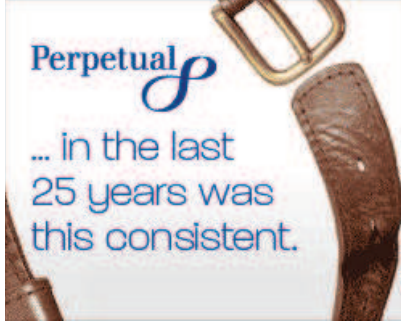


News

SMA's lacking in functionality

Darin Tyson-Chan

The first set of research performed on the Australian separately managed accounts (SMA) market has shown the products currently on offer need to improve their functionality before the majority of financial advisers will begin to recommend them.



The "2006 SMA Report: Technology Assessment and Benchmarking" was conducted by research house Investment Trends, and principal Mark Johnston said: "For the earlier adopters of SMAs it was about the tax benefits and it wasn't about bells and whistles, but for the vast majority of advisers there needs to be a very high level of functionality in place, such that these products are reasonably easy to use and fit within their existing business model before they'll give them a try."

One particular area that SMA providers need to address is customer service according to the survey.

"When we did the 'secret shopper' email exercise we found a number of SMA providers either didn't reply or took too long to reply, or only replied after we followed them up several times," Johnston revealed.

"Some even provided out-of-date PDSs [Product Disclosure Statements] and documents, and we had to go back and point out that these were the wrong ones and get the correct ones sent," he added.

The report also found price was not an accurate measure of the level of functionality an investor would receive from a provider, with the most cost-effective offering delivering 30 per cent more functionality than the most expensive product.

Another concern highlighted by the research was the limited number of investment options available though the use of an SMA compared to that of a managed fund or platform. Current levels vary between one and 24 choices.

Johnston said a large degree of advancement was being made in this area already, but hinted at two developments the market may see in the near future.

"There are really two solutions. One is for people to develop a platform of SMAs. That is, putting a whole raft of SMAs under one product ... or just to offer SMAs within an existing platform structure, and we expect that to begin to happen fairly quickly," he said.

The survey assessed eight SMA products across 300 functionality dimensions, with six key categories analysed including products, transactions, reporting, access, level of customisation, and integration.

The report rated the BlackRock Merrill Lynch Customised Portfolio the best in terms of overall performance, with Asgard and Hyperion coming in equal third in regard to functionality.

16 April 2007

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Alternatives go into overdrive

IFA feature

Madeleine Collins

Mon, 23 Apr 2007

Do your clients dream of owning their own macadamia plantation in Queensland? How about funding a desalination plant in China? Or hedging their bets on Aboriginal art? A dazzling array of weird and wonderful investment opportunities is scaling new heights of popularity. As alternative investing catches on, savvy fund managers are pushing everything from artwork to almond trees onto retail investors, who are jumping into products with relish in the hunt for alpha. Australians have 15 per cent more invested in managed funds than the second placed nation, the United States, so it is no surprise to see the boom of alternative assets - hedge funds and private equity - and the renaissance of emerging markets.

The number of retail investors allocating funds into alternative classes either directly or through a financial planner has doubled in the past five years, according to an upcoming Macquarie Bank/Investment Trends alternative investments investor report. "Advisers are opening their eyes to other possibilities," Investment Trends principal Mark Johnston says. "It's not about a particular kind of asset - [investors] are continuing to use a wide range of alternative investments. "There has been a plethora of new products launched to meet the demand." Alternative assets may only represent around 5 per cent of total managed funds in Australia, but this is expected to increase to 9.1 per cent in 2008. Total alternative assets under management now exceeds \$45 billion. Nine per cent compulsory super has buoyed this growth, while a property slowdown has seen investors look to other options.

It's not only the institutions. Retail investors are no longer dismissing alternatives as too risky, but are seeking out multi-asset strategies to ward off volatility, venturing from the typical mix of shares, property, bonds and cash. Macquarie/Investment Trends surveyed 3000 retail investors and the report reveals that asset allocation of alternatives is between 22 per cent and 27 per cent. "I was surprised that the asset allocation was as high as it was. [And] there's still room for growth," Johnston says.

Opening the floodgates

Fund managers are capitalising on the long-running bull market by offering high-yield products previously only open to the institutional market. Hedge funds are a classic example. Ixis, the Australian distributor of US-based fund of hedge fund manager Harris Alternatives and Dexion Capital, is making hedge funds more accessible to domestic investors through daily pricing and greater liquidity. Investors can now trade on the London Stock Exchange through Dexion Absolute, a fund of hedge fund that was introduced to Australia late last year. As proof of local demand, Dexion is planning another Australian capital raising project in September. In February, investment manager Legg Mason went alternative and introduced a US fund of fund product to the market. But are investors keeping up with the myriad possibilities on offer? "There's a growing awareness of the need to diversify personal investment portfolios," AFG Financial Planning dealer principal Ross Nayler says.

Australian investors have become a lot more sophisticated and want total returns, with private equity and direct property popular avenues in which to diversify, Ixis Asset Management Australia managing director Karyn West says. "The better the markets go, the more likely the name of the game is diversification on a broader scale," West says. Select Asset Management portfolio manager Robert Graham-Smith says: "We believe that people who invest in mainstream investments only are running a diversification risk. "Returns from alternative investments tend to have a lower correlation and dependence on traditional share and bond markets."

Self-managed super fund trustees in particular are now seeing the benefit of alternative assets, Macquarie Bank head of retail agribusiness Anthony Abraham says. "The Government's changes of 30 June are really focusing people's minds," Abraham says.

An alternative by any other name

It's the old chestnut - just what is an alternative investment? Understanding the different definitions is crucial for advisers in coming to grips with a complicated playing field that holds traps for the unsuspecting investor. "I don't think alternative investments are a particularly useful sort of heading," Morningstar head of research Anthony Serhan says. Serhan says alternatives are largely characterised by anything that is not listed and by nature are not highly correlated with traditional equities market. "From a diversification point of view they have some definite appeal," he says. "When you look at some of these assets, the fact that they're not very liquid means that they will produce higher returns." The institutional market takes a broad view of what is alternative. Products are classified by strategy, such as hedge funds; structure, such as the use of derivatives, short-selling or capital protection; or alternative by asset class, that is, any investment that is not a listed equity, fixed income or property, typically infrastructure, private equity, commodities and agribusiness.

A convenient truth

The environment - in particular a growing awareness of climate change - is also changing the way investors view their portfolio. Alternative energy is one area that is gaining momentum. In 2005, the best performing stock on the Australian Stock Exchange (ASX) was uranium producer Paladin, which increased by 720 per cent. Babcock and Brown Wind Partners Group, which has 31 wind farms on three continents, is forecast to be among companies that pay the biggest dividends in 2007. Macquarie Bank, which began a portfolio of forestry and agribusiness schemes four years ago, is soon to launch a fund giving retail investors exposure to carbon trading through mallee tree plantations. The trees will be planted to offset greenhouse gas emissions on cleared farmland in Western New South Wales, and could be the start of a multi-million dollar industry in international emissions trading.

Private equity

The emergence of private equity assets open to Australian retail and institutional investors has never been higher, fuelling the growth of alternatives. The numbers of deals has risen, as has the size of deals. However, liquidity concerns continue to keep retail investors away from private equity, as do structures that generally do not cater for them, Macquarie Funds Management alternative investments division director Robert Credaro says. "The way most people get access to private equity is through their super fund," Credaro says. "Because it's been so hard to get access to private equity, it's been talked about more than it's been done." It's a different story for institutions. Announcing its fifth private equity capital raising earlier this month, ING Investment Management director of private equity Jon Schahinger said opportunities in the private equity sector continued to grow as specialist managers matured and investors showed a growing acceptance of the asset class. "We predict continued strong deal flow through quality local managers however, as ever, access to the best fund managers will continue to be tight," Schahinger said.

He said concerns around the public interest and debt levels would remain largely a function of so-called mega deals such as Qantas and Coles, which had recently heightened investor awareness of the risks as well as benefits of private equity. "There have been some alarmist claims aired in the press but experienced private equity investors manage their risk by constructing diversified portfolios," he said.

Agribusiness

Agribusiness has been around since time immemorial, but the sector has been fuelled by lucrative tax benefits for investors. Until now. The Federal Government plans to axe tax relief on managed investment schemes (MIS) for non-forestry agribusiness investments, a decision that has infuriated the agribusiness industry. Australia's first macadamia nut MIS is one that is seeking to capitalise on tax relief before the proposed cut off of June 30, 2008. Maccacorp managing director Don Ross says the scheme is targeting boutique financial planners and can provide a regular income flow for retail investors, who can buy one acre allotments of a Bundaberg macadamia orchard. Investors need to be patient - harvesting will not start for another four years and the investment term is 21 years. "The macadamia industry is a small but growing industry. We believe that we have the expertise to make it grow," Ross says.

