GFM Wealth Advisory

TRADE SECRETS

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44 YEARS: STRONG, PROUD AND GROWING

By Tony Gilham

July 16 marks the 44th anniversary of the commencement of our financial services business, and I'm certain there would be very few other financial planning practices in Australia that could claim that.

When I started our practice in 1973, it was a vastly different world. The world of finance was relatively simple, and dominated in Australia by the big 4 banks and the mutual life insurance companies such as AMP, MLC, National Mutual and Colonial Mutual. It was a cosy arrangement for these organisations, as real competition was minimal, and the 4 banks all paid the same rate on bank deposits (3.75%), and all had exactly the same mortgage rate at 7.00% PA.

We took on our first employee in 1979. She was replaced by Linda Hogan in 1980 who worked with us for 12.5 years and then we suffered the 1981/82 recession, which was a difficult period in Australia. But we got over that, and moved into our first office in Louise Street, just off St Kilda Road, and then two years later in 1984, we purchased our first small office at 596 St. Kilda Road with four on the team.

In July 1983, the then Federal Treasurer, Paul Keating, introduced a lump sum tax on superannuation benefits being paid out of the system, with the rate being as high as 30% on a lump sum. This instantly brought about the creation of "Rollover Funds", meaning that you could avoid the lump sum tax if you rolled over your lump sum superannuation benefit, (to at least age 55), with a view to building your retirement asset base.

In 1985, we saw the introduction of Capital Gains Tax, and preservation of superannuation benefits until retirement at or after age 55. Bankers Trust, a large US-based fund manager, opened up in Australia, and all these things brought about the need for more detailed financial advice, and hence the birth of the "financial planner", as we know it today. I obtained my first financial planning licence through an independent company known as Financial Wisdom (acquired by CBA 15 years later) and I was in the very first training class.

In 1987 we had a significant share market crash, and the introduction of "franking credits" on Australian shares, which effectively removed the double taxation on share dividends. This was a great Keating initiative.

We again suffered through the 1991/92 recession (unemployment rate at 11.7%), and in July 1992, the Federal Government introduced compulsory superannuation starting at 3% of "ordinary time earnings", and that figure has now gone up to 9.5%, with the intention of eventually getting to 12.0%.

But a very significant change to the superannuation system in Australia commenced in late 1993, when the Federal Government introduced the Superannuation Act (SIS Act – 1993) which cleared the pathway for the introduction of the current day SMSF (Self- Managed Superannuation Fund) phenomenon. At that time, we already had 20 years experience in superannuation. The thought of moving into the SMSF space appealed to us greatly, to move away from the big institutional super funds. Currently around 90% of our business activity is with our SMSF clients.

In mid 1994, we moved into our new office at 1221 Toorak Road with 9 staff, and stayed there for 21 years until we moved into our brand-new office at 190 Through Road Camberwell.

Two very significant changes to the superannuation system in Australia, occurred as a result of the 2006 Federal Budget, where superannuation benefits received for a person over age 60 were completely tax-free. The 2006 Federal Budget super changes were dubbed "Simple Super" because of the extremely generous taxation concessions provided to superannuation fund members.

In 2013, we acquired the accounting practice of P Gruchy and Assoc Pty Ltd, and this has been an incredibly good integration for our clients, who can now have all their superannuation, investment and taxation issues handled in just one place.

James Malliaros, Patrick Malcolm, Bree Hallett, Nicola Beswick, Paul Nicol, Tony Gilham

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The next generation takes over

As I explained in the last issue of "Trade Secrets", I will be retiring from active duty during August, and Paul Nicol, will be in charge of the day-to-day activities of the business, and having been with our company for 18 years, he is the obvious successor, and a significant shareholder in our company. Paul has been effectively running the company for the last few years, during which time I have been slowly winding down, and nearly every one of our clients will be well aware of Paul and his skill and dedication to the future success of our practice.

We currently have 26 on the team at 190 Through Road, which is made up of 6 qualified financial planners, 4 accountants, 6 in the SMSF admin team and 10 other (very important) support staff. It is astonishing to think that 50% have been with us for 10 years or more, with 5 of us with more than 20 years service, and another 4 to hit the 20 year milestone in the next 3 or 4 years.

Over the years, numerous clients have commented to me about the quality, passion and dedication of our senior team members, and I know that I am leaving the future direction of our business in very competent hands. There is no question in my mind that the future of our SMSF and financial planning practice will continue to blossom in the years to come, maintaining a growth rate significantly ahead of the superannuation sector in Australia.

As an organisation specialising in financial planning and SMSF's, we are extremely proud of who we are and what we do, and I'm sure that you would sense that as a client, the whole team at GFM takes great pride in getting the best possible result for you. I think that's why we have such amazing longevity with both staff and clients, because everyone knows that we are working together as a team to get good results.

