may be break-even next year. iCar Asia has been listed for just over a year and has a market cap of $108m. It will be some years before it breaks even based on the $410,000 cash it received for the three months to September 30, which is before costs.

Both are achieving big quarterly increases in cash receipts, but this is hardly surprising considering their start-up nature, and the numbers are insignificant compared with their burgeoning market caps. But di Gregorio indicates the vast potential that the emerging Asian economies have:

"These markets might be six or seven years behind, maybe more. But it's not like 12m yacht racing. China's (online property classifieds business) SouFun is 100 per cent new property. "Where these businesses can go to in emerging markets is twice the size of REA's revenues."

In fiscal 2013, REA generated $336m in sales, and is forecast to deliver $422m in the current year.

Richard Hemming edits www.undertheradarreport.com.au, which provides investment opportunities in small caps. The author does not own shares in any of the stocks mentioned.

Are you your worst enemy?

ROGER MONTGOMERY

TO be successful as investors across the long haul, we mortals must overcome some big obstacles.

Some of these are obvious: the volume of news and information published daily on companies and the stockmarket presents a daunting challenge for anyone without the luxury of being able to study it full time, and the complexity of modern finance theory seems designed to confound anyone with less than PhD-level qualifications.

The most daunting challenge we face, however, is less obvious. It is the same obstacle that has quietly stood between investors and long-term success for as long as markets have existed: ourselves. There are so many cognitive biases and heuristics that individual investors bring to their portfolio decisions, an entire field of study, behavioural finance, has sprung up.

The insights from this field are clear: the real enemy lies within.

One of the more damaging of our inbuilt biases is our tendency towards optimism.

To illustrate the effect of this, if you were to ask a class of MBA students to rate their income-earning prospects, most would expect to earn more than the average for their class. Similarly, a group of drivers asked to rate their skill relative to others will tend to assess themselves as significantly above average. Few will see themselves as average or below.

I'm not aware of a researcher having asked a group of investors to rate their investing skill relative to others, but I'm pretty sure the outcome would be similar: a surplus of investors with uncanny ability.

This inherent optimism affects the way we analyse our successes and failures.

Investment outcomes are always a mixture of luck and skill, and when we review those outcomes it is easy to see successes as a result of our skill, and failures as the product of bad luck, brought about by some external agency.

The only way to really gauge your investing skill is to properly account for a large number of decisions across an extended period and measure performance against some objective yardstick.

This is a lot of work, and I expect very few individual investors would go to this effort. It seems safe to assume, then, that many investors are subtly and inadvertently sabotaging their long-term prosperity by continually making suboptimal investment decisions. Across a lifetime, this can add up to a large difference in terms of retirement wealth. How can you avoid this trap and improve your prospects for a comfortable retirement? Do what the professionals do: take a sheet of paper and properly document your investment process. Identify and describe what it is that will allow you to compete against all of the investors taking the opposite sides of your buy and sell decisions.

Some of the important topics to address include:

- What are your objectives? Think about what return you are trying to earn, and how much risk you are willing to bear to achieve it. Think carefully about this second point, and know in advance how you will respond when a bad-case scenario arrives, as it probably will.
- What is your edge? Clearly articulating your source of advantage and where you will apply it is perhaps the most important part of the exercise. As Warren Buffett put it in his 1996 shareholder letter, "You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital."

If you have an interest in studying financial statements to find insights others have missed, that's great. However, if you are relying on media commentators, brokers, acquaintances or taxi drivers for tips, this topic may need more work.

- How will you manage your portfolio? Position sizes should be part of a plan; they shouldn't be defined by whatever cash you happen to have at the time. Consider how long you will hold positions and how often you need to rebalance your portfolio. Rebalancing once a year is fine. Rebalancing once a lifetime is probably not enough.

Once you've done all that, consider tracking your investment performance across time to see how you perform. This takes a bit of work, but doing so will help you to stay realistic on what can be achieved and perhaps identify aspects of your plan that need improving.

This sounds like a lot of work — and it is — but there's a lot at stake. In the long run, getting the most from your investments is well worth the effort.

A word of caution, however: if you do this properly you may come to the conclusion that the best course of action is to fire yourself.

Roger Montgomery is the founder of Montgomery Investment Management and the author of Value.able: How to Value the Best Stocks and Buy Them for Less Than They're Worth.

