The INVESTMENT COLLECTIVE

INVESTMENT MARKET UPDATE

ISSUE 77 Autumn 2021

"OUR DUTY IS YOUR FUTURE" ™

MESSAGE FROM MANAGER

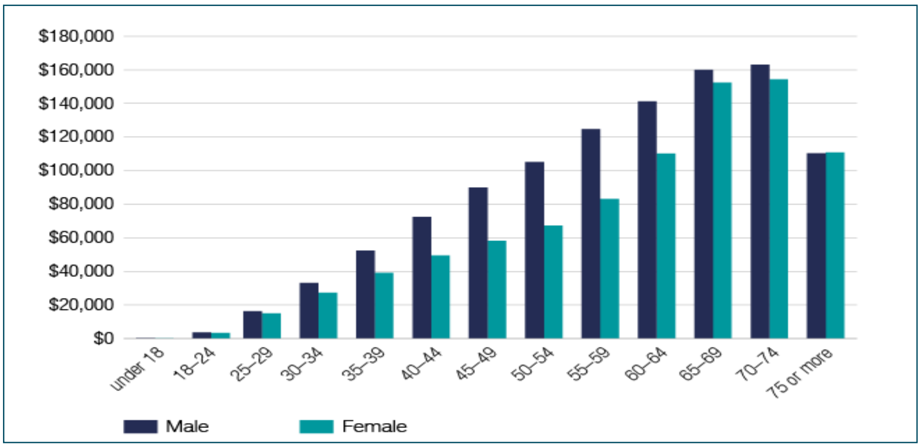
Relationships between men and women are currently generating a lot of bad press. Brittany Higgins' allegation about her treatment by a fellow staff member seems to have ripped a Band-Aid from a festering sore. Soon after, everyone has weighed in, consuming the politicians that are supposed to be guiding our country out of COVID and breeding mistrust between the sexes.

The response, including apologising every time a grenade exploded, could in many cases only be labelled inept. With few exceptions we hear little from women in The Coalition, and when it is pointed out that South Australian politicians Carolyn Habib and Nicole Flint have been hounded out of politics by rabid lefties, the likes of Penny Wong claim ignorance.

Frankly, the behaviour on all sides is shameful, and it's made worse by all of the interest groups weighing in without any reference to truth.

Take the assertion that women are disadvantaged due to superannuation balances that are on average lower than those of men. First, a man and a woman doing the same job to the same degree of competency will be paid the same. To not do so is a breach of the law, and employers put a lot of effort into getting salaries right, despite what you read in the press. Other than the law, it is incredibly difficult to get good staff. Second, many women take time off to raise a family, and others continue to do that implicitly by taking on roles that are less demanding. Third, and related to the previous point, women are over represented in people related roles (like teaching and nursing), which often pay less (although overtime can make a big difference in some of these). These facts will stand any scrutiny, and of course, prima facie they will lead to lower super balances.

What is interesting though is that in later life, women make up a lot of the difference. At 75 or older they are equal. **(Refer to graph below[1])**.



[1] Source- ATO: Median super balance, by age and gender, 2015-16 financial year.

> **"Apologising every time a grenade exploded, could in many cases only be labelled inept."**

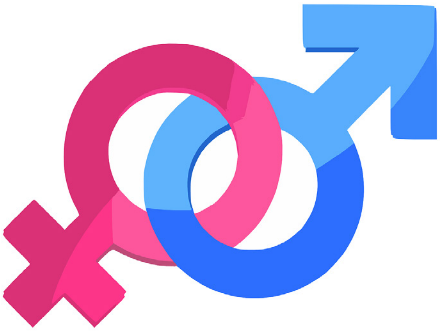
There are a number of reasons for this. The first is that women typically live longer than men, and it is often very tax effective (and administratively efficient) for super to be 'transferred' to the surviving partner.

The second is that many older men also transfer super to their partners. People aged over 60 can often access a 'condition of release' to take up to $300,000 out of super tax free. Husbands often put it in the name of a partner with a lower super balance which can help with managing taxable balances, reducing tax on death benefits, and it sometimes allows access to Centrelink payments.