A RECAP OF THE SUPER CHANGES TAKING EFFECT FROM JULY 2017: AND SOME LAST MINUTE OPPORTUNITIES

By Witi Suma

As you would now be well aware, many of the Government's proposed super reform measures became law in November 2016, with the vast majority of the new rules taking effect from the 1st July 2017. This article provides a rundown of the upcoming changes, and some opportunities that you may be in a position to take advantage of, before and after the 1st July.

The annual concessional contributions (CC) cap is reducing to $25,000 per individual, regardless of age:

The existing annual cap is $30,000 if you were under 49 years old at 30th June 2016, or $35,000 if you were 49 or older at that date.

You have until the 30th June 2017 to maximise your CCs (pre-tax contributions) under these existing caps before the reduction takes effect. You can do this by altering your salary sacrifice arrangement with your employer, or by making personal contributions and claiming a tax deduction (subject to eligibility).

If you are currently making CCs in excess of $25,000 per annum, it's very important that you put in place arrangements with your employer now to comply with the new reduced cap from July.

The annual non-concessional contribution (NCC) cap is reducing from $180,000 to $100,000 per individual:

Given this change, you have until the 30th June 2017 to make use of the current, higher NCC (after tax) annual cap of $180,000 before it is reduced. You can make NCCs not only by way of a cash deposit, but also by "in-specie" transfer of allowable assets such as listed shares, managed funds, or business real property, so if you're in a position to make an NCC by any of these methods, you have until the 30th June to deposit up to $180,000.

If eligible, you can also take advantage of the "bring-forward" rule and contribute up to $540,000 in NCCs before the 30th June. This rule enables individuals, who are under age 65 at any time during a financial year, to contribute up to three times' the annual NCC cap. As the annual cap is reducing from the 1st July, the bring-forward cap will also reduce, from $540,000 to $300,000. (Note that if you have already triggered your bring-forward rule prior to the 30th June 2017 whereby that three-year period has not yet expired, transitional rules apply to how much left you may contribute, taking into account the reduced annual NCC cap).

A $1.6 million transfer balance cap will be introduced which limits the amount that can be transferred to the tax-free retirement phase:

In a nutshell, any amounts in excess of this cap will be required to be transferred out of the tax-free retirement phase – either back to the accumulation phase, or out of the superannuation system completely. The good news is that if you are required to transfer the excess amount over $1.6 million back to accumulation in order to comply with the $1.6 million tax-free pension cap, transitional capital gains tax (CGT) relief is available. In brief, the CGT relief allows you to reset the cost base on some or all of your fund's assets to their current market value, thus ensuring that CGT is only payable on capital gains accrued from July 2017 onwards, and then only on that portion above $1.6 million.

There will be no restriction on how much you can hold in the accumulation phase, which, as a reminder, is still taxed at a very low rate of 15%.

It is important to note however that if your Total Super Balance is greater than $1.6 million from the 1st July 2017, you will be precluded from contributing any further NCCs, i.e. the new annual cap of $100,000 applies only if you have a Total Super Balance of less than $1.6 million as of 30th June of the previous financial year. Therefore, this may be your last chance to make NCCs.

If you or your spouse are approaching, or have already exceeded, $1.6 million in your individual super balance, a "re-contribution" strategy can be utilised to equalise your balances:

As outlined in our last newsletter, the "re-contribution" strategy is a popular one whereby a member of a super fund – subject to meeting a condition of release – can make a withdrawal from their benefit and re-contribute it into their spouse's member account as a contribution (subject to the receiving spouse meeting the work test if over age 65). Clearly this strategy will be very useful prior to July to achieve more parity between a couple's respective balances, should one of them be nearing the $1.6 million mark, or indeed if one of them has already exceeded that level.

The removal of the fund earnings tax exemption for Transition to Retirement (TTR) pensions, i.e. earnings will be now be taxed at 15 per cent:

As a result of the loss of tax-free status of TTRs from July, it's important that you review your existing TTR arrangements. We are undertaking an assessment of our clients' TTRs to determine if they are still of benefit in each case, taking into consideration the client's age, personal tax position, and the level of concessional contributions being made (if any).

The change presents an opportunity for you to determine if you have met a "condition of release" which would enable you to change the status of your TTR to a standard "account-based" (tax-free) pension. Conditions of release include, but are not limited to:

- Ceasing an employment arrangement after turning age 60
- Permanently retiring from the workforce.

The ability for any individual under age 75 to claim a tax deduction on super contributions:

Up till now, it has been necessary for you to pass the "10% test", whereby less than 10% of your adjusted taxable income for the year is derived from employment. From July, regardless of the level of your employment income you will have the ability to make personal deductible contributions up to the $25,000 CC cap.

To take advantage of this new reform, it might be worthwhile restructuring your salary sacrifice arrangements, or look at making additional personal contributions each year that will give you a tax deduction, which would come in handy in a year in which, for example, you've triggered a large capital gain or have received a bonus. (A reminder that if you are aged 65 or over, you need to meet the "work test" to contribute to super, i.e. you must have worked at least 40 hours in any 30 day consecutive period in the financial year of the contribution).