Super's going alternative

Almost one-third of Australian super funds now invest in alternative investments, according to a recent report by the Reserve Bank of Australia. It found that internationally, alternative strategies have outperformed traditional global equities with a lower level of total volatility. The Motor Trades Association of Australia Super Fund (MTAA)

has a huge 43 per cent of its assets in alternatives. "The MTAA's decision to invest in alternatives was prompted, in large part, by the knowledge that the privatisation of state-owned assets would release a lot of value once they had to operate under market conditions," former trustee of the fund John Rickus says. Indeed, the legacy of government-owned infrastructure has kept investors from infrastructure because of the stigma of bad returns. However, assets like toll roads, water utilities and airports (think Macquarie Bank) are increasingly open to investors and can provide solid returns because they are essential services.

Master trusts are also increasing their allocation to alternative assets as they aim to match the performance of their industry fund counterparts. Super funds are putting a lot of money into global infrastructure, such as toll roads and water companies, says Sovereign Investment Research director Ray King. They are avoiding large private equity consortiums, such as Kohlberg Kravis Roberts (KKR), in favour of smaller funds. King says super funds believe the KKR's of the world are paying too high a price for politically-sensitive assets. He says while there are some reservations about hedge funds in general, there are some very good funds that will continue to perform well. Only a few years ago, super funds held between 5 per cent to 10 per cent of alternative assets in their portfolios, he says. Now, it's more like 15 per cent as funds don't think the increase will significantly upset the risk/return profile. "It's also being supply driven - there are a lot more products," King says.

Alternative by any other name

Capital protected structures are increasingly popular for risk averse investors. ING's platform, OneAnswer, launched a capital protected fund earlier this month, giving access to long-only US equities, long/short European equities and a multi-strategies hedge fund. The fund is tailored to meet the needs of advisers who are increasingly using or recommending alternative assets for their clients, ING head of personal investments product and strategy David Kan says. "Clients are becoming more sophisticated and there is demand for different tools and products to suit different age brackets and different needs," Kan says. Johnston agrees. "We think that capital guaranteed products will continue to be a growth area," he says.

Are they worth it?

Alternative funds are notorious for charging higher fees due to the complexity and difficulty involved in managing the assets. Managers defend the costs as being offset by absolute returns. A State Street report released this month shows institutions are currently more comfortable investing in hedge funds than 12 months ago but remain concerned about fees. High fees offsetting returns was identified as the greatest threat to hedge fund investing by nearly a third of institutions. King says the fees charged by alternative funds continue to worry investors. "You really have to do your homework that you'll be confident of 15 to 20 per cent returns, otherwise they'll be very expensive," he says. Alternatives are also criticised for their lack of transparency. In June, AMP removed 11 industry super funds from its approved list. It said one of the reasons for doing so was a lack of transparency among industry funds thanks to their high allocations to alternative assets. Some financial planners steer clear of alternative funds altogether, preferring to stick with a bread and butter diet of equities, bonds and cash. Melbourne-based Australian Private Capital licensee Michael Tratt does not deal with alternatives, saying he has a pure approach to investing his clients' funds.

Tratt uses asset manager Dimensional Fund Advisors (DFA Australia), which invests in equities, fixed interest and small cap stocks, and steers clear of strategies like hedge funds and private equity. A lot of people are taking on added risk and forgetting that risk and return are related, DFA Australia regional director Jim Parker says. "We tell advisers who work with us, 'you'd better make sure you're rewarded for your risk. Be aware you're properly diversified'," Parker says.

Count Financial is not unusual as a dealer group in being cautious about alternatives. Count limits the alternatives on offer to its advisers (typically, investors can have 10 per cent of their portfolios in hedge funds) and only has a handful on its approved product list. "We started off with fund of hedge funds and over the past couple of years this has expanded to multi-manager funds," Count research and product development senior executive Rachel Griffith says. "It doesn't make sense to put all your money into one of these kinds of things."

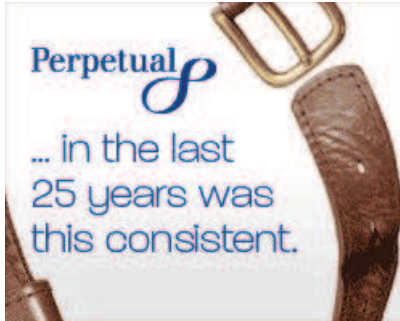
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News

A leveraged leap of faith

Stephanie Banks

Margin loans have long been associated in the popular minds with instability in security markets, and the potential for margin lending to exacerbate the amplitude of cycles in stock prices has received considerable attention in the years since the crash of 1929.



Today, financial planners are chasing this new arena of investing as a part of investor wealth creation. According to the Reserve Bank of Australia (RBA), the value of margin loans has risen above \$26 billion, following five years of compounded growth of about 35 per cent.

Eric Blewitt, Adelaide Bank's head of margin lending, said "gearing has a place in a wealth generation strategy".

A research report conducted by Sydney-based Investment Trends found that 42 per cent of planners said the reason a planner recommends margin lending to a client is because of client demand.

Blewitt agrees. He said his firm found the interest in margin lending was largely driven by client demand and, "the client has asked for it".

He added, "the planner is not doing a client justice if margin lending does not come into the discussion" when assessing investment selection options.

Declining margin calls

The reduction of fear has played a role in the increasing popularity and demand for margin loans.

For example, Blewitt said earlier this year on February 28, the All Ords dropped by 161 points (to level at 5,816).

He said "even on such a significant drop in the market, only 12 Leveraged Equities' clients (Leveraged Equities is a wholly owned subsidiary of Adelaide Bank) received margin calls".

The RBA has released recent numbers that indicate the average size of a margin loan in Australia is around \$160,000.

However at the very top end, loans exceeding \$10 million are not unusual.

According to Blewitt, this is an indication of the current market's expansion. RBA figures show these types of loans have increased from 5 per cent of the market to 14 per cent over the past two years.

Investing with leverage has rapidly transformed into a 'state of the art' concept among margin lenders and financial planners when it comes to wealth creation.

The notion of 'have debt, make money' seems to be breeding an inherent, endogenous money supply from a surge in margin lending activity that, according to the numbers, has boosted share investment returns and raised investor portfolio valuations. Interest rate movements need not apply. Investor emotions are easing, having less of an impact on investment decisions.

Interest rates

Changing demographics and investor education have placed a positive emphasis on the 'bull' and minimised the 'bear', even in the face of unpredictable interest rate moves.

Consumer and investor education has reduced the 'noise' and is now facilitating an exponential growth in the margin lending arena.

While the RBA's recent decision to keep the official cash rate at 6.25 per cent, Australian interest rates are still higher than those in major developed countries, even above rates in the United States, where they remain steady at 5.25 per cent, leaving some economists divided over whether or not the RBA's board will raise rates at its next meeting in May.

But market mavens also remain equally bullish across the Pacific where, according to recent Bloomberg financial reports, the US Federal Reserve is unlikely to cut interest rates soon, despite the slowing pace of economic growth (its preferred measure of inflation, which showed price pressures rose faster than expected in February).

The recent RBA figures have broken down the \$26 billion Australian margin lending market to represent approximately 161,763 margin lending accounts (including protected loans) and over 4,727 new accounts.

Of this year-to-date increase (as of results for the quarter-period ended December 2006, over the quarter ended September 2006), where the margin lending market was then at \$1.872 billion, the average margin loan balance increased to \$173,026 (an increase of \$6,710).

The statistics show planners, as well as clients and investors, are targeting an entire arsenal of tools to achieve the wealth effect, and margin lending is very much at the top of their tool box.

A report by the Investment and Financial Services Association found borrowing to invest makes sense once it is understood how investment returns will exceed the cost of borrowing.

As planners and clients are equally becoming more educated and familiar with the margin lending concept, from the administration and implementation of the loan to understanding the tax benefits, the popularity of the product itself increases.

Blewitt said: "It's easy and dangerous to get caught up in one's own industry, but in reality, planners who do recommend margin lending do it for one reason, and that is to enable the more expedient creation of wealth."

"At the end of it, there needs to be an end objective of creating wealth, or enabling funds to create that creation," he added.

Financial planners know the two most popular ways of leveraging exposure to direct equities is through margin lending and instalments, because both products offer the benefits of capital appreciation and an income stream through dividends and franking credits, as well as being entitled to interest deductions.

Nick Renton, former fellow of the Securities Institute of Australia, was quoted as saying: "Negative gearing is, of course, never really negative - borrowings are always a positive amount of total assets."

With the share market reaching new highs, leverage can serve as an important tool to enhancing the performance of investment portfolios.

Blewitt said his firm has seen a profound increase in investors asking their planners about margin lending.

He supports the notion that a number of planning firms say their planners are being 'schooled' to also raise margin lending with their clients as an additional investment vehicle when discussing wealth creation.

Another survey conducted by Investment Trends found brokers reported that their use of gearing is increasing, driven by an increase in product education and understanding of how margin lending can benefit an investor's portfolio.

Gearing alternatives

The Investment Trends survey highlighted that four in five advisers (79 per cent) said they provided advice to clients on gearing (options), while among those who advised on gearing, three quarters (76 per cent) said margin lending was their most commonly used gearing tool.

The various forms of gearing were broken down by category and popularity (see table).