CPU trending on the up and up is worth a timely look

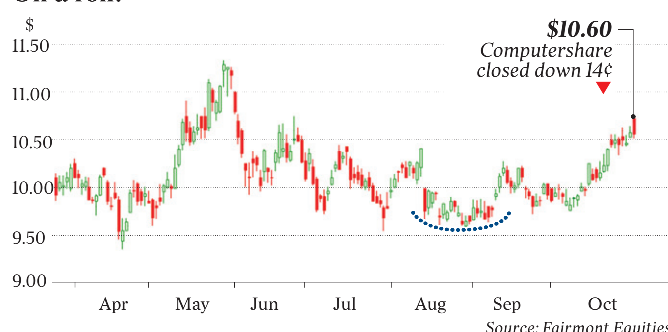
A CHARTIST'S VIEW

MICHAEL GABLE

IN recent results, Computershare (CPU) indicated guidance for softer underlying earnings per share growth of about 5 per cent for next year. Guidance is premised on equity, foreign exchange and interest rate markets remaining at current levels. More positive markets will mean a possibility of earnings upgrades.

Over the long term, we see improving economic conditions in North America and higher long-term sovereign bond rates assisting CPU's earnings. The share registry and related equity market businesses are leveraged to the US economic recovery and recent improvement in Europe. With US dollar denominated earnings and such a large percentage of earnings from foreign sources, this is a stock that is sensitive to currency movements. Any decline in the Australian dollar, assuming a steady global economy, will see CPU's share price accelerate. When you think about where the Australian dollar is heading to in the longer term, CPU could be a worthy addition to an investor's share portfolio. However, is now the right time to buy? Looking at the daily chart, I have been happy to recommend our clients buy it.

On a roll?



Source: Fairmont Equities

Back in May-July, the share price action did not look too bullish for CPU. The stock became subject to sharp sell-offs and then very lazy rallies where it struggled to make new highs. Recently, however, we have seen the share price round off above the $9.50 mark, which was the last low of the recent uptrend. It then rallied strongly before slowing correcting back to where it is now. That low around $9.50 occurred in April and was part of longer term uptrend which started back in 2011. By not breaching that prior low, we have a stock that is just taking a breather from the longer term uptrend, not a stock that is commencing a new long-term downtrend.

With CPU nicely holding these levels, it could easily rally to a new high where major resistance could be seen at $11.50.

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Hybrid notice saver accounts offer higher interest on more flexible terms

LIZ MORAN

SMART INCOME

ONE of the biggest drawbacks to term deposits is the lack of liquidity or access to your money if you need it. Generally banks will let you withdraw part or all of your term deposit in case of emergency but that usually comes at a cost: penalty interest.

However, banks have been listening to their customers who want greater flexibility.

Two banks, AMP and Rabobank, are offering notice saver accounts.

This is a bit of a hybrid in that it has term deposit and at-call account characteristics.

The interest rates on offer are generally higher than at-call accounts but lower than term deposits. If you have a large portion of your portfolio in term deposits and think you may need to access some of your money, then this new product may be a suitable addition to your portfolio.

The AMP notice saver account has a simple structure: the bank will accept amounts up to $10 million and has guaranteed to pay at least 100 basis points or 1 per cent above the cash rate, making the present rate 3.5 per cent. The required notice period is 31 days, short enough for most thinking about taking advantage of cheap holidays, or if you're a business, paying a large bill.

The very high maximum amount also means this account is good for larger corporations.

The Rabobank structures are more complex but offer potentially higher rates. For example, notice periods can be 31, 60 or 90 days paying 3.85 per cent, 3.95 per cent and 4 per cent respectively for a maximum $250,000. The rates on offer then decline for larger sums.

Rabobank makes no promises in regards to paying over the cash rate but the flexibility it offers is better, if you can afford to wait for longer if you need the funds.

> The interest rates are generally higher than at-call accounts but lower than term deposits

There is no minimum investment amount for either bank and both offer emergency access to funds as long as investors show proof.

The company I work for, FIIG Securities, brokers term deposits, as they are a fixed-income investment. If you have large amounts to invest, using a broker can be advantageous. FIIG has relationships with more than 60 authorised deposit-taking institutions, which means the Australian Prudential Regulation Authority has granted the ADIs a licence to take deposits, so each individual or entity is eligible for the commonwealth government guarantee — up to $250,000 with each ADI.

As FIIG has so many relationships with ADIs, for those investors in 100 per cent cash we can help divide their investments between institutions to maximise the government guarantee.

One example where FIIG was able to benefit the ADI and the investor was when we arranged a term deposit for a mining company direct with a local credit union. The credit union was happy to have a single investor, so offered higher rates, and the mining company was able to invest and have flexibility in accessing the funds. Term deposit rates remain low and market projections for the next three years are that they will stay low.

Low-risk, short-term corporate bonds for retail investors, maturing within the next three years, offer yields to maturity of up to 5.09 per cent and remain a good alternative for those looking to increase their term deposit returns.

Elizabeth Moran is director of education and research at FIIG fixed-income specialists.