A third reason is that people with less than $500,000 in super, who have been making contributions of less than the statutory maximum ($25,000 per annum for 2020/21) can make catch up contributions – perhaps offsetting long service payments, or capital gains from the sale of other assets.

Looked at this way, it's clear that there is a conflict between the way super is regulated and taxed, and the role it plays as part of a family's overall wealth. While the statutory environment focusses on the individual, in real life households make decisions based on their overall resources. A key component of our work is helping to maximise the benefit of those resources, and as far as retirement planning goes, one of the main tools for achieving that relates to equalising assets (to the extent possible, at least).

An additional point, tangentially related, is that the family courts take the attitude that super is part of the overall household wealth. Regardless of which spouse's name the member accounts are in, it is the combined balances that will be considered. Further, the partner with less means often gets the family home.



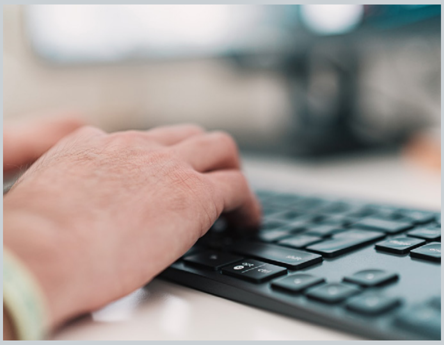
Of course, all this is academic to families who do not have access to at least one consistent and meaningful income, people who have spent most of their lives single and on low incomes, or those denied a share of super on account of some decision made by a deceased member. By all means, we need a safety net for these people, but let's not call out a problem that doesn't exist or insist that superannuation arrangements form part of some conspiracy against women.

David French
Managing Director

Beware, it's a scam!

It's common for a client to ask us to look at a certain investment they might have heard about through a friend, online, in the paper or seen it advertised. Generally, these investments are speculative mining stocks that promise to be the next big thing.

I recently received such an enquiry, to provide our thoughts on a managed fund that was described to me as an 'interesting investment.' However, this time was different. The investment was a fixed interest fund that was offering an attractive income well above term deposit rates.



With term deposit rates offered by the banks being so low, conservative investors are being forced to seek investments that are of higher risk than cash to obtain the income needed to live.

From the client, I received the 23 page prospectus along with the email from the product offeror. The email looked professional, well written and engaging.

As I read the prospectus, my first impression was the first year return looked really good at 4.56%, however, not ridiculously high. The prospectus was marketed well, professional and consistent with other genuine documents I'm used to reading. The fund apparently had the backing of a big foreign bank.

I read further into this and the offer didn't stack up. There was limited information on the investments that will be used to achieve the return and the product fees were not disclosed. Alarm bells rang.

To the untrained eye, this would have been hard to recognise as an investment scam.

Know what to look for to spot a scam:

- Spelling and grammatical errors
- Amateur looking marketing material
- Offers you something that sounds too good to be true
- Someone you don't know contacts you out of the blue, usually an offshore contact
- There's a sense of urgency/ unnecessary pressure to act quickly or miss out.

For the first 3 months of this year, almost 63,000 Australians have lost $63,000,000 to scams. This is no small change and too good for the scammers to stop.

Scammers are becoming more sophisticated and resourceful, and with today's modern and connected world it has never been quicker or easier to set up a scam. This scam was certainly well orchestrated and deceptive. We need to be vigilant to avoid being defrauded and becoming another statistic.

Stephen Coniglione
Financial Adviser

The importance of trust

Melissa Caddick was a Sydney based fraudster who went missing late last year. Her foot, still secure within her sports shoe, recently washed up on a beach. Her fraudulent activities and their consequences, as well as her disappearance, have been widely reported in the media.

Melissa held herself out to be a financial planner, and, over a number of years, weaved an elaborate web of deceit designed to entrap friends and family into investing through her. However, Melissa's only 'investment' was in herself; using investor funds to establish and maintain a lavish lifestyle.