Does stock market volatility have a say anymore?

According to a report on margin lending and stock market volatility prepared by senior economist David Fortune at the US Federal Reserve Bank of Boston, "The mechanism by which margin loans are popularly believed to increase stock price variability was described as 'pyramiding and anti-pyramiding' because security credit is cheaper than the cost of investors equity".

In other words, in theory, having access to brokers' loans stimulates the demand for stocks, inducing price increases that provide the additional equity that is the foundation of further borrowing to finance additional stock purchases.

The RBA's recent decision to keep interest rates on hold may have sent the dollar into temporary free-fall, but the share market nevertheless sailed higher, climbing 83.8 points, or nearly 1.5 per cent to finish the day setting a new high at 6,097.

Investment Trend's survey found that the proportion of advisers who do not recommend margin lending because they believe it is too risky fell to 4 per cent in 2006 from 15 per cent in 2005.

The study also found the possibility of margin calls as a barrier to recommendation also fell to 28 per cent from almost 40 per cent a year earlier.

In its report, the RBA found the average number of margin calls in 2006 had fallen each day to a record low of between 0.28 and 0.57 calls for every 1,000 client accounts.

Compared against March 2003 findings, where the average number of daily margin calls was 6.01 for every 1,000 client accounts, reflecting a 93 per cent drop over the three-year period in the averaged number of daily margin calls.

Blewitt said the buoyant share market has made margin lending an important part of any investment strategy.

"Margin lending has become popular for people who want to build a portfolio or have an income from investments. Quite simply, a margin loan is an enabler to increase your opportunity to create wealth and meet an investor's objectives," he said.

Importance of margin lending as a wealth generator

In the past, advisers and investors thought of margin lending as a tool reserved for use by high-net-worth individuals. New products and improving awareness is now widening its range of accessibility.

From a planner's perspective, margin lending is viewed as another way to access another part of a client base.

"Most of the world's wealth is created through borrowings, be it corporations or a business looking to grow. Entities looking to grow capital have typically borrowed to do so. The same principle applies to individuals who gear to generate wealth," Blewitt said.

Over the past several years, planners have focused on lump sum investments and superannuation. While still an integral part of many advisers' businesses, planners are now turning their attentions to wealth creation, and gearing is becoming a part of that. Consumers are initiating their wealth generation strategies earlier and are less worried about achieving greater returns within a short-term investment period.

The informed investor is now showing signs of understanding what is more realistic in order to average better returns is longer-term exposure, over-riding what may have been considered in the past to be unrealistic expectations.

There seems to be a greater awareness throughout the marketplace of just how important the element of time plays in overall returns on any portfolio, certainly inclusive of margin lending.

Planners and investors' increased use of debt to create wealth is fast becoming part of a level playing field.

A number of major players in the game of gearing are making it easier for investors to not only get started, but to help thwart preconceived notions that a geared investment was a bad thing and that it is no longer a game only considered for the sophisticated investor.

"Investor education has played a role in the way the investor today views margin lending and gearing to achieve wealth," St George head of margin lending Andrew Black said.

ANZ experts agree. Their research suggests clients and investors typically think debt is bad.

However, according to John Daley, head of margin lending, ANZ, "On the contrary, if geared, you'll see a higher return than if not geared".

Daley said it is crucial for planners to say as much to their clients to remove that 'emotional incumbent' on the customer.

Planners are encouraged to talk to their clients and ward off the perceptions and tales that fuel an investor's fears.

So, in the interest rate we're currently at, Blewitt said, "while we have a high interest rate environment right now, with the average cost of borrowing at about 9 per cent to 9.25 per cent, the highest tax payer will be able to claim the interest as a tax deduction, and after the cost of the interest rate, the real cost of borrowing is around 5 per cent".

That, said Blewitt, makes it attractive because, with the deductions and appreciation in capital, overall capital growth is upwards.

Why it makes sense to leverage

Financial planning professionals say many consumers today use gearing to reach a specific goal; they see the use of instalment gearing commonly earmarked for a specific purpose, such as saving for a deposit on a home.

While that doesn't necessarily fit the traditional definition of a margin loan borrower, nor does the once used profile of a high-net-worth individual.

Today, they're younger, savvier, less conservative and thus more willing to assume a bit more risk and typically have a longer time-horizon on their side.

They are cautious, but seem to have also figured out the merits of leveraging in order to accumulate wealth.

Still, ANZ experts tell us that the vast majority of customers are not borrowing as much as they're allowed to.

ANZ said the average customer only borrows about 50 per cent, but is allowed to borrow up to 70 per cent, according to the RBA figures.

Daley said he believes one of the reasons for this is simply to "leave themselves a larger buffer by putting less at risk should an investor be forced to sell on a dip in the portfolio".

"The dip would have to be pretty substantial, around 20 to 25 per cent of a drop in the portfolio's value," he said.

With the market experiencing a really bad day with a drop of about 5 per cent, that still isn't enough to impact a portfolio on margin (note: other factors would have to be on solid ground, such as the size of a portfolio and the strength of the underlying securities).

Both Adelaide Bank and ANZ said they are seeing instalment gearing used to build up a portfolio over time. Blewitt said "the assets that the margin lenders are prepared to take as security remains a differentiator".

ANZ has launched a product called the diversified margin loan, which allows them more security value and provides for the ability to withstand bigger drops in an investor's portfolio by as much as 25 per cent (note: the security it provides also depends on the overall composition of a client's portfolio).

As the diversity of uses grows, advisers and clients' requirements from their margin loan change with it.

With about 20 lenders in the industry, differentiation based on loan-to-value ratios (LVR), interest rates and the number of approved securities are no longer the only key differentiators when deciding which lender to work with.

Investor awareness, a rise in a better understanding of the mechanisms as influenced by an even greater understanding of basic global economic activity, has provided a motivator effect among consumers to get in on the action.

They're starting younger, thereby affording themselves the benefits associated with being invested over a longer period of time, and the accumulation of wealth generated by the capital appreciation owed to that time.

Investor demand

Client ease with easy borrowing capacity and higher loan-to-value ratios were found to be key among the differentiators that influence a client or investor transitioning into margin lending activity.

While the proportion of the underlying asset that a lender will lend against can be a differentiator when deciding to invest on margin then deciding which lender to work with, ANZ's research supported the consensus that most margin account holders do not borrow up to their maximum capacity.

The majority of investors were found to choose more conservative gearing ratios.

From a planner perspective, the ease of transitioning a client from other existing products still faces resistance.

St George's margin lending group found that education plays an important part in transitioning.

Black said that if the planner is well-versed on the product, it can then be better 'sold' in a way understood to the client or investor. (For more details, turn to page 31).

ANZ's research suggests that advisers want assistance from the margin lender in explaining gearing concepts and products to the client in clear and simple language. ANZ has responded to this by committing the past 12 months to revising its brochures.

An Investment Trends survey found 45 per cent of advisers surveyed said there were "procedural barriers" that precluded clients' use of margin lending, beginning with the lack of client understanding.

But 15 per cent of planners surveyed said margin lending was "too hard to explain to clients" and 5 per cent said it was "too risky for the adviser".

The survey also found that 17 per cent were worried about the state of the equities market, while only 3 per cent cited lack of support from their relationship manager as a barrier to further use of margin lending.

Notwithstanding, the survey concluded overall that in order to increase client interest and demand, simplicity and flexibility were paramount.

Advisers also want simplicity. The ANZ research found that advisers are looking for a margin lender that is easy to deal with and that has sound back-office processes.

Prompt processing of loan applications, accuracy and communication trailed closely to ease and simplicity.

ANZ has reorganised its call centre so planners can ring up and speak to the same person each time, making it a lot easier to 'pick up where left off' from the last conversation during the loan process.

Other lenders, such as St George Margin Lending and Suncorp, are working on similar developments, but it is still an area of the industry that needs improvement.

Product innovation

Private traders are currently experiencing a wealth of financial products that until recently have only been available to investment banks.

Recently, there has been an explosion in online trading, derivatives trading, superannuation funds and the ability of the private investor to access markets that, until a few years ago, could only be invested in by paying hugely inflated commission rates. Planners are also finding new ways to use margin lending, and the marketplace, while yet unsaturated, is becoming aligned with product innovation.

Of the numerous financial products available, leveraging has assumed two homes, one in margin lending and the other beginning to make noise in the leverage market is contracts for difference, also commonly known as CFDs.

Cube Financial Group advises on the trading of CFDs, and said it is an innovative product that provides a client with a high degree of leverage.

Contracts enable a user to outlay a relatively small investment amount to secure an exposure to the underlying share and trade at prices that mirror their underlying instrument. The top 200 shares listed on the [Australian Stock Exchange](#) are available for trade as CFDs.

Like margin lending, CFDs are not suited to every investor.

When they do suit is when individuals are aware of the risks associated with all types of gearing and, when profiled by their planners, are determined to have appropriate levels of disposable income and thus the ability to meet margin calls.

Unlike their cousin, margin lending, CFDs are best suited to the sophisticated investor, individuals that have a well-developed understanding of the stock market and have considerable investment experience.

