DEWINGS
ACCOUNTING + CONSULTING

Welcome to our latest e-newsletter.
If we haven't had the chance to say it personally yet - Happy New Year! Or is it too late for that?

In this edition we put the spotlight on managed funds and why they may not add up sometimes. We also go over the rules for tax deductible donations and include a must-read reminder about securing title to any goods or property you might be selling on consignment.

In this edition...

- Investments: Why your managed fund might be costing you money
- Charitable donations - the dos and don'ts
- Reduce the risks of selling goods on consignment

Investments: Why your managed fund might be costing you money

If you're an investor, chances are you've encountered managed funds.

Managed funds are products that give investors access to a diversified portfolio of equities and other investments without having to do the trading themselves. Rather than having to pay a brokerage for each transaction, you invest your money in a single fund (or a number of them) that does the trading for you, and in return you are charged a management fee.

The volatility in equity markets in recent years has, however, highlighted a number of significant limitations with managed funds. Sure, they can be convenient. But as your portfolio grows, they cost more to manage because the percentage fee remains the same.

What's more, you continue to pay many of these high fees regardless of the performance of your investments. There are even cases where people have paid brokerage and/or a 'fee for service' to a financial adviser, in addition to the management fees of the fund. We have seen a number of cases where this all adds up to an overall loss, simply because the high fees have significantly exceeded the modest returns.

We pride ourselves on our independence. That's why we've intentionally made a choice not to offer accredited financial planning advice. We do this because we never want our clients to feel as though we are pushing 'products' or that our integrity may be compromised based on any commissions we might receive. This allows us to help our clients assess the financial advice of others without any bias.

But we've been concerned about the performance of managed funds for a while now, and so to find out more about why they can end up costing you a lot of money, we spoke with David Leon from Morgan Stanley. He says that the problem with many managed funds is that because they are so diversified, they tend to track with the market.

"Managed funds (especially the big ones) rarely take a position of more than 2 or 3% in any one stock and quite often own 100 (we've seen up to 400) stocks. Once you have more than two Managed Funds in the same asset class, you have effectively diluted away the majority of the expertise of the fund manager and most likely made your portfolio look like an index fund with 100's of stocks mishmashed together."

This can be great for advisers and fund managers. But it's not so good for investors because with so many stocks, your portfolio ends up looking just like an index fund. As such, your investments don't do much better than fluctuating up and down with market indices such as the ASX 200. This complexity can also increase your accounting fees, since managed funds can be notoriously difficult to report for tax purposes. Having more than one managed fund multiplies this issue further.

You will naturally notice this a lot more when markets are down. David says that a fund fee of between 1% and 2.5% is pretty normal for a managed fund. So if you're not generating the returns to cover the fees, the value of your investments could be going backwards. How can you get better performance from your managed funds?

"First of all, don't over dilute your portfolio. Study the fund managers you are investing in and back the best one (or the one most closely aligned with your risk profile or investment style). If you don't know how to do this, pick an adviser who can help you or simply just invest in an Index Fund.

"Second, pick different fund managers for different asset classes. Quite often a "Fund of Funds" managed fund (i.e. a Fund Manager who picks multiple funds to invest in for you across all the asset classes) will have 10 to 20 different fund managers."

Once you hit a critical mass (and this can be as low as $50,000), it may make more sense to go with direct ownership.

On the face of it, direct ownership might imply more work and uncertainty. And it can be quite involved if you go it alone. You can still do this if you feel confident, of course. One of the most common means these days is through online discount brokers (such as eTrade and CommSec). But if you're not sure you know enough to make it work on your own, or you simply don't have the time (and the reality is that it does take an enormous commitment to do it well), you may instead prefer to move towards an arrangement that includes advice and reporting, but has you owning your investments directly. These solutions are known as 'wrap platforms'. A wrap platform can be more straightforward and cheaper to maintain than a managed fund, and can also be structured in a more precise way that better aligns with your personal risk profile. Fees for wrap platforms are usually closer to around 1%, plus they give you access to a more genuinely diverse range of investments. They also allow you to react faster and seize opportunities for growth in a more specific way, which more often than not means that your returns are better.