By all accounts, Melissa operated a classic 'Ponzi scheme', named after Charles Ponzi, an Italian-American swindler and con artist who defrauded his clients out of about $250 million (in today's dollars) during the early 1920s. Essentially a Ponzi scheme involves offering investors extremely attractive rates of return, such as '50% profit within 60 days'. Investors may well receive regular 'investment updates' and even the occasional 'return' by way of distribution. However, these distributions are entirely funded by the funds invested by subsequent investors. In other words, a fundamental aspect of the longevity of the fraud depends on the fraudster being able to continue to attract 'new investors' whose investments fund any payments to earlier investors.

Charles Ponzi was by no means the first to operate such a fraud. But at the time it created such a sensation that he gave his name to this style of fraud. A relatively more recent exponent of the fraud was Bernie Madoff, who operated his fraud for decades until uncovered in 2008. He took his investors for about $18 billion.

However, back to Melissa; in carrying out her charade she assumed the identity of another, genuine, financial adviser. And it was only when this financial adviser reported the misuse of her identity to the Australian Securities and Investment Commission (ASIC) that the charade finally unravelled. Melissa was very successful in duping many people, out of a lot of money, over an extended period of time. How is that possible? A simple check on the ASIC website would have raised questions, but no one bothered to check. They trusted her, they wanted to believe, and if truth be told, they were greedy to participate in the fabulous returns that Melissa seemed to be able to achieve for her investors.

Trust is a very fragile 'creature'. Once it's been lost it's almost impossible to restore. And it's a fundamental aspect of a relationship that you'd have with a real financial adviser.

I'll often say to a prospective new client "I'd like to earn your trust." What I mean by this is; I don't assume someone is going to trust me simply because I've asked them to. I wouldn't!

I expect to be able to demonstrate through my actions that their trust has been earnt by way of delivering tangible and verifiable results delivered through transparent and arms length processes.

Sometimes this means telling clients things that they'd rather not hear; this investment didn't perform as we would have liked, but these did; you don't have enough capital to retire; your fees will need to increase. However, these are all examples of being transparent and correctly managing people's expectations, which is an integral part of trust.

> **"Trust is a very fragile 'creature'. Once it's been lost it's almost impossible to restore."**

Robert Syben
Head of Financial Planning

It's that time of the year, tax time!

"It's that time of year! What do I need to think of before 30 June rolls around again?"

If you use a tax agent for your annual tax return, you will have provided your information to your accountant and your tax return is probably ready to submit to the Tax Office, for last year's tax.

What is different for me this year?

Many of us worked from home during the year due to COVID-19 and this can mean a small tax deduction. If you worked out of your own home from mid-March to 30 June 2020, you can claim a deduction of $0.80 for every hour worked from your home office. The accountant can work it out for you, but it's as simple as letting them know the date you began working from home and your usual weekly hours worked. Assuming you worked 15 weeks at home at 40 hours/week, this could mean a tax deduction of about $480.

What about Division 293 tax? If you are a high income earner (>$250K per year) you may have to pay additional tax on super contributions. Check your MyGov account to make sure you don't miss seeing the notification from the ATO. You do need to pay the tax, but you don't need any penalty on top for late payment.

How can a high income earner get a tax break? If your spouse is younger than 75 and their income is less than $37,000, you can make a contribution to your spouse's super account and receive a tax offset that will reduce your tax. The maximum offset is $540 and the optimum contribution amount to receive this offset is $3,000.

"I have surplus income, and I pay tax at the top marginal tax rate. How can I reduce my tax?" Talk to your pay office about setting up a salary sacrifice arrangement. This arrangement can save you some tax, and boost your future retirement benefits, that's a win/win solution.

There is a cap in place that limits how much you can contribute to super on a pre-tax basis and this is made up of the employer contributions and any contribution you make, such as salary sacrifice. It's important not to exceed this cap. The cap for 2020/21 is $25,000. You can also contribute a lump sum amount if you have made some savings during the year, and then claim a tax deduction against that amount and again it's important you don't exceed the cap.