Whereas with margin lending, Daley said, "Customer feedback tells them that at first many investors feel that margin loans are something for day traders", rather than for an investor with a longer time horizon in mind.

Most lenders agree that, based on customer feedback, they also say that once a customer establishes a margin loan and receives their first account statement and can see the numbers working for them, they find it is much easier to understand and then can start to relax. It's a matter of the customer using, understanding, and seeing evidence of appreciation in their capital.

"Then the customer begins to see that it's not that complicated after all," Daley said.

Both margin lending and CFDs are susceptible to margin calls if the investment decreases in value beyond a certain point.

Trade-off between loan cost and share growth – where the lender fits in

Margin lenders typically target their products and services more heavily towards one channel or another depending on their business strengths, although most lenders offer loans through other distribution channels.

The lender's focus determines the services and products it prioritises.

ANZ for instance said it focuses on all channels, but its client base is largely skewed towards direct clients.

"As a bank with a large retail base, we will always have a relatively higher share of the direct market, but financial planners remain important to us," Daley said.

While managed funds, unlisted property trusts and direct equities have assumed a 'mainstay presence' in the leverage playing field, some lenders are beginning to offer margin loans against structured products.

BT Margin Lending has recently approved JP Morgan's new launch, Alternative Energy Strategic Asset Securities.

St George, like many of these players, has an approved lending list that borrowers are allowed to margin against.

And while the list varies from provider to provider, whether it be into direct equities or managed funds, lenders typically lend up to around 70 per cent.

The quality of the underlying security drives the lending values that a lender will attribute to.

Borrowers can also access 'investment loans', a capital guaranteed structured product (and part of the overall \$26 billion of margin lending in Australia) with up to 100 per cent of loan value available.

These are typically unlisted products and as such, are valued regularly, weekly or monthly so as to maintain a market pulse on the value of the underlying asset.

For instance, Adelaide Bank manufactures a structured product called the Protective Global Opportunity Fund, which is rated by either Moody's or Standard & Poor's.

In this case, the bank will hold the investment as collateral for the duration of the loan, with the obligation to the borrower to maintain regular interest payments.

The lending facility will loan against the product that may be prescribed by an investment bank such as JP Morgan or Credit Suisse.

The Australian Taxation Office scrutinises structured products more closely as to see to what extent the investment loan is part of a wider portfolio than may be claimed from tax relief.

Planners increasingly have more options available to them, facilitated by collaborative efforts between product producers and the lending facilities.

Making margin lending user friendly has played an instrumental role in helping customers to separate out their rational and irrational fears.

At the end of the loan period, when the loan is repaid, if the underlying asset has performed well, the value would (presumably) have grown, and the additional proceeds from capital appreciation leaves the client with a positive gain.

"Simply thinking that all debt is bad is not a rational belief," Daley said.

Stephanie Banks is a business and finance journalist with Wall Street Communications, a corporate communications agency. She was formerly a stockbroker with the Boston branch of UBS Warburg .

27 April 2007

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InvestorDaily

Planners not yet ready for SMAs

Study shows SMAs unpopular with planners

Julia Newbould

Mon 30 Apr 2007

Only 17 per cent of financial planners are currently using separately managed accounts (SMA) but many others are expected to trial them in their practices within the next two years, an Investment Trends report has found.

"There is a general perception that SMAs are a growing area, and nearly half of the advisers not using them expect to try SMAs within the next two years," Investment Trends principal Mark Johnston said.

"Our modelling suggests that actual take-up will be considerably slower, however, due to some major structural barriers remaining."

The report also found that there were few SMAs on approved lists. Around 40 per cent of non-SMA planners did not have any SMAs on their approved product list, many had only one, and 32 per cent didn't know whether there were SMAs on the approved list or not.

According to the report, other reasons planners were not using SMAs included the lack of understanding of SMAs, perceived cost and lack of client demand and understanding.

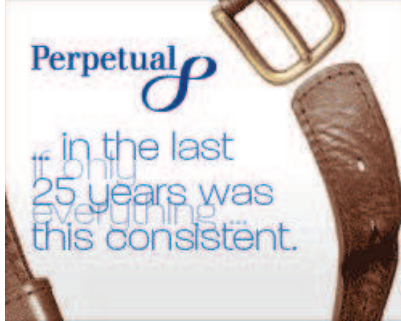
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News

Planners unsure about SMAs – report

Kate Kachor

Separately managed accounts (SMA) have experienced a difficult transition in the financial planning industry as a result of financial planners' lack of knowledge and confidence in the investment option, a new report found.



The *December 2006 SMA: Planner Report* by Investment Trends found only a small number of planners (17 per cent) are using SMAs, while many were expecting to trial SMAs in the next two years.

Investment Trends principal Mark Johnston said the general perception across the industry was that SMAs is a growth area, though research showed actual take-up by planners is considerably slower.

Johnston believes lack of understanding of the nature and role of SMAs is a key factor for the underwhelming response to the investment option. Another factor is lack of confidence in the industry, with few SMAs on approved lists.

"The lack of SMAs on the approved list creates a challenging paradox for SMA providers. With relatively small amounts of money so far invested in these structures, there is little imperative for ratings houses to review existing offerings," he said.

"Without these product ratings, it is far more difficult for the SMA providers to be added to dealer groups' approved lists. It will take time to work through these issues, as well as to bring greater clarity on the role and benefits of SMAs. This is why we expect adoption will be more of a slow burn rather than a sudden shift," Johnston added.

The *December 2006 SMA: Planner Report* was based on a detailed quantitative survey of more than 230 financial planners in November 2006. The report examined the understanding, perceptions, adoption and usage of SMAs by the financial planning industry. Incidence of usage was measured from an unrelated survey of more than 1,000 planners conducted in October 2006.

30 April 2007

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Australian investors put money overseas

May 4, 2007 - 3:44PM

Australians are increasingly putting their money into Asian bank shares and overseas infrastructure projects instead of the domestic stock market, property and bonds, investment experts say.

The presenters of a survey by Macquarie Bank and specialist research group Investment Trends said a growing number of financial advisers believed the Australian share market had reached its peak and was unlikely to deliver significantly higher returns.

The survey of 3,000 alternative investors found listed investment companies, which put funds into a group of stocks with the aim of outperforming Australian Stock Exchange indices, were an option for 29 per cent of respondents who had hired financial advisers.

Capital guaranteed products, which deliver a fixed return whilst striving to outperform traditional fixed-interest investments like government bonds, were the next most popular alternative investment with 26 per cent choosing this.

A quarter of alternative investors surveyed said they had put their money into infrastructure funds, which can include things like private toll roads in the United States and water projects in Asia.

Private equity groups that take over publicly-listed companies before selling them at a profit were also the choice of one in four alternative investors.

Investment Trends principal Mark Johnston said financial advisers were increasingly taking the view that more mainstream investments faced stronger competition from emerging markets like India and China.

"When you ask advisers which asset classes they expected to perform the best they tended not to say Australian shares and residential property but Asian and emerging markets."

Macquarie Bank Limited manager of equity markets Pia Cooke said Australians were more likely to put new money into alternative investments rather than sell their existing Australian shares.

Of the alternative investors surveyed, 36 per cent said seeking a higher return was their main motivation for buying into a less traditional investment.

The need to broaden their portfolios beyond just Australian shares and property was the catalyst for 25 per cent of first-time alternative investors.

But investors with less than \$100,000 to play with were more nervous about alternative

investments, with 23 per cent saying it was riskier.

Some 16 per cent said a lack of knowledge about alternative investments was a deterrent while eight per cent cited the potential for bad returns.

Macquarie's equity markets group division director, Cathy Kovacs, said the continuing strength of the Australian share market had made it more difficult to convince people to try overseas alternative investments.

"The mainstream investor is happy with Australian investments.

"There's still good yields to be had in the Australian market."

But Ms Kovacs said alternative investments were expanding while demand for Australian shares was posting smaller growth.

Ms Cooke said the strong performance of Australian bank shares in recent years was encouraging investors to try Asian bank shares, as investors came to believe the domestic share market was fully priced.

"Our research suggests that Australian banks have performed very well but possibly over the next 12 months we may not see the same kind of performance as in recent years," Ms Cooke said.

"There's a lot of potential in the Asian market.


"When consumer spending increases, loans go up, savings go up and it's the banks that are making the seeds from that."

Ms Cooke said that until recently, investors wanting to put their money in Asia had to pay high management fees but they were now able to invest as little as \$20,000 in a trust to invest in emerging markets.

The Macquarie Bank/Investment Trends Alternative Investments Report surveyed more than 5000 people via email between September and December 2006.

The online survey included 3000 people with experience of alternative investments.

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InvestorDaily

Investor appetite swells alternatives

SMSFs lead chase for double-digit returns

Madeline Collins

Fri 04 May 2007

The chase for double-digit returns is on as research shows people are increasingly open to non-mainstream investments.

The number of retail investors allocating funds to alternatives has doubled in the past five years, a survey by Macquarie Bank and research house Investment Trends shows.

