AUSTRALIAN EXPATRIATE SERVICES
PROFESSIONAL FINANCIAL ADVICE BY AUSTRALIANS FOR AUSTRALIANS

neo Financial Solutions

The **Australian**

Australian Expat Investment & Taxation News

A new bi-monthly issue of **The Australian** from **Imperium Capital**.

This document will be made available on our website theaustralian.biz / imperium-capital.biz

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Currency View

OFX

Lost a fraction last week as the RBA left interest rates unchanged with mixed economic data from both countries. The rate began the week rallying on Monday after a lower than expected U.S. ISM Manufacturing PMI number. The pair then declined on Tuesday after the RBA left its benchmark Cash Rate unchanged at 2.0% as was widely anticipated. In the central bank's rate statement, Governor Stevens noted that, "Financial markets have once again exhibited heightened volatility recently, as participants grapple with uncertainty about the global economic outlook and diverging policy settings among the major jurisdictions. Appetite for risk has diminished somewhat and funding conditions for emerging market sovereigns and lesser-rated corporates have tightened.
But funding costs for high-quality borrowers remain very low and, globally, monetary policy remains remarkably accommodative." The rate then gained sharply on Wednesday after Australian Building Approvals increased +9.2%, significantly higher than the +4.8% that was expected, nevertheless, the Australian Trade Balance

showed an expanding deficit of -3.54B compared to -2.45B that was expected.

Thursday saw the rate make its weekly high of 0.7241 after Australian NAB Quarterly Business Confidence printed at 4 versus a previous reading of 1 upwardly revised from 0. The pair sold off sharply on Friday after Australian Retail Sales came out at 0.0% compared to an expected increase of +0.5%, while the RBA's Monetary Policy Statement noted that, "The diverging monetary policy trends among the major central banks, concerns about the challenges facing the Chinese authorities and large declines in oil prices have contributed to an increase in volatility in global financial markets of late. Sovereign bond yields have declined noticeably since late last year, as have equity prices. Also, spreads on corporate bonds in the United States, euro area and Australia increased owing to sharp rises in spreads for energy and resource-related companies." AUD/USD closed at 0.7066, with an overall loss of just -0.2% for the week.

Commentary Data are the latest available as at 5 February 2016

Stock Market Update

Hartleys

John Goodlad Interview by **Darren J. Casson**
Senior Adviser at Imperium Capital &
Director of Australian Expatriate Services Pty Ltd

Well, 2015 was not much of a year for the Australian Stock Market. Even with a modest "Santa Clause Rally" the ASX finished 2% lower for the year – although dividends pushed the total return back in to positive territory. 2016 is off to a dismal start as concerns about the Chinese economy reverberate around capital markets.

2015 The Year That Was

2015 was marked by geopolitical tensions that inevitably found their way into investor decision making. The year began with the Charlie Hebdo killings and further attacks, the Syrian refugee crisis, and gains by Islamic State making the Middle East situation even more unpredictable. In economic terms we saw the US Federal Reserve finally raising interest rates, a Chinese Stock Market plunge, and a savage fall in commodity prices for base materials and oil and gas. Many of these are now trading at pre GFC levels – as supply overruns demand.

In broad terms, however, the global economy continued to expand – and we avoided many of the apparent pitfalls that we faced the previous year. Remember the Greek Crisis?

In stock market terms it was a case of "good in parts". Industrials – especially mid-caps – performed well. Financials pulled back as the search for yield met the headwinds of constraints on growth. Property/ Infrastructure and Utilities performed well.

But the fabric of most portfolios was damaged by a surprisingly strong pullback in commodity prices. Again, some of these companies, like BHP and Santos (STO), are selling at well below GFC levels.

Portfolios with international exposure through Australia's global stocks (like CSL, Ramsay Healthcare and Domino's) or Exchange Traded Funds or Listed Investment Companies were able to perform better with a combination of foreign currency upside and stronger global earnings. This trend looks set to continue.