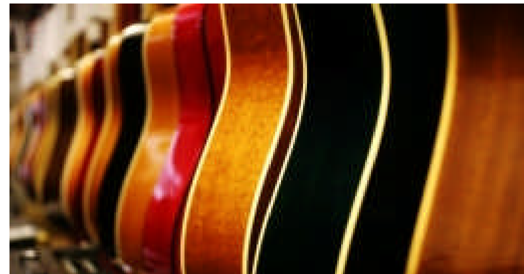
It is still possible to generate good returns during difficult times, without exposing yourself to excessive risk. It's all about targeting your focus more precisely.

If you'd like to find out more or discuss your personal situation further, please contact us **for a complimentary meeting.**

Charitable donations - the dos and don'ts

Not everyone needs or is necessarily seeking a tax deduction when it comes to what they give away. But if you do want to claim a tax deduction for your gift then here's some things to consider:

1. **Make sure your support is actually a donation** – you must not receive a material benefit for your giving. A sticker given to you on a badge day would not be considered material, but the purchase of



Reduce the risks of selling goods on consignment

Back in August 2011 we covered the then new national Personal Property Securities Regime. While the title may sound convoluted, its effects are far-reaching.

Essentially, the scheme provides for a national registry of security interests over property. There is any number of situations where this may be necessary. A common one is where you lease an asset. It's often the case that the finance company retains security over the asset

raffle tickets is not a tax deductible gift.

2. **Make sure the charity is registered with the Tax Office as a Deductible Gift Recipient ("DGR")** – only gifts to DGRs can be claimed as tax deductions. You can check the status of an organisation online at www.abr.business.gov.au.

3. **Non-cash items** – most gifts are financial, but did you know that you can also claim a tax deduction for some non-cash gifts, such as shares or property, provided certain specific conditions are met? (Contact us for this information if you are considering this.)

4. **Ensure you get a receipt** – you will need a receipt, which must be in your name, in order to claim a tax deduction. Make sure you claim the deduction in the year the receipt is dated too.

5. **You can only claim your share** – if the receipt is in joint names then the Tax Office stipulates that you can only claim your 50% share. It is not uncommon to see receipts in two names – a common one being contributions to school building funds where the receipts are often issued in both parents' names due to the school having both names in their records – but this means you must split the deduction between the two tax returns. If one parent is in a higher tax bracket than the other then it makes sense from a tax point of view for the whole donation to be recorded solely in that person's name which will maximise the tax benefit of the donation. In cases where one person is not working (or not earning over the tax-free threshold), having the receipt in joint names unfortunately means that half of the potential tax benefit goes begging.

Regardless of whether you claim a tax

until the lease is completely paid out. In order for this security to be valid, it must now be registered with the Personal Property Securities Register (PPSR).

Another common example is where stock is sold with a retention of title clause. In this situation the seller retains ownership of the stock until payment has been made.

There are many situations though where you may be inadvertently affected by this scheme. One of those is where you sell goods on consignment. This may occur in a strictly business context, but the possibilities are much wider. Last year a guitar store that sold instruments to the likes of George Harrison, Metallica and Keith Urban went into receivership. It's common practice in the industry for musicians to sell their instruments through stores on consignment, and this was the case here. Unfortunately, the new Personal Properties Securities laws meant that the sellers' interests in their guitars had to be registered with the PPSR. Many of them were not. Effectively, the result is that they have no claim to their own property.

This highlights both the extent of the changes, but also the fact that there are many situations where ordinary people may be affected and caught unaware.

If you have an interest of any kind in property that is not currently in your sole possession, please contact us for further advice. You can also find out more by visiting the PPSR website.

deduction or not, the charity still receives the benefit of 100% of your gift – any tax benefit you may be entitled to comes from the Tax Office, not the charity – so you might as well ensure you do what you can to gain the maximum tax benefit.

Please feel free to contact us if you have any queries about claiming a deduction for a donation.

Liability limited by a scheme approved under Professional Standards Legislation.

For further advice or information please contact us. Whilst this newsletter is issued as a guide, no responsibility is accepted by Dewings for loss by any person acting or refraining from acting on the material provided. The information enclosed should not be substituted for professional advice.

Copyright © 2013 Dewings, All rights reserved.

unsubscribe from this list | update subscription preferences