Buckle up for tough times

"Investing in the share market has got to be around avoiding the train wrecks"
- Lanyon director Erik Metanomski

Experts prescribe doses of discipline and patience ahead of challenging times, writes **Anthony Keane**

THREE of Australia's most successful investment managers are urging people to revisit the risk level in their share portfolios as global financial markets take another turn for the worse.

One of the secrets to success, they say, is often not what shares you buy but what you don't buy.

Kerr Neilson, the founder and managing director of Platinum Asset Management, says the world is facing a huge number of issues and believes forecasts of China's economic growth are too positive.

While many economists expect China to grow at 8 per cent in the next few years, Neilson believes it will be closer to 5 per cent because political machinations there will make its government slow to respond to economic issues. This will weaken Australia's exports and our dollar.

Neilson expects financial markets to remain volatile.

"Prepare yourself for a more difficult future, where earnings are going to be challenged in a number of industries," he told an investment briefing of Hood Sweeney clients in Adelaide.

"Buy good companies at sensible prices that over three-to-five years will deliver a decent return.

"Whatever you believe, the Western economies cannot grow at their traditional rates.

WHERE GROWTH WILL COME FROM

- Social media and internet shopping.
- Solar energy - the technology has improved markedly but China and the US have not yet embraced it.
- New manufacturing processes such as 3D printing.
- Areas such as personalised medicines in the healthcare sector.

Source: Kerr Neilson

"We have borrowed so heavily that we have to grow slowly because we've already brought forward so much spending in the past."

David Prescott, whose Lanyon Australian Value Fund was ranked by Morningstar as the best among 457 Aussie share funds over the past year, says investors should always think about the downside before considering the upside.

"Managing risk is an obsession," he says.

"Our read from management teams is that things are still sluggish.

"Housing, manufacturing, retail, tourism and financial services all have challenges, and conditions are difficult."

Fellow Lanyon director Erik Metanomski, one of Australia's most successful contrarian fund managers, says investment is not that complicated – but applying discipline is.

"Investing in the share market has got to be around avoiding the train wrecks. If there is one thing I have to stress, it's the ability to say no. We say no an enormous amount," he says.

Lanyon's success has reflected its focus on just 12 undervalued companies, including Telstra which has rebounded strongly.

It does not hold one bank or mining stock.

"It concerns me that the superannuants and retirees of this country have the lion's share of their wealth in commodity stocks and the finance sector," Metanomski says.

"My biggest concern remains with the finance and banking sector – it is undercapitalised and under-provisioned."

Despite the uncertain outlook, Platinum's Neilson sees some strong opportunities for growth, including new technologies such as 3D printing and solar energy.

"We are quite excited about solar and fuel cells," he says.

"A parcel of top solar stocks over the past 10 years has dropped by more than 92 per cent. No one is interested in solar anymore."

Weigh up best option when borrowing is on the cards

CONSUMER WATCH
Robert Keogh

PERSONAL loans and credit cards are both good options to pay for smaller projects, such as a family holiday or minor home renovations.

Which one is the best solution for you depends on your circumstances, so here are some points to consider.

Personal loans are a one-off, lump-sum payment to be paid off over time. Benefits include:

- They typically have lower interest rates than credit cards. If you plan to pay off a product or service over a few years, such as a car or a holiday, a loan might offer better value.
- They are repaid over a set length of time, such as three years, meaning you know exactly when you will have the debt paid off.
- Some products offer redraw options to customers but only if you're ahead on repayments. That means the loan will still need to be paid off within the agreed time frame.
- If you have several small loans and credit card debts to manage, a personal loan is an ideal way of consolidating them and streamlining transactions to one repayment, saving you fees and potentially offering a lower interest rate.

Credit cards offer instant and ongoing access to funds for all kinds of transactions.

You will get a monthly bill for what's on your card. As well as better flexibility, credit cards offer the following benefits:

- Most credit cards offer an introductory or balance transfer rate as low as 0 per cent for a few months. If you can pay off the loan in this period, a credit card could be an option, but after the introductory period the rate will automatically lift to the standard or a higher rate.
- Credit cards will generally have an interest-free period whereby interest is not charged to the cardholder until after a certain length of time.
- Many credit cards offer reward programs, offering points to collect with each purchase, which can later be redeemed for gifts or vouchers.

If you are thinking about borrowing some money for your next project, make sure you talk to your financial institution to weigh up the options and find a solution that is suitable for you.

Robert Keogh is the chief executive of Community CPS Australia.

Avoid super cap penalties

YOUR ADVICE
Noel Whittaker

I TURN 55 this month and want to retire at 60. I have heard you are able to sacrifice 100 per cent of your salary into superannuation at 55. I earn $80,000 a year which includes employer contributions of 9 per cent into super. I have covered ordinary living expenses until then. Is this possible?

The tax rules don't place an age limit on the amount you can salary sacrifice but legislation does prescribe certain pre-tax contribution caps. Heavy penalties can apply if caps are exceeded.

MY husband will turn 65 on July 3, 2015. He will contribute $450,000 to super on July 1, 2012. Can he still contribute another $450,000 on July 1, 2015, two days before he turns 65 on July 3, 2015?

He can do that, provided they don't change the rules between now and July 2015. If he makes the after-tax contribution after turning 65 to invoke the higher cap after July 2, 2015, but before July 1, 2016, a work test will apply. If he contributes on July 1 or 2, 2015, no work test would apply as he would be under 65.

Noel Whittaker is a co-founder of Whittaker Macnaught. His advice is and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

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