2016?

What lies ahead? Well, first we know that the Australian stock market averages a total return of 11-12% p.a. (4% yield plus capital growth). A couple of years of underperformance augers well for an eventual return to the mean.

Secondly, the market still provides better yield than cash and fixed interest – although sometimes it feels like this premium does not justify the volatility in the underlying share price. Indeed at current levels the ASX provides the highest relative yield (approx. 5%) of all major stock markets.

Along with property, shares will continue to be one of the two primary asset classes for the accumulation of long term wealth.

Finally, a diversified portfolio continues to be the key to minimising downside risk and capturing upside. Not many pundits predicted that it would be Industrials that would outperform over the last 2 years. In the same way some commentators now argue that, after the last several months of market savagery, resources and energy stocks could be the sectors to outperform in 2016.

There is plenty of material on the Bear case for commodities. Some commentators are now saying that this downside has been overdone. Most commodities are now trading well below their 40 year averages and, a return to the norm (US$55 per tonne iron ore and US$55 per barrel oil) is more likely than not.

Deutsche Bank recently concluded that we are now "into ridiculous territory" when it comes to the Mining sector. Supply cuts are accelerating which should lead to a rebalancing in most commodities in 2016. "In addition, any small take up in demand (likely China-driven) would likely see a price rally in our view."

So hold on to large caps like BHP and nibble away at a few more at these levels. If that rallies, a host of other small and mid-cap opportunities will arise in companies that are trading well below replacement value.

Oil & Gas

Much the same may be in store for the oil and gas stocks. There is an extraordinary juxtaposition of supply side pressures – but the consensus now is that, while the price could slide further, much of the downside has occurred and there is light at the end of the tunnel given current prices do not allow for the necessary replacement energy capacity. Woodside (WPL) and Santos are our large cap recommendations.

Our Energy analyst summed it up this way "Nobody has a clue where the oil price is going in the short term. The geniuses at the large investment banks (I was one of those once) are fighting to see who can put out the lowest forecast. As they did with higher forecasts at the peak of the market. What we do know is that longer term, the aggressive cuts to capex currently occurring will impact future production. Demand will continue to grow, requiring 1 to 2mm b/d of additional supply. The Saudi budget is in trouble, and announcing plans to sell Aramco provides further evidence of this. Reduced supply, OPEC budget stress, and demand growth all add to a longer term bullish outlook."

The Banks

My favourite aphorism is 'Don't bet against the Australian Banks'. We have Accumulate recommendations on the Big Four Banks noting yields in excess of 5-6% as well. CBA is the Rolls Royce play in terms of quality. And I am attracted to Westpac (WBC) and the new CEO's predilection for cost-cutting and revenue increases (e.g. Westpac, was the first to increase interest rates). Business 101!

Industrials

As mentioned earlier a combination of global earnings and exposure to lower AUD benefits Australian International companies like CSL, Social Healthcare, Crown, Resmed, Amcor, Flight Centre, Invocare, Domino's, Ramsay Healthcare are all on my preferred list – with Sonic Healthcare (SHL) an Accumulate at current levels.

Property Infrastructure and Utilities

I continue to accumulate SLF (the Exchange Traded Index Fund) which reflects all the players in the Property Index.
Sydney Airport (SYD) and Transurban (TCL) are preferred infrastructure plays. And I am interested to see whether Auckland International Airport (AIA) can mirror our SYD's success with Air New Zealand's new routes to the Americas (and targeting Australian passengers).
AGL is the Australian Energy/Utility company that continues to defy gravity. A core company in any portfolio.