"I sold some shares during the year at a profit and now I'm going to have to pay tax on the capital gain, can I do anything to reduce or eliminate this tax?" Yes, if you have spare capacity under the concessional contributions cap mentioned above, you can contribute part of the proceeds to superannuation and claim a tax deduction, again providing you don't contribute more than the cap.

"During the year I sold the family home where we had lived for 20 years, but now I can't put it into my superannuation." Well, yes, under certain circumstances you can put it into super if you meet all the downsizer contribution rules, one of which is that you are 65 years of age or older. You don't have to meet the work test and any downsizer contribution sits outside normal contribution caps.

Sue Dunne
Senior Financial Adviser

New Staff

Alice Knight
Office Manager
Rockhampton

Natayah Bowen
PAMA Liaison Officer
Rockhampton

Ben Perfect
Compliance Officer
Rockhampton

How can I use my super contributions?

Super contributions can be used in many different ways when it comes to planning your finances and saving for your retirement.

In the right circumstances, your contributions can even be a useful tool to help reduce your tax bill and increase your retirement savings.

One of the more interesting tax strategies you can use is to make a super contribution to reduce your Capital Gains Tax (CGT) liability when you sell an asset outside the super system, while at the same time increasing the amount you have in your super account.

How to offset capital gains outside super with super contributions

When you sell a non-super investment asset, you are normally required to pay some tax on any capital gain you may have made since purchasing the asset.

One way to reduce your tax bill is to make a super contribution. If you meet certain conditions, you can claim the contribution as a tax deduction to offset some (or all) of the taxable gain.

> **"Super contributions can be used in many different ways when it comes to planning your finances."**

Case study 1

Jack and Jill are both working and decide to sell the portfolio of investment shares they have held for many years. This sale results in a capital gain of $150,000, on which they will be required to pay CGT.

The couple uses the normal 50% discount rule for CGT that applies to assets held for over 12 months, reducing their capital gain to $75,000.

Both Jack and Jill's employers have made concessional (before-tax) contributions into their super accounts of $5,000 during the year. This means they both still have $20,000 left under their annual concessional contributions cap.

After receiving advice from their financial adviser, they both decide to make a concessional super contribution of $20,000 each into their super accounts from their profit on selling the shares. Jack and Jill claim their $20,000 contribution as a personal tax deduction.

This reduces the capital gain on which they must pay tax from $75,000 to only $35,000 ($75,000 – [$20,000 x 2] = $35,000).

It's important to note CGT is calculated by adding the taxable profit from an asset sale (like a share portfolio or an investment property) to your other taxable income (such as salary and investment income or rent) in the year the sales contract for the asset is signed.

By making a super contribution, it minimises the impact of CGT by reducing your taxable income through the tax offsets provided for concessional (before-tax) contributions. In this situation, your CGT is reduced because your tax deductible concessional super contributions reduce your overall taxable income, which may keep you in a lower tax bracket.

Things you need to know

To make a super contribution after age 67, you must pass the work test. This means if you are aged 67 to 74, you must be gainfully employed for at least 40 hours within a 30 day period before your super fund will accept your contribution.

If you make a personal contribution and plan to claim a tax deduction, you need to submit a valid Notice of Intent to Claim or Vary a Deduction for Personal Super Contributions form from the ATO. Before lodging your tax return, you also need to receive an acknowledgment from your super fund that it has received the completed form.

Another contribution option: use carry forward concessional contributions

In certain situations, there is another super contribution option you can consider to reduce a CGT liability.

From 1 July 2018, anyone with a total superannuation balance of under $500,000 can access their unused concessional contributions caps to make carry forward concessional contributions.

This strategy again involves claiming a portion of your super contributions as a tax deduction, which is then used to offset some of your taxable capital gain. This can reduce (or even eliminate) any CGT liability you may have in that particular financial year.

If you have not used all your concessional contributions caps over several years, the available unused cap amount can add up and could make a significant dent in a large CGT liability.