People who consider the absolute return in making an alternative investment look for an average return of 16 per cent, while those who benchmarked against the Australian Stock Exchange or another index looked for an average out performance of 11 per cent.

Around 5000 investors with experience in alternatives were surveyed between September and December last year.

Alternative asset classes are experiencing high rates of growth, especially at the product level.

For people using a financial adviser, listed investments, capital guaranteed products, infrastructure and private equity were shown to be the most popular alternative vehicles.

In addition, people using an adviser had higher exposure to more investment categories and financial markets than those who invest directly.

Among those with an adviser, 45 per cent had a self managed super fund and had more funds to invest.

The race to diversify portfolios will help and hinder product providers because investors have a low propensity to invest in the same thing twice, Investment Trends chief Mark Johnston said.

"Desire for diversification is a double-edged sword for providers of alternative investments," Johnston said.

People are chasing high growth but also want diversification within alternative investment classes, he said.

"The level of reinvestment is fairly low. It suggests the need for clusters or families of investments."

Strong demand for investment into Asia is being driven by the market volatility in the region and products are evolving rapidly to meet demand, Macquarie Bank equity markets group division director Cathy Kovacs said.

"[It] puts the onus on us to make sure the products...give the double-digit returns people have come to expect from the equity market," Kovacs said.

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InvestorDaily

Where in the world

Renewed focus on Asia

Stephen Blaxhall

Mon, 07 May 2007

Planners and investors appear to have short memories. Ten years ago the stellar run of the Asian tiger economies came to a shuddering halt. Until 1997, Asia attracted almost half of total capital inflow to developing countries, with the maintenance of high interest rates by South-East Asian countries proving attractive to foreign investors looking for a high rate of return. The result of these tempting investment opportunities was a large inflow of hot money that resulted in a dramatic run-up in asset prices throughout the region.

This began to unravel in July 1997 when a number of corporate failures resulted in a wave of currency, stock market and other asset price corrections that reverberated around the globe. A decade later and Asia is once again the focal point for investors. While domestic equities continue to pump out high returns, research from Investment Trends indicates financial planners and investors are looking overseas to add something extra to their portfolios. Asked what asset class they thought would be the best performer in the next

12 months, 29 per cent of financial planners said emerging market equities, followed by Asian equities (27 per cent), US shares (17 per cent) and Australian shares (14 per cent). When financial planners were asked what international markets were currently being considered for use for the first time, Asia was the standout at 25 per cent, followed by emerging markets and funds covering multiple regions (19 per cent), Japan (17 per cent) and North America (14 per cent).

Emerging markets

While many international funds concentrate on the more mature, western, developed economies, including the United States, Europe and Japan, some managers are looking to offer more exotic emerging market options. The most common market index used by fund managers as a benchmark for investing in this area is the MSCI Emerging Markets Index, which comprises stocks from 25 countries.

Morningstar research shows there are 17 retail and wholesale diversified emerging markets funds for Australian investors to choose from, together with a number of single-country funds that provide exposure to companies listed in or trading with China and India. There are also 10 superannuation funds and 10 allocated pensions offered by the same fund managers and run using the same approaches to investing.

A lesson learnt

Aberdeen associate director Stuart James says lessons have been learnt from the chaos on Asian markets in the late 1990s and have helped make Asian emerging markets a far more attractive place to invest. "1998 was certainly very difficult and we learnt a lot going through that market, so having been through that you realise you learn more when things are tough rather than when they are going well," James says. Asian economies are now running current account surpluses and are lenders to the market, where previously they were seen as borrowers, he says. They are in the main are much stronger, with large foreign exchange reserves coupled with current account surpluses resulting in a far more robust story. "They are in a far stronger position to weather a global economic slowdown," James says.

According to the International Monetary Fund, the positive global outlook and generally high commodity prices in recent years continue to provide a supportive backdrop for emerging markets and should allow for continued export-led growth. Macquarie Bank head of economics Richard Gibbs says the factor that has changed this time around is that extremely low interest rates in the US, until about 18 months ago, allowed them to significantly lower debt servicing costs and to restructure that debt. "The contraction of credit spreads has certainly favoured

indebted Latin American countries and they have been able to retire some of that debt due to the windfall income that has come as a result of the commodities boom," Gibbs says.

Aberdeen has a substantial 20 per cent holding in Singapore, perhaps not a typical emerging markets story as the South-East Asian republic is effectively a developed market with high corporate governance standards. However, James says more importantly the move is not so much a play on the Singapore economy as having more to do with the regional exposure Singapore companies give the group's portfolio. "More and more Singapore companies are becoming regional players, so Singapore is becoming a bit of a base for banking, biotechnological companies and communications. In fact, Singtel, who own Optus, only gets about 60 per cent of revenue from Singapore itself," he says.

Hunter Hall's focus has been on South Korea. The Hunter Hall Global Ethical Trust is aggressively weighted towards South Korea with roughly 28 per cent invested in the north-east Asian country, compared to around 6 per cent in the United States. "There are stocks in South Korea that represent valuations that we haven't seen in Australia since the very early 1980s," Hunter Hall chief executive David Buckland says. "Because of globalisation you've got companies in these countries that are becoming global leaders."

The big two

Investment bank Goldman Sachs predicts China will become the world's largest economy by 2050 and India will be number three by then. Given those forecasts, it is unsurprising those two countries dominate fund managers' efforts at diversification into overseas equity markets, although many other international equities options are available and an ever-growing number of international property and international bond markets are available to the retail market.

Recent growth in China and India has been at breakneck speed. According to MSCI, since 2001 the Indian market has reported 37.1 per cent a year compound annualised return, against 29.1 per cent for China, 13.6 per cent for Australia, 5.6 per cent for the US and 10.2 per cent for international shares (MSCI World ex-Australia Index) for Australian investors. Gibbs says even if they aren't directly investing in China, financial planners should be aware of the impact Chinese financial and capital markets are having on investments globally. The fund industry in China is now worth RMB1.14 trillion, or about US\$148 billion, with growth driven by retail investors continuing to redeploy cash savings.

The trillion-renminbi figure is amazing given that just a year ago assets under management stood at less than half that level, not to mention that half of those assets resided in money market funds. China's growing influence in global pricing, investment outcomes and investment capital flows means it has a greater impact on Australian investors' investment decisions. Pointing to the Shanghai stock market's February retreat and the resultant decline on the Australian market, Gibbs says recent Chinese growth figures could also impact on the local markets. "This is despite the Chinese Government trying to rein in investment and credit growth through interest rate rises," he says.

"We don't believe many of the aggregate numbers that come out of China and I don't believe any credible analyst should, so there is no substitute for walking the streets, breathing in the pollution and looking at the dynamics that are going on. "You need to hear the scuttlebutt and also get to know the key policy makers in emerging markets." He says it is also vital fund managers do not treat China as a big homogeneous market. "Watch out if the manager says their product is based on an index or whatever because it is fraught with danger," he says. "You need to put the research time in to understand these markets, so be very wary of managers that simply fly in, fly out and don't have anybody on the ground." Olympus Funds Management managing director John Pereira says India, with its history of relatively stable government and a well-established stock market, offers other opportunities.

Pereira says the growth potential for Indian companies is exciting as the country's population starts to flex its consumer spending muscle. "The fund has a high weighting in financial services sectors as there is still a comparatively low penetration rate into areas such as mortgages, credit cards and financial planning amongst the Indian population," Pereira says. "It's like a dinosaur waking up. Forecasts are that the wealthy will be around 20 million of the population by 2010 with the middle classes at around 200 million and a sub-class below that of another 200 million. "While three years ago the index may have been a lot lower, India did not have the platform to deal with the growth of the market. There is now a tried and true regulatory framework that can handle a growing economy."

Risk and managing it

Zurich risk specialist David Anderson says risk in these emerging markets must be factored in before an investment decision is made. Re-nationalisation of assets and foreign exchange controls are still potentially very real problems for investors. From the mid-1980s through to the late-1990s countries seemed to come to terms with the fluid nature of the global economy, but there a significant shift has occurred since then, Anderson says. "There has been a pendulum swing and it's most concentrated in South America, where there are events that look like classic expropriation of the like that we haven't seen since the 1960s and 1970s," he says.

"It's on investors' minds more than it has been for a number of years, as there are issues across the globe in countries such as Uzbekistan and throughout Africa." Gibbs and Anderson see the upward spiral in commodity prices as a major factor in government policy decisions that ultimately may affect investors as governments try to take a large slice of the economic pie. "As a result of the commodities boom we are already getting some very negative and perverse policy coming out of some of the South American nations. There are feather dusters that have become roosters," Gibbs says. "There is a predisposition in South America to, if you wish, share the cake before you've baked it, and you've seen the rise of populist leaders in these countries.

"They are sharing the wealth rather than concentrating on continuing to generate it and they pay little regard to the stability of the business, investment and policy environment for sustaining the growth of wealth. This is an age-old problem for investing in Latin America." While holding individual stocks may offer attractive looking returns, the sociopolitical structures can offer a level of risk some investors may not want within their portfolios, he says. "It's difficult to take medium to long-term investment views, because there is just such a level of uncertainty about the level of stability and sustainability of the policy environment," he says. "The message there is one of extreme caution where the markets have to be monitored on a daily basis." However, this is in sharp contrast to another developing region, Eastern Europe, where leaders appear to be focused on developing markets, albeit from a small population and capital base, he says.