Conclusion

2016 will contain the usual surprises – good and bad – as markets continue their daily gyrations.
Remember, despite the day to day depredations, the market is a weighing machine. Good companies with solid earnings will always perform over time and the solid yield on offer in the Australian market continues to attract investors. And the global economy is still growing.
I have attached the latest 'Month in Perspective' for January 2016 which contains our formal predictions for the coming year. Along with commentary on currency, global markets and selected research - including Woolworths (WOW).
Hartleys Ltd has also produced a Special Report on Agriculture, Food and Soft Commodities with selected ASX companies. This is available on request. As are our latest recommendations on the Gold Sector – given the recent rally in the gold price.
Please let me know if you have any queries or would like to discuss opportunities in the market.

All the best for a happy, healthy and prosperous 2016. John is available for consultations with any of our clients via your AES advisor.

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Tax & The Aussie Expat

WITHHOLDING TAX ON THE SALE OF AUSTRALIAN PROPERTY BY FOREIGN RESIDENTS

PINNACLE GROUP

Background

A 10% non-final withholding tax on payments made to foreign residents that dispose of certain taxable Australian property was introduced on 3 December 2015 in the Tax and Superannuation Laws Amendment (2015 Measures No. 6) Bill 2015 ('Bill').

The new withholding regime will apply to contracts entered into on or after 1 July 2016. Broadly, where a foreign resident disposes of certain taxable Australian property, the purchaser will berequired to withhold and pay to the Australian Taxation Office ('ATO') 10% of the proceeds from the sale.

Assets Affected

The 10% non-final withholding tax is limited to taxable Australian property, being:

- real property in Australia, i.e. land, buildings, residential and commercial property;
- mining, quarrying or prospecting rights; and
- interests in Australian companies and trusts that predominantly have the aforementioned assets.

Exclusions

The 10% non-final withholding tax is not applicable to foreign resident vendors that fall within one of the following categories:

- real property transactions valued under AUD 2 million;
- transactions on an approved stock exchange; and
- foreign resident vendors under external administration or in bankruptcy.

Clearance Certificates

The Bill introduces a clearance certificate model to provide certainty to purchasers regarding their withholding obligations. For real property transactions valued above AUD 2 million, the purchaser must withhold 10% of the purchase price unless the vendor can provide a clearance certificate to the purchaser. Where a clearance certificate is provided, the purchaser is not required to withhold an amount from the purchase price. This certificate can be provided to the purchaser on or before the settlement of the transaction.

If the vendor cannot produce a clearance certificate by settlement, the purchaser will be required to withhold 10% of the purchase price and to pay this to the ATO. As a result, Australian resident vendors of real property above AUD 2 million will be required to apply for a clearance certificate to ensure no funds are withheld from the sale proceeds of their property.

A vendor may apply for a clearance certificate at any time at which they are considering the disposal of real property. This can be before the property is listed for sale and is valid for 12 months. In straightforward cases where the ATO has all the required information, it is expected that clearance certificates will be provided within 1 to 14 days.

Paying and Reporting Withholding Amounts

Where a withholding obligation exists, the purchaser must pay the 10% withholding amount to the ATO at settlement (i.e. 10% of the purchase price). The penalty for failing to withhold is equal to the amount that was required to be withheld and paid.

Where an amount is withheld, the purchaser is required to complete a 'Purchaser Remittance Form' and to provide details of the vendor, purchaser and the asset acquired to the ATO.

This is for general information only and should not be relied upon for individual circumstances. Should you wish to discuss your tax residency or have any queries relating to the above article please contact: **Craig van Wegen** (craigvanwegen@pinnaclegroup.com.au) or **Nora Fairbanks** (norafairbanks@pinnaclegroup.com.au) at the **Pinnacle Advisory Group**.

THE NEO SMA
A BETTER WAY TO INVEST

The NEO SMA gives you a professionally managed investment portfolio, like a managed fund. Better than a managed fund, you can also see what is in your portfolio and you are the beneficial owner of the underlying shares.

THINGS YOU SHOULD KNOW

Who manages your investments?
Your investments will be managed by a professional investment manager who employs a team of analysts to monitor and research investment markets. Together they will filter the available information to select the investments that best meet the objectives of the model portfolio as described in the Product Disclosure Statement.