The introduction of carry forward concessional contributions means super fund members can use any unused concessional contributions cap amounts on a rolling basis for 5 years. Amounts carried forward that are not used after 5 years expire.

Case study 2

Peter is self employed and owns an investment property he plans to sell in several years. He expects to create a taxable capital gain of $75,000.

If Peter did not make a concessional contribution into his super account for the 3 financial years starting 1 July 2018, he will have accrued the right to make a $75,000 carry forward concessional contribution over that period.

Peter's total super balance is under $500,000, so he is entitled to make a tax deductible super contribution of $75,000 in 2020/21 if he chooses. This contribution can then be claimed as a tax deduction and offset against his $75,000 capital gains to eliminate his CGT liability.

Tips and traps when using super to reduce your CGT bill

- Ensure you do not go over the annual concessional (before-tax) contribution cap ($25,000 in 2020/21 and increasing to $27,500 from 1 July 2021), as tax penalties apply.
- Remember, all concessional super contributions are taxed at 15% (or 30% if your income is greater than $250,000) when it is received by your super fund.
- Employer super contributions made on your behalf (including salary sacrifice amounts) count towards your concessional contributions cap for the financial year.
- Carry forward contributions can be made only if your total superannuation balance is under $500,000.
- Ensure any extra concessional contributions you make are in the same financial year as the asset sale and CGT liability. The date for triggering CGT is the contract date for the asset sale, not the date of settlement, as these can be very different for property sales.

Joshua Scipione
Financial Adviser

Office Update

In March 2021, we said farewell to Office Manager, Diane Booth, from our Rockhampton office. Diane is embarking on her new role within The Investment Collective, as the Manager of Spinal Care Injuries at the Gold Coast. This is an area of the business that Diane is very passionate about and we are excited to see Diane develop and grow this new division of The Investment Collective.

We have recently welcomed 3 new staff members to The Investment Collective Team; firstly myself, Alice Knight, having joined the team at the start of February as Office Manager, taking over from Diane. It has been a busy start, and it has been wonderful to get to know my fellow colleagues and learn about everything happening at The Investment Collective.

Secondly, we welcomed Natayah Bowen to the team at the start of March. Natayah has come onboard as our PAMA Liaison Officer. The PAMA platform is a web based application that has been developed to ultimately help close the gap on Indigenous disparity in the community of Cape York. The capability of this application provides members of the community with a straight forward, user friendly way of managing money and saving towards specific goals such as school, university and home deposits. Natayah will be the vital point of contact for all PAMA account holders, and we are looking forward to being involved in this unique opportunity.

pama
A lifelong opportunity

A week after welcoming Natayah, we welcomed Ben Perfect to the team, joining John Phelan in the compliance department. Ben has come from a strong legal background and his skill set has made him a great addition to the team.

Alice Knight
Office Manager

Investment Update

Deterra Royalities (ASX:DRR)

We had a new addition to our APL in February, Deterra Royalties (DRR). DRR was spun out of Iluka in October last year. The company is very simple in terms of what it does as it only owns 1 thing and that is a royalty stream over all iron ore mined by BHP in Mining Area C (MAC), a section of land on Iluka's mining lease. DRR is entitled to one off payments of $1million for every million tonnes of installed capacity and quarterly payments of 1.232% on the value of dry ore shipped from MAC.

MAC opened in 2002 as a 15 Million Tonnes Per Annum (MTPA) operation. It was expanded in 2004, 2008 and 2011. In BHPs fiscal 2019 year, MAC shipped 56 Million Tonnes (MT) of iron ore at an average price of A$124 per tonne. It paid DRR $85million in royalties.

One of the attractions to this business is that its gross profit margins are high. Gross profit margins are the profit margin before you take out any running costs. For BHP, their gross profit margins are around 65% and that is considered very healthy. As Deterra don't actually pay for any of the mining costs their gross margins are around 97%. All they really do is employ a few people to watch BHP to make sure they aren't getting ripped off and another guy to count the money. As the cash costs to mine a tonne of ore are around $20, the mine will be profitable under any foreseeable conditions.