The threshold at which high income earners pay additional contributions tax (known as "Division 293 tax") on their concessional contributions is reducing from $300,000 to $250,000:

This change will affect you if the sum total of your income and concessional contributions from July will be greater than $250,000. Essentially, Division 293 tax applies if you are above the threshold, whereby you are required to pay an additional 15% tax on your concessional contributions.

From 1st July 2018, the introduction of a concessional contributions "catch-up" regime if your total super balance is less than $500,000:

From July 2018, if your member balance is less than $500,000, you will be able to carry-forward your concessional contributions where your annual cap had not been fully utilised in previous years, and these amounts can be carried forward on a rolling basis for five consecutive years. The relevant date for determining whether your balance falls below the $500,000 limit will be the 30th June of the previous year.

This will be useful for those with broken working patterns, e.g. new parents returning to the workforce, so if you may find yourself in this kind of position and you wish to take advantage of the "catch-up" provisions, it is worthwhile ensuring that your member balance stays below $500,000. If it is currently above this amount it may be possible, subject to eligibility, for you to undertake the aforementioned "re-contribution" strategy by withdrawing the amount of your member balance above $500,000 and contributing it to your spouse's super account.

Conclusion:

As you can see from the various super reforms mentioned above, very careful consideration needs to be taken given that some of the changes are linked to, or may be impacted by, others. In the lead up to the 30th June, GFM has been undertaking an extensive analysis of our clients' current arrangements to determine what measures need to be undertaken to avail of any opportunities that exist under the current rules, and also to ensure that any action, if required, is taken prior to July to prepare for the changes that will come into effect, to ensure that the most optimal result is achieved in each case.

In the meantime if you have any queries or concerns about your particular situation, please don't hesitate to contact your adviser for further advice.

PETER & MARIA LUISA THOMPSON: CLIENTS OF GFM SINCE 2005

By Tony Gilham

Peter and Maria Luisa have written the following article about their family, working life and their experience as clients of GFM Wealth Advisory.

Moving into retirement is a big step, and we took that step in 2010, and the transition has gone very smoothly.

Since retirement we have had several friends ask us as to how to compare the certainty of their past business life, their previous income and their present quality of life with their expectations for the future. The simple answer is there is no simple answer. Every individual selects their own goals, their own bucket list and their personal prerequisites to replace their work place of many years. You however would be a foolish person to ignore the necessity to have a sound financial plan.

I was born in Belfast and left Northern Ireland at 17 to work in England as an apprentice Chef. Unlike the culinary shows presently so popular on TV, life in a kitchen is anything but glamorous so after qualifying with a culinary diploma, a few years as a bartender and waiter followed. An opportunity to work in Bermuda was then followed by another move to Jamaica where I held minor management positions.

Meanwhile on the other side of the world Maria Luisa was born in Havana and lived there until she was 11, then moved to the US with her family and completed her education and returned to Cuba where her long held dream of becoming an airline stewardess was fulfilled when she joined Pan Am and moved to New York.

We met in Montego Bay in 1966. I was offered a job with Sheraton Hotels in New York City and we married in 1967 (50th Anniversary this year). This coincided with the expansion of international hotels and Sheraton took advantage of this opportunity. We moved to Boston where Maria Luisa brought her 11 years of flying with Pan Am to a conclusion. Next we moved to Atlanta where our daughter Vanessa was born.

We first came to Australia in 1977 after I had managed hotels in Malta, Bangkok and Honolulu. The new Sheraton Perth was our home for the next 5 years and then a move to Sydney for another 5 years where I was Sheraton's Area Managing Director (South Pacific) and responsible for the Sheraton Wentworth Hotel.

We returned to Honolulu where Vanessa graduated from senior school, then went to the University of San Francisco followed by a backpacking adventure in South and Central America. In the meantime we had relocated to Tokyo and after 5 years an opportunity to return to Australia became available when Sheraton acquired a hotel on Melbourne's Southbank. We decided that Australia would be our final home. A further move back to Sydney confirmed that this was the city that was a perfect site for our retirement. We bought an apartment in Elizabeth Bay and became Australian citizens.

In our case any form of planning was complicated by the fact that Sheraton kept transferring me around the world. We were living in Thailand when my 65th birthday was approaching and decisions could no longer be ignored. Fortunately at that time with over 40 years employment with Sheraton Hotels the opportunity to return to Australia and to continue my career for another 5 years was readily approved.

Back in Sydney to manage the Four Points Sheraton, we had to start planning for our eventual retirement. Several phone calls were made to old friends to identify someone who would possibly guide us through the necessary soul searching of selecting a Financial Advisor. One very trusted and respected financial executive provided Tony Gilham's name as someone who could provide the right level of expertise. From that first call to Tony in 2005 we have both been extremely comfortable with his guidance. Tony patiently outlined the advantages of a Self Managed Super Fund