"One of the best things about the fall of the Iron Curtain is we have seen a scraping of that outdated inefficient capital stock and it's been replaced by first world, first rate capital stock, which has allowed substantial levels of productivity growth to be generated," he says. "Central Asia is also a very interesting spot and one which is very poorly understood, mostly because most of its recent history is enshrined in that of the Soviet Union." It is now only just being understood that the region has substantial precious metal, base metal and energy resources, he says. However, poor infrastructure and idiosyncratic leadership are still problems for potential investors, he says. "It is a very important to understand the changes that are going on in what is now a very dynamic environment and this will increasingly impact upon the Australian economy," he said. "We have to be able to adapt to this change, to understand it and, importantly, be part of it."

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InvestorDaily

Macquarie goes hard on alternatives

Strong take up from dealer groups

Madeleine Collins

Mon 14 May 2007

Macquarie Bank has intensified its push into green energy and Asian markets to clinch self-managed super funds (SMSFs) riding the alternatives wave.

Macquarie's latest MQ Gateway offering has expanded to give exposure to Asian banks, water utilities, renewable energy and China, India and global property indices.

Early indications are that the trust's Asian and water offerings are the most popular with investors, Macquarie equity markets group division director Cathy Kovacs said.

"Water is a hot topic and a lot of financial advisers are looking to get their clients' exposure to that growth story," Kovacs said.

Participation levels of up to 220 per cent in the trust are designed to attract a wider range of investors, particularly SMSFs, who cannot borrow to invest, Kovacs said.

The three year capital protection term is also proving attractive to those wanting shorter lock-in periods.

"The product is on more product lists than other products we've had in the past," Kovacs said.

It was launched on the back of research showing Asia and emerging markets are the top of investors' lists in the alternative space, which has doubled in the last five years.

"The strongest growth areas at the moment - by [the] number of people planning to invest there - are Asia and emerging markets," research house Investment Trends managing director Mark Johnston said.

"On average, seven out of 10 dollars (72 per cent) of the alternatives section of their portfolios is in Australian assets - and 28 per cent in overseas assets," he said.

The first retail Gateway offer closed last month after raising \$56 million. Subsequent offers are planned later in the year.

The minimum investment is \$20,000 and this offer closes on June 29.

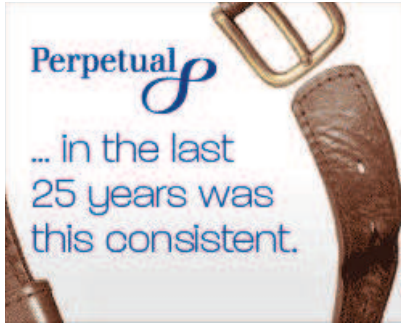
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News

Brokers ahead of planners on margin loans

Kate Kachor

Australian stockbrokers have surpassed financial planners in their ability to embrace gearing strategies, with a new report claiming a large percentage of the broking industry is now advising clients on margin loans.



According to the Investment Trends/Colonial Geared Investments Margin Lending: Broker Report, more than three-quarters of brokers who advised clients on gearing identified margin loans as their most used form of leverage in 2006. This figure compares with Investment Trends' earlier survey of financial planners, which found just over two-thirds primarily used margin loans.

"Like planners, Australia's brokers felt the increase in popularity of margin loans was primarily a result of better client understanding, and that this increase in awareness had been a key driver of increased use of margin loans," said Investment Trends director Mark Johnston.

The report also found that the main reason brokers were recommending margin loans was because of their benefits in leverage and wealth creation.

"There were a range of secondary benefits identified, such as flexibility and the unlocking of capital, but nearly 80 per cent of brokers saw the main benefit of margin loans as being either leverage or long-term wealth creation," Johnston said.

The survey also looked at which providers of margin loans were used, and found that lender market shares for brokers have been reasonably stable. Unlike financial planners however, brokers often select from a roster of two or three margin lending providers.

"For the full service broker channel, Leveraged Equities and Macquarie were used as a primary lender by two-thirds of brokers" Johnston added.

"Just under a third of brokers indicated that they were not interested in changing providers – although the main driver which could cause a change was lower interest rates."

Brokers were also more optimistic about Australian equities than their financial planner counterparts.

"Brokers were expecting strong growth from both Asian and Australian equities and emerging markets in 2007. This compares to a recent survey we conducted with financial planners where only 3 per cent identified Australian equities as a strong growth area," Johnston said.

Investment Trends/Colonial Geared Investments' Margin Lending: Broker Report surveyed 350 full service brokers in December last year.

22 May 2007

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InvestorDaily

Margin loans on the uptake

Gearing comes in from the margins

Madeleine Collins

Tue 22 May 2007

A buoyant market and better client understanding about gearing has driven the popularity of margin loans, a survey from research house Investment Trends has found.

"Of the nearly 350 full service brokers we surveyed in December, over three-quarters of those who advised clients on gearing identified margin loans as their most used form of leverage in 2006," Investment Trends director Mark Johnston said.

"This compares with our earlier survey of financial planners that found just over two-thirds primarily used margin loans."

Around 300 planners were surveyed in late 2006.

Gearing is now common practice amongst investors because they are better educated, Colonial Geared Investments general manager Craig Keary said.

"They're becoming more sophisticated and understand more about what they're doing," Keary said.

The Investment Trends/Colonial Geared Investments margin lending broker report found that leverage and wealth creation outweighed secondary benefits like flexibility and unlocking of capital.

It also found that brokers select from a roster of two or three margin lending providers, whereas planners generally used one or two.

"A smaller number of [financial planning] clients have a margin loan. They're not selling them as much as brokers," Johnston said.

Adelaide Bank subsidiary was the preferred product provider for two-thirds of full service brokers, followed by Macquarie Investment Lending.

Around two-thirds of brokers indicated they would consider changing providers.

For planners, Colonial Geared Investments was the most popular supplier whereas direct investors preferred CommSec.

"What's interesting about margin lending is that no one really dominates," Johnston said.

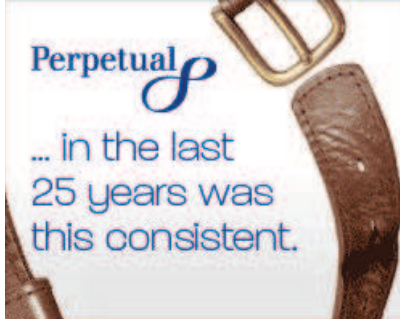
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News

Simpler super may attract \$100 billion: AMP

Mike Taylor

The degree to which the Federal Government's 'simpler super' has driven business into financial planning practices has been revealed by the latest AMP Capital Investors and Investment Trends research, which found planners expect to process an additional \$6.4 million each into client super accounts.



The research, details of which were released today, prompted AMP Capital Investors head of private clients Giles Craig to point to the increasing workload of financial planners in the lead up to July 1 as investors sought to contribute even more to superannuation.

The research found that among those planners anticipating they will process more than \$5 million in extra contributions for their clients over the next three years, 49 per cent expected to see some clients sell property.

It also found that among those financial planners who believed they would process less than \$5 million in extra contributions for their clients over the next three years, the sale of investments or assets was expected to be the primary means of making additional funds available.

Investment Trends principal Mark Johnston said that if financial planners process the level of additional super investment they anticipate, this would equate to nearly \$100 billion of extra funds flowing into superannuation across the industry over the next three years.

30 May 2007

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InvestorDaily

Advisers to inject \$100 billion into super Super industry set for billion dollar injection says report

Kate Kachor

Thu 31 May 2007

Financial advisers have swung their support behind the Government's simpler super reforms with predictions they will inject close to \$100 billion of extra flows into the industry in the next three years.

A report by AMP Capital Investors and Investment Trends found financial advisers expected to process an additional \$6.4 million each into client superannuation account in the next three years as a result of the super reforms.

Investment Trends principal Mark Johnson said the boost to the superannuation market was no surprise.

"No, it's not a surprise," Johnson said. "It's going to have a really large effect.

"Clearly planners feel the simpler super reforms will see a huge boost in extra inflows and, as of February, planners were expecting to place most of the money by 30 June."

The AMP Capital/Investment Trends 2007 SMSF Planner Report found advisers believed 80 per cent of the total figure would be reached by 30 June. Though Johnson believed this is a little ambitious.

"But whatever it ends up being is going to be a big number. It's definitely going to be huge. It may not have all flowed in by June, though it's still going to be very large," he said.

The report also revealed few advisers were worried about the Government making changes to the system once it comes into effect on July 1.

Of the advisers surveyed, 55 per cent said, regardless of whether the rules would change in future, they didn't really feel that clients would be affected. While 41 per cent of advisers said the new super structure would continue unchanged.

The report, which was conducted in March, surveyed a broad scope of advisers within the industry with the exclusion of bank branch adviser networks.

The \$6.4 million average is expected to come from both new and funds under advice and transfers by clients from non-superannuation holdings into their super funds. The average funds under advice for an adviser in Australia is about \$34 million.

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Simpler Super driving reallocation surge

mike taylor

Financial planners are emerging as key winners from the Government's new Simpler Super regime, according to the latest data released by [AMP Capital Investors](#) and [Investment Trends](#).

The latest AMP Capital/Investment Trends 2007 SMSF Planner Report reveals planners expect to process an additional \$6.4 million each into client super accounts.

The research prompted AMP Capital Investors head of private clients Giles Craig to point to the increasing workload of financial planners in the lead up to July 1 as investors sought to contribute even more to superannuation.

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31 May 2007

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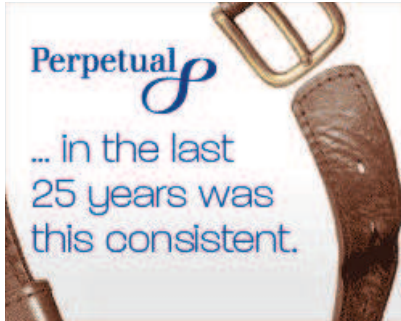
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News

Hedge fund investors put planners in the backseat

Liam Egan

Nearly half (47 per cent) of first time retail hedge fund investors involve a financial planner in the transaction, according to a new Macquarie/Investment Trends Alternative Investments report.



However, Investment Trends principal Mark Johnston said most first time hedge fund investors see the planner's role as "consultative rather than directive".

"They like to believe they're in the driver's seat."

Johnston's assessment tallies with another key finding of the new survey; only 5 per cent of first-time retail hedge fund investors were primarily motivated to do so by professional advice.

By contrast, 44 per cent of first time hedge fund investors were motivated by a desire to broaden their portfolio/diversify risk, while 38 per cent were in search of higher returns.

The survey of more than 5,000 retail investors (conducted between September and December last year) also found first time hedge fund investors usually start out by using another kind of alternative investment.

"Only 20 per cent of advised investors and 15 per cent of direct investors who use hedge funds said this was their first form of alternative investment," Johnston said.

Popular starting points for investors who end up using hedge funds were found to include capital guaranteed products, private equity and unlisted property.

Hedge fund investors are far more likely than other investors to value capital guarantees in their other investments (consistent with their absolute return focus in hedge fund investing).

Nearly 40 per cent of hedge fund investors in standalone hedge funds also utilise fund of hedge funds (FOHF), and also commonly have high levels of income and assets.

In general, the survey found the number of retail investors allocating funds to alternative investments has doubled in the past five years.

For respondents using a financial adviser, listed investments, capital guaranteed products, infrastructure and private equity were shown to be the most popular alternative vehicles.

In addition, respondents using an adviser had higher exposure to more investment categories and financial markets than those who invest directly.

Among those with a planner, 45 per cent of respondents had a self-managed super fund and generally had more funds to invest.

1 June 2007

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News

Meeting demand or missing the mark?

Glenn Freeman

The emerging duopoly of multi-functional financial planning software providers in the Australian market is a response to demand for well-capitalised, voluminous providers capable of supplying integrated solutions, according to key players in the space.



In April, industry heavyweight Iress Market Technology made waves when it completed the acquisition of another core software provider, VisiPlan, from wealth management infrastructure solutions provider IWL.

Just 18 months earlier, IWL had purchased software platform Boss, making Iress' move all the more poignant by folding four independently owned platforms into one.

Iress' stable of products now includes the broad-based planning software packages VisiPlan and Xplan, along with its risk-centric offering PlanTech. The company has indicated that while technology consolidation may occur over time, it will maintain support for clients in all product suites.

At present, Iress' only direct competition comes from the majority Macquarie Bank-owned provider Coin, with its Coin Office product.

According to the most recent market-share statistics available from Investment Trends, at the end of 2006 the industry breakdown saw VisiPlan (then owned by IWL) holding a majority share of adviser's desktops on 28 per cent, followed by Xplan (15 per cent), and Coin Office (10 per cent).

The following two top-rankers are both classified as hybrid software products because of their proprietary links with platforms: Asgard's Assirt Desktop/AdviserNET held 9 per cent and Navigator's n-link held 6 per cent.

There is a broadening gap between this top tier and the remaining players, with around 10 other providers delivering specialised financial planning software to planners' desktops, each holding market-share ratings in the low single figures.

Mark Johnston, principal of Investment Trends, qualifies the market-share findings by noting that its analysis excludes the bank-owned, branch-based financial planning groups, which are held almost exclusively by Coin, but includes non-branch-based dealer groups and independent financial planners.

Based on the above figures, the latest Iress acquisition means it is now the software provider of choice for at least 43 per cent of advisers surveyed, and Johnston estimates it has grown further since the end of 2006.

"Even if Iress loses a number of relationships in the short term, they're still going to be at 50 to 60 per cent of planner desktops, so it's actually a huge development in the industry," he said.

Describing the financial planning software landscape in recent years, Johnston said "planners wanted to move risk functionality out of the stand-alone piece of software and to centralise it into planning software – there was very strong adviser demand for this".

Looking at this shift, he believes the current trend in planner software does not augur well for this group.

Using the specific example of Iress' PlanTech risk advisory module, which was acquired in September 2006, Johnston surmises the broadening gap between the multi-functional and niche providers can also be linked to the business reality of economies of scale.

"Stand-alone planning software providers were facing a losing battle, the ground was moving from underneath them, and it's a much bigger exercise for them to build out all of the investment planning functionality than it is for the planning software providers to bolt on the risk functionality," he said.

A recent Citigroup study released in its *Trends in Wealth Management* newsletter alluded to another potential outcome of planning software's increasing functionalities when it said: "We suspect this could involve solutions that circumvent the platform altogether."

With considerable caveats, Johnston agrees this could happen in the medium to long term.

"All they theoretically have to do is add the custody piece," Johnston said, but added that doing this is no simple undertaking, would come at considerable cost and would be extremely challenging if not unworkable under a flat-fee model.

"I would say that a number of platforms are keeping a very close eye on how that evolves and looking at them as a potential competitor in the future, but it's no small thing.

"There is definitely a shift in the balance of power between platforms and planning software at the moment, and in response to that we're seeing a lot of the platforms either more tightly integrate with a particular piece of planning software or develop their own."

Two prominent platforms that developed their own software are Asgard, with Adviser-NETGain, and Navigator, with n-link.

These allow for data-sharing between platforms and software, providing planners with a limited functionality tool to use when dealing with relatively straightforward clients not investing across multiple entities.

Neither Jennifer Creaton, Aviva's general manager, client services, nor Edrick Ho, Asgard's head of practice solutions, see the relationship between platforms and software providers as a strict dichotomy.

Creaton sees greater co-operation between platforms and software packages, with Navigator currently sharing data feeds with the major providers.

"We work very closely with third-party software providers Coin, Xplan and VisiPlan in making sure that we can share information with them."

Commenting on Iress' recent VisiPlan acquisition, Ho said: "I think it's something that needed to happen. You need to have significant investment in order to provide this style of functionality."

While not discounting it, he does not believe multi-function software providers could simply bolt on a custody module and begin administering money.

"People are overlooking that it's not just about functionalities, but administering money," he said.

Andrew Walsh, Iress Wealth Management general manager, firmly believes dealer groups are demanding scaled software entities offering integrated products that relate to the various advice specialisations such as wealth management, superannuation and risk.

"I think the landscape of software vendors has changed to one where [clients are] provided by well-capitalised, well-funded, supportive vendors.

"They want institutions to provide the solutions, they don't want individuals providing solutions that are 'here today, gone tomorrow'. That's what well-funded software vendors can provide," Walsh said.

He believes its burgeoning market share is related to the trust commanded by bigger, well-established companies.

"[Planners] want to see a heritage of long-term software support and provision ... we're not mucking around, we're here for the long term to provide genuine solutions and are continuing to support those solutions," he said.

Walsh sees the landscape changing significantly compared to 10 years ago, when there were niche providers providing "a tool here and a tool there".

"We see it a bit differently today; we've got platforms that have niche expertise but in an integrated platform sense.

"We're providing the scale, rigour, support and capitalisation, but still providing the areas of specialty like risk, modelling, portfolio management, CRM (customer relationship management) but all integrated, that's what I think is the definition of the new adviser planning tool," he said.

This begs the question: in a world of tightly integrated products that also deliver niche expertise, what happens to the niche players?

Walsh suggests tough times lie ahead for these competitors.

"Nice niche tools, but not integrated. Without integration, an adviser has to re-key data ... it just puts a number of barriers up, whereas we've got tools that meet those requirements and our clients are quite happy to have this as part of their desktop," he said.

The other dominant multi-functional player, Coin, provides financial planning software in the areas of CRM, workflow, fact-finding and various dimensions of modelling, including financial strategy modelling.

"Essentially, you're seeing VisiPlan, Xplan and Coin in the fully functional offering," Tony Graham, Coin managing director, said.

He believes planners are recognising consistency as one of the keys to building value in practices while meeting compliance requirements: "It's not the whole answer but it's a tool that can help them do that."