So, I like to think of this investment as a bond with capital upside and BHP is the company paying the coupons (the counterparty). In fact, it's probably a 'better than BHP' counterparty as mining companies tend to do stupid things at the top of the market. Like the money that BHP spent on the Canadian Potash mine assets in Canada or Rio Tinto and the Alcan acquisition. BHP can't make those mistakes here as MAC is a single standalone asset.

MAC is presently undergoing a US$3.4 billion expansion (the North Flank project), which is 90% complete. This will take capacity to 139 MT. The expansion will replace the 80 MTPA Yandi mine, which is nearing the end of its life. Post expansion MAC should have an operating life of 50 to 60 years without requiring a further infrastructure investment.

As BHP ramps up utilisation at MAC, DRR will be entitled to $82million of off capacity payments. It will also be entitled to 1.232% of the value of 139 MT of the highest grade ore in the BHP system. DRR listed on 23/10/2020 at $4.60. From listing through to January 25 2021, the price was unchanged. Iron ore prices, however, have increased to over US$120 per tonne. Since DRR listed Fortescue, it has risen by 42%, BHP by 26% and RIO by 22%.

In our view, Deterra has been left behind due to its small size and relative novelty as a pure royalty play. The royalty aspect of the business is an attraction as it ought to reduce volatility. Also, all earnings will be paid out as dividends, which ought to be fully franked.

Ian Maloney
Manager - Share Trading

Rotary Golf Day

The Investment Collective were proud to once again be a sponsor of the Rockhampton Rotary Club Charity Golf Day. Financial Adviser Sue Dunne and 3 of her clients took part in the event which raised funds towards the prevention of mental health issues and suicide throughout the community.

Centrelink Update

It was mentioned in our January 2021 newsletter that debt repayments were re-commencing in February 2021 after being paused. Services Australia has begun letting those applicants know the due date for the restart of these repayments and what the repayment options are. If you receive a payment, the amounts will begin to be deducted from your first payment after your due date. If you do not receive a payment, there are a few things that have to be done before your due date. You need to either:

- Set up a new payment arrangement or;
- Ensure your existing payment arrangement is still valid.

centrelink

Services Australia has also announced that from 1 April 2021, some income support payments will increase by an extra $50 a fortnight. This increase will be applicable to those who receive any of the following payments:

- JobSeeker Payment
- Youth Allowance
- Parenting Payment
- Disability Support Payment (if you're under 21 with no dependent children)
- Special Benefit
- Austudy
- ABSTUDY Living Allowance (except for tertiary students under 16 and masters and doctorate students)
- Partner Allowance
- Widow Allowance
- Farm Household Allowance
- Status Resolution Support Services payment
- Certain Department of Veterans' Affairs Education Scheme Payments.

If you are entitled to receive this increase, there is nothing that has to be done. The payment will automatically update.

Pension Update

Services Australia's full pension

From 1 July 2020, you can get a full pension if your assets are less than the limit for your situation.

If you're	Home owner	Non-home owner
Single	$268,000	$482,500
A couple, combined	$401,500	$616,000
Illness separated couple, combined	$401,500	$616,000
A couple, 1 partner eligible, combined	$401,500	$616,000

Services Australia's part pension

From 20 March 2021, your pension will cancel when your assets are over the cut off point for your situation.

If you're	Home owner	Non-home owner
Single	$585,750	$800,250
A couple, combined	$880,500	$1,095,000
Illness separated couple, combined	$1,037,000	$1,251,500
A couple, 1 partner eligible, combined	$880,500	$1,095,000

Please continue to inform us if your income and asset values change, so we can notify Services Australia and ensure you continue to receive your full pension entitlements. If you are interested in The Investment Collective being your Services Australia nominee, please notify us.

Larissa Dowdle
Business Assistant - Centrelink

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*Please note that the content in this newsletter is general in nature and has not taken your personal or financial circumstances into consideration. If you have any questions please contact your adviser.

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