Where does an SMA invest your funds?
The NEO SMA has models that invest in the following asset classes:

- Australian shares
- Ethical investments
- Listed property
- Alternative investments
- International shares
- Fixed income
- Hybrid securities
- Diversified
- Cash.

Who actually owns the investments?
You (or the trustee of your superannuation fund) are the beneficial owner of the underlying securities/investments. This means that you receive the dividends and any franking credits from the underlying securities that make up your portfolio.

How are my returns paid?
Your dividends and other returns will be paid into your account. When your adviser helps you set up your account you can choose to take the dividends as cash or to reinvest them into your portfolio. If you elect to reinvest, additional shares will be purchased on your behalf and added to your portfolio.

What is a Separately Managed Account (SMA)?

The NEO Separately Managed Account (SMA) is an investment platform that gives you a professionally managed portfolio of shares and other listed securities. Your portfolio can be held either inside or outside of your superannuation. Because of the way the SMA is structured you do not have the extensive administration burden associated with direct investing. You also have much more portfolio transparency than if you were to invest via managed funds.

How does it work?

NEO has designed a number of model portfolios to suit an investor's risk profile and stage of life. Each model will provide low-cost access to a diversified mix of investment assets.

In addition, a number of other models from expert investment managers are available, enabling you and your adviser to design an investment portfolio to suit your specific requirements.

Once invested, you will be able to see the shares and other securities that you hold, and to access via the internet up-to-date reports on your portfolio. You will be able to view your portfolio performance and valuations, review your dividends and associated franking credits, and see all investment trades and any fees and costs. This information is available to you 24 hours a day 7 days a week for your convenience.

MORE REASONS IT MATTERS TO YOU...

SAFE CUSTODY.

The safe custody of your investments is essential for your peace of mind. We partner with some of the world's most prestigious and reputable financial institutions to provide the security our clients expect.

YOUR PORTFOLIO.

You have 'beneficial ownership' of your investments, which means that the underlying shares in your portfolio are held by a regulated trustee on your behalf. This is in contrast to managed funds, where you are issued 'units' in a fund but have no direct link to the underlying shares.

You have access to view your portfolio 24/7. Monitor performance, valuations and much more.

NO INHERITED LIABILITY.

Managed funds pool their assets in a unitised trust and as trades occur in the fund it builds up gains or losses during the year. In such a structure you may be responsible for an "embedded capital gain", which is a tax liability you inherit based on previous trades by the fund manager even if your units have not increased in value.

In the SMA structure the assets are owned by you so you do not inherit any gains from trades that benefited other investors.

MORE TAX EFFECTIVE.

The NEO SMA optimises your tax outcomes by allowing you and your adviser to minimise or maximise capital gains, manually select share parcels, switch between methods and use a "what if" tool to assess the CGT impact of any proposed transactions to determine the best outcome for you.

LOWER TRADING COSTS.

When investor portfolios are to be updated, all trades in a security are first netted across all investor holdings sharing in that change. A single net trade is then sent to market and brokerage costs are shared across all participating investors. Trades are executed at wholesale rates, giving you extremely low brokerage costs.

LESS PAPERWORK.

Investing directly in the share market is a lot of work. Contract notes, tax paperwork, corporate actions instructions and share price monitoring are just the beginning. With the NEO SMA all you have to do is select the right model portfolios and we take care of the rest. We even prepare accountant-ready reports for your tax returns.

For more information on SMA's and where they may be appropriate to your personal circumstances, feel free to contact our Team; Paul, Cameron, Craig or Darren at Australian Expatriate Services on client.services@australian-expat.com.au

Important Notes

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John Goodlad owns shares in many of the companies mentioned in this report.

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Or visit our Client website at: **www.australiaexpat.com.au** (coming soon)