Seeing it as a positive for planners and ultimately their clients, Graham believes the consolidation of providers that can deliver these products in a single, consistent package represents a further step towards the ultimate objective of straight-through processing.

While Iress has taken the acquisition route in order to build on the adviser functions of its software, Coin has opted to engineer its own modules for areas such as risk.

"What we've tended to do is build that functionality; we've built our own insurance module, INC. It's easier for us to build our own so it's more easily integrated," Graham said.

While Coin and Iress believe they are meeting the depth of demand across the financial planning space, some niche providers believe these groups leave a number of openings that can be exploited by existing players or new entrants.

One of these is [Midwinter Financial Services](#), providing a front-end, point-of-sale software tool called Reasonable Basis, which automates the advice process and includes a modelling component to show the effect of various strategies at a fixed point in the future.

Matthew Esler, Midwinter general manager, strategy and technical services, explained that as a truly front-office product, Reasonable Basis has identified a niche that neither of the multi-function providers currently fill.

"We don't follow the Coin, Xplan or VisiPlan approach in trying to be all things to everyone. We're keeping it as simple as possible, and we want to make it as fast as possible, and want advisers to be able to generate strategic solutions that their clients can follow and that they can implement easily," Esler said.

He suggests that advisers only use a relatively small proportion of the total functions made available by the full-bodied systems of Coin and Iress.

"What we've tried to do is ensure our software is going to be ... 100 per cent utilised at all times," Esler said.

Responding to Walsh's suggestion that such products are "nice niche tools but not integrated" and that planners do not want this piecemeal approach, Esler said "that flies in the face of the success that we've been able to achieve in the three or four months that we've been distributing our software".

"There is a need to have an all-encompassing tool, but there's got to be a balance between what's offered and its usability."

He believes the multi-functional products are complicating things for planners.

"They're finding there's more and more things they can do with their programs, and I think they're getting more and more lost ... multi-function products are effectively a full-time job for an adviser," Esler said.

Customer Acquisition and Retention Management (CARM) is another niche software provider catering for the front-office advice aspect of the broader planning process.

Matthew Lock, managing director of CARM, believes that the 'one-size-fits-all' solutions of the multi-function providers may be better suited to what he described as 'free range' financial planners - those who operate under a freer rein outside the close direction of a dealer group.

"The Xplans and Visi's are more for free-range planners rather than the planners who work in a more prescriptive environment," he said.

Lock also thinks that in the race to try and cater for all adviser functionalities, Coin and Iress are leaving the door open to an as yet unidentified third party.

"When there's so much dominance, this duopoly, in the medium term, will create an environment where a third player will emerge.

"These guys are going to commoditise themselves very quickly ... functionally and in a service and pricing sense, they will be identikit [of each other] not too far down the track.

He said this will have the effect of "arbitraging away any advantage they get from innovation", because any new development will always prompt a competitive response from the other.

Lock believes planners will look for a third party in order to create some positive competition within the market.

"Planners like choice ... given an option [they] will try and seek out the choice, the other option," he said.

"If the major players think they're going to just continue on absorbing the smaller players, then they could be caught resting on their laurels if the right circumstances combine, which can take an innovator into the mainstream."

On the question of whether software providers will make platforms an endangered species, the most widely accepted view is that while it is theoretically possible, there are substantial barriers and even reluctance on the part of software providers to become involved in this space.

Walsh said that Iress has no desire to move into the back-end custody and registry capabilities of platforms, and that concerns raised by the platform sector are in part fuelled by a lack of understanding.

He said that its efforts to work more closely with dealer groups and financial planners are being mistakenly perceived as a "power play".

"We're not interested in power plays at all. We're just looking to value add our clients with software functionality.

"Platforms are the custodians of assets, we've got no interest in doing that, we don't do that across any of our products," Walsh said.

He thinks the blurring of the lines between software providers and platforms instead represents an opportunity for platforms to work more strategically with front-end software providers.

"They're a bit concerned about what we're doing in the front-end, [but by] worrying about a turf war, they are missing out on the opportunities that tight integration brings," he said.

Esler also agrees it could happen, but has his doubts because "it would take some pretty smart software to get there, and I don't think they've got it at the moment".

"I think that it's a fair way down the track, and I think that what the platforms offer with consolidated reporting along with the custodial and administration aspects are very, very difficult to do through a software program," Esler said.

He thinks the required service support for such a product would be hard for software providers to emulate: "Xplan, Coin and VisiPlan, are notorious for not providing the greatest levels of service or training, whereas the platforms pride themselves on those service elements."

When asked whether any increasing penetration of software providers into platform territory would be a good or bad thing for planners and their clients, Esler was ambivalent.

"It depends whether any costs saved would be passed onto the client or not. Certainly, if you look at the costs of those software programs, they've increased quite significantly over the last few years because they've been adding extra modules.

"If they were to add an additional module that would mean platforms would become largely irrelevant, then I'm sure [software providers] would increase their prices accordingly."

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Warning sounded over empty nesters' super binge

Annette Sampson and Jessica Irvine
June 13, 2007

AUSTRALIANS are plunging up to \$80 billion into their superannuation funds just weeks out from the cut-off date for a once-in-a-lifetime tax windfall.

Real estate agents report multimillion-dollar loans are being taken out against property to plough into super, cashing in on the Federal Government changes, which take effect on July 1.

Empty-nesters are trading in the family home for smaller units and shifting the balance into superannuation.

The principal at Raine and Horne Double Bay, Michael Pallier, said he had just sold a \$7 million Vaucluse property, on which the owners had taken out a multimillion-dollar loan so that \$2 million of the proceeds could be put into super. After a 14-week settlement period the couple would pocket the gain and repay the loan, Mr Pallier said.

Under the changes introduced in last year's budget, investors will be limited to making after-tax super contributions of \$150,000 a year, or \$450,000 averaged over three years. But transitional rules allow contributions of up to \$1 million between May 10 last year and June 30 this year.

The rush to beat the deadline has prompted a warning from the tax commissioner, Michael D'Ascenzo, for people to think twice before selling their assets.

He cautioned borrowers that interest payments on these loans were not tax-deductible. "It's important that people make the most of the changes, but at the same time are not caught out by [capital gains tax] liabilities that could arise down the track."

An analyst with Australian Property Monitors, Michael McNamara, said a sales boom in traditional tree-change and weekender areas of the Southern Highlands showed baby boomers were selling their properties to jump into super.

John Dani, manager of advice development for IPAC Securities, said financial planners were seeing unprecedented interest from investors wanting to beat the deadline, and it was stretching resources to the limit.

ING's head of technical services, Andrew Lowe, said demand for advisers was the highest he

had seen during 17 years working in the industry. "I know advisers that quite literally drew down their shutters weeks ago in relation to seeing new clients."

While much of the money is expected to flow into super in the next two weeks, some funds are already reporting a doubling of normal contribution levels.

The executive director of Macquarie Bank, Neil Roderick, said Macquarie had received almost \$11 billion in identifiable super contributions to its cash management and wrap accounts over the past three months, of which \$2.1 billion came from contributions of \$1 million.

A survey of 150 financial planners by Investment Trends in February/March found planners expected to place an extra \$100 billion into super over the next three years as a result of the reforms. They said as much as 80 per cent of this money could be in place by June 30.

"People often overestimate and there are capacity issues because most financial planners are fully booked," said the principal of Investment Trends, Mark Johnston. "But what we've seen does suggest a final number somewhere in that [\$80 billion] ball park."

AMP's director of savings and retirement, Peter Nicholas, said the biggest interest was coming from people in their 50s and 60s who would benefit most quickly from the Government's move to make super benefits tax-free from the age of 60. "They're switching money from a taxable to a non-taxable environment," Mr Nicholas said.

But Mr D'Ascenzo said: "With July 1 fast approaching, I want to remind people who sell assets to contribute extra money to superannuation to ensure that they have funds set aside to meet any tax liability from selling or transferring assets into super."

These liabilities could include tax on the capital gain made when selling the asset, stamp duty, legal and other fees and possibly GST.

* Research by the Association of Superannuation Funds has found only one in five short-term retirees will benefit from the central feature of the new super system. It estimated average retirement payouts in 2006-07 were \$130,000 for men and \$45,000 for women. Lump sums of less than \$135,590 are already tax-free, so these people will not benefit from the switch to tax-free super payouts.

What you need to know

Two key changes will apply from July 1:

>> Super benefits taken from age 60 will be tax-free - whether taken as a lump sum, or a pension. This means investors who now own investment properties, shares, or other assets can switch those assets into super where earnings will be taxed at a maximum of 15 per cent, or zero once they start to receive a pension.

>> Once they turn 60, they can withdraw the money without penalty.

>> To prevent abuse of the system, super contributions will be limited. After-tax contributions will be limited to \$150,000 a year. This means it will take seven years to contribute the \$1 million allowed this year.

BUT ...

>> If you sell an asset to contribute to super, you may be liable for capital gains tax, stamp duty, GST and transaction costs.

>> If you borrow to invest in super, interest on the loan is not tax deductible.

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