

## CHAIRMAN'S COMMENT



Welcome to our latest edition of "Review". The Money Managers has long recognised the critical role our team play in supporting you to achieve your individual financial objectives. Their service standards, mentoring and coaching are critical in maintaining a high level of confidence in your strategy. High quality research which leads to optimum portfolio construction is another aspect that is critical to your success. We continue to strive for higher levels of excellence not only in the delivery of our advice to you but also in our responsibility to the wider community with our involvement in consumer advocacy and in representing to Government on the need for higher standards. This issue touches on some of these areas that are so important in ensuring transparent and objective advice. Hedge funds are the flavour of the month in some quarters and we discuss some concerns we have in this regard. Finally, an update on the baby boom we've been experiencing at The Money Managers. It's time for Grace and I to consider expanding our brood. Warm regards for the Christmas Season,

Kevin Bailey CFP  
Executive Chairman  
The Money Managers Ltd

## INSIDE THIS ISSUE

- Total Fee or Not Total Fee - that is the question
- Hedge funds under the microscope
- Planner profile - Julie Hall
- Staff News

## REJOICE FOR SUPER CHOICE

After a monumental period covering eight years of political debate the Commonwealth Government has finally gained approval for new legislation that will give most employees the right to choose their own superannuation fund and effectively their own investment strategy. This is a fantastic outcome for consumers and long overdue.

Australia's democratic society means that we enjoy the freedom to make many choices over the course of our lifetimes. This is something that we all should and do cherish. Whether it be buying a house, selecting a mortgage, establishing a career, making a commitment to a relationship, raising a family, buying an investment, establishing a business, organising an overseas holiday or planning our retirement. So it seems logical that Australians should be free to choose their own superannuation fund.

It will still be another year before "choice" becomes a reality because the new law doesn't take effect until 1 July 2005. The Government intends to use the next twelve months in an educational campaign that will cost around \$16 million to ensure that consumers are appropriately informed of their superannuation options. This will be in addition to the undoubtedly substantial sums that industry participants will spend providing written materials and advice to superannuation members.

The hope is that through improved education Australian workers will take a greater interest in their superannuation savings. Over time this should reduce the estimated \$7 billion in unclaimed superannuation benefits that exist because so many employees have been unaware of their entitlements or have been disinterested because their employer has been responsible for choosing the fund that receives their superannuation guarantee contributions.

There is a wide range of superannuation funds to choose from. Traditionally employees were invited to become members of their employer fund and in many cases an employee would spend their whole working life with one employer and one fund. Times have changed and corporate superannuation funds are rapidly dwindling as employers outsource this responsibility to financial service organisations. According to statistics

compiled by the Australian Prudential and Regulatory Authority (APRA) 177 corporate funds closed in the December 2003 quarter leaving only 1582 employer funds.

Industry superannuation funds have fostered a reputation for being low cost and no frills, which is often ideal for people with relatively modest superannuation balances and simple needs. Industry funds have the lowest average member balance of any superannuation funds at around \$8,000 per account.

Not everyone will have choice. Employers who are required to make award payments to a superannuation fund nominated in an industrial award will continue to make contributions to the existing fund after 1 July 2005, rather than a complying superannuation fund nominated by an employee. This is typically the case for public sector (or Government) superannuation funds.

Retail (Public Offer) funds control \$192 billion in assets for over \$13.34 million members. These include superannuation funds owned and managed by a single financial services institution, through to Master Trusts and Wrap Accounts that co-ordinate the administration of a range of different investment managers. These relatively modern structures allow scope for more tailored investment solutions, although some can be unduly expensive.

Self Managed Superannuation Funds (SMSFs) with less than 5 members each are the next step up in sophistication. This is the fastest growing segment of the superannuation market with over 500 new funds being established every week. SMSFs are widely used by retirees with an average member balance of nearly \$250,000 according to APRA statistics.

The Money Managers has long advocated the benefits of using superannuation as the preferred structure for holding investments. As a result of changes that took effect from 1 July 2004 more and more people can potentially enjoy access to the superannuation tax shelter.

For clients who are affected by the changes The Money Managers will be providing information updates over the coming months and assistance to determine the most suitable superannuation options under the new laws.

## The Money Managers Ltd

ABN 76 069 707 599  
Australian Financial Services Licensee No: 231167

Level 3, 379 Collins Street  
Melbourne Vic 3000  
T: (03) 8620 9900  
www.moneymanagers.com.au

# Total Fee or Not Total Fee - That is the Question!

The debate about effective fee disclosure is not new. In 2002, the Government proposed a regulation for disclosure of an 'on going management charge' (OMC). The regulation did not proceed on the basis that the OMC failed to provide an effective means of disclosing the "total cost to the consumer" of investing.

Then in 2003 the Government introduced a regulation that required disclosure of fees and charges in dollar terms "where reasonably practicable". The regulations were flawed because they effectively allowed product issuers to make their own decisions about this question. This is a bit like putting the fox in charge of the hen house.

Fortunately, during the debate of the Financial Services Reform Amendment Bill 2003 Labor and the Democrats inserted the requirement that disclosure of fees and charges should be in dollar terms for Statements of Advice, Product Disclosure Statements and periodic statements, unless otherwise provided in the regulations.

In addition, the Government committed to replacing the "reasonably practicable" test in the regulations with a new test that set a much higher threshold for disclosure to be in dollar terms "unless ASIC determines that for compelling reasons it is not possible to do so".

In March 2004 Kevin Bailey, Executive Chairman of The Money Managers Limited, was called on to give evidence before a Joint Parliamentary Committee and indicated his support for the replacement of the old "reasonably practicable test" with the new more stringent test as follows.

**"It is gratifying to see regulations reflecting the requirement to disclose in dollar terms (unless it is not possible do so for compelling reason, as determined by ASIC) being recommended, rather than the weaker disclosure which requires dollar disclosure only where it is reasonably practical to do so. Those that choose to disclose in dollar terms today find themselves at a commercial disadvantage to those that determine for themselves that it is too difficult to do so.**

**The two key changes introduced by the new regulations enhance consumer protection and pave the way for a more competitive and transparent investment environment. The new requirements no longer enable the licensee to determine those circumstances in which they should not be required to disclose in dollar terms by vesting those powers with ASIC."**

The second key issue that was raised by the witnesses at the Committee hearing was the issue of whether the regulations should also require that fees and charges be disclosed in a "single bottom line figure". In lending his support to this notion, Kevin Bailey stated as follows.

**"Clear, comprehensive and transparent disclosure will empower consumers to make informed and rational decisions, drive down costs and force greedy and manipulative operators out of business. By raising the bar, you will drag this industry above the lowest common denominator and ensure a truly level playing field at a higher professional standard. I am confident to say that it is not only possible to disclose fees in dollar terms to consumers, but it is also simple and inexpensive to do so."**

Senator Conroy noted that the vested interests in the financial services industry are unparalleled. It is an industry that is concentrated in the big four banks along with AMP and AXA. He states that something like 80% of Financial Plans that are written are controlled by these six companies, which is putting enormous power in the hands of the banks and a few other financial services companies. They are a strong-willed and determined lobby group who will not, unless they are made to, come clean to their customers.

Senator Conroy described Kevin Bailey as one of the doyens of the financial services industry with an intimate knowledge of its operations. Kevin's views were expressed as follows:

**"I am well aware that there are many people within the financial services industry that are fighting very hard for standards but are having a tough time of it because of the weight of vested interest in the status quo. Many people call themselves fee-based advisors, but the majority of their revenue comes from trailing commissions, which are not disclosed and are very much hidden. Most people would not know what they have paid in trailing commissions to their adviser over the last 12 months, but they know what their telephone bill is and they know what their electricity bill is, because these are delivered in dollars-and-cents terms."**

Consumers have a right to know what fees they are paying in dollar terms and they are entitled to know a single bottom line figure. It is a simple concept. A total figure will allow consumers to compare different superannuation and investment products and to make a fully informed investment decision.

On August 10 the Australian Securities and Investments Commission (ASIC) released its policy proposal on "Dollar Disclosure of Fees" outlining its position that fees and benefits must be disclosed in dollar terms from 1 January 2005, unless ASIC makes a determination that this is not possible. This means that the from next year the law will correspond with the 'best practice' model that has long been applied by The Money Managers to ensure our clients are properly informed.

Amazingly, some licensees and product issuers have suggested to ASIC that they will experience difficulties in fully complying with the dollar disclosure obligations by 1 January 2005. However, Kevin stated that "it is not only possible to disclose fees in dollar terms to consumers, but it is also simple and inexpensive to do so" it can only be hoped that ASIC remains resolute in its determination to enforce the rights of consumers.

## Stop Press!

**Unfortunately for consumer, the deadline for dollar disclosure has been extended by the regulator to 1 March 2005, following intense lobbying by industry participants.**



# The Money Managers Research Process - Hedge Funds under the Microscope

Alternative investment fund managers (or hedge funds) have attracted enormous investor interest in recent years. This is on the back of disappointing returns from share markets during the period from April 2000 to March 2003 and heavy demand from investors who became impatient to see positive returns.

Fund managers, research houses, investment consultants, superannuation trustees and many financial planners have promoted hedge funds with gusto. It is therefore important to understand why The Money Managers research team does not recommend hedge funds for our clients.

So what is a hedge fund and how does it work? Hedge funds are marketed as sophisticated products for discerning investors. In reality they are expensive, limited offer variants of actively managed share funds that rely on secretive, proprietary trading strategies, aiming to earn above market returns, particularly in falling markets.

Since we know from the relevant studies that risk and return are related and capital markets are highly efficient, our initial presumption is that hedge funds sound too good to be true.

Hedge funds are often categorised as an “alternative asset” to be included in a diversified portfolio alongside shares, property, bonds and cash. This is incorrect because there are no real underlying economic factors that drive the risk and return of hedge funds in the same way as traditional asset classes. Rather they employ synthetic or derivative financial instruments in an effort to engineer risk and return outcomes. This is what makes it so difficult to state with any confidence that hedge funds consistently and reliably add value for investors, rather than merely providing speculative risk.

Even assuming the use of hedge funds in a diversified portfolio, there is no universal acceptance of where they should sit or which other asset classes should be adjusted to accommodate these alternative investments. The Money Managers has optimised a number of simulations and produced a series of diversified portfolios both with and without an allocation to hedge funds.



Firstly, adopting the view that investors who are averse to capital volatility should hold a greater proportion of bonds, our research team substituted hedge funds for fixed interest securities. This is because hedge funds are promoted as providing positive absolute returns even when share markets are sluggish. As would be expected we found that hedge funds provided similar diversification benefits to bonds, with the result that there was no striking case for inclusion of hedge funds in client portfolios.

Conversely, taking the approach that hedge funds carry substantial risk, our research team substituted these for a portion of the Australian and international share components of the portfolios. Our modeling suggested some modest short-term diversification benefits through reduced risk of the simulated portfolios, however this was not a compelling conclusion especially after allowing for the higher fees charged by hedge fund managers.

There is a saying that if it can be measured it can be managed. Unfortunately the performance of hedge funds (after adjusting for risk) is particularly difficult to measure, so it is prudent to exercise extreme caution when considering the use of these investments in a portfolio. Hedge funds operate with a great deal of secrecy and definitely don't win any awards for transparency. The best known was Long Term Capital Management (LTCM), which collapsed in the late 1990's and threatened to bring down the world's financial markets until regulators stepped in to restore confidence.

A research paper released in 2001 asked the question “Do Hedge Funds Hedge?” and looked at 656 separate funds. The study found that hedge funds seemed to offer performance enhancements and diversification benefits over the short term as a result of low correlation with share markets. However the benefits were less pronounced over longer time periods, suggesting that the use of extensive active strategies has limited value and perhaps also that the low correlation may have been because hedge funds are not frequently valued (or “marked to market”).

The main message from the evidence is that investors who become impatient with traditional investment strategies could lose their shirt chasing the next best thing.

# Planner Profile – Julie T Hall



After graduating with a Bachelor of Science (Honours) from Monash University, Julie commenced her initial career in the field of minerals exploration and project development with BHP, mainly in the Asian region and also in the USA.

During a period spanning nearly 15 years with BHP Julie acquired a broad range of technical, financial and management experience. As Regional Manager (Asia), Julie was responsible for the construction of BHP's exploration portfolio in South East Asia and developed a strong understanding of the importance of risk management and structuring major capital outlays to produce efficient returns.

This 'hands on' risk management experience provides an excellent background for Julie's second career as a Financial Planner, assisting clients of The Money Managers to manage their financial assets as effectively as possible for both income and growth.

Julie is well qualified for her current role, having completed both the Diploma of Financial Planning and the Postgraduate Diploma of Financial Planning. She received Victorian and National awards for her academic achievements in the study of the Financial Planning Process and Estate Planning and Insurance.

Julie also holds the Corporate Directors Diploma from the University of New England and is a Senior Fellow of the Corporate Directors Association. Julie applies this knowledge, along with her deep understanding of Asian culture, as a part time independent director of International Training Australia. This organisation was established through Victoria's TAFE system for the provision of tertiary educational services overseas and provides Julie with immense pride and satisfaction.

In similar fashion Julie says, "A key reason why I joined The Money Managers is because I can apply my knowledge and experience in a way that helps our clients make informed financial decisions through education, mentoring and training. I find this very fulfilling on a personal level".

Julie is very generous with her time and believes that as a professional and a leader that it is important to be actively involved. Currently Julie serves on the Executive Committee of the Financial Planning Special Interest Group with the Securities Institute of Australia.

A keen fitness fanatic, Julie can be regularly seen jogging around Albert Park lake or in her favourite gym.

## Staff News



Charlotte

**Charlotte Anne Mae Humphreys** was born to Kathryn and Mark on 11 June, weighing a healthy 7lbs 12oz. She is now 5 months old and has Mum and Dad wrapped around her little finger already.



Isaac

**Isaac David Martin** was born to Meredith and Gavin on 22 June. He is healthy and happy and a great playmate for his older brother, Caleb.



Elizabeth

**Elizabeth Mary Keady** was born to Melanie and Greg, arriving six weeks early on 19 June. At a birth weight of 5 lbs 2 oz, she is a mere shadow of her father's 6 foot 5 inch stature.



Rachel

**Rachel Elizabeth Jones** was born to Jacinta and Rob on 2 October. Baby sister to Samuel, she is already breaking dad's heart.

Congratulations to **Stephen Asztalos and Maria Dolhai** who recently announced their engagement.

The wedding celebrations for **Mira Puspa and Frank Lau** are occurring in December in Melbourne, Hong Kong and Singapore.

**Victor Lee and Katrina Ling** were married last month and are now enjoying their honeymoon at the Gold Coast.



**FPA**  
PRINCIPAL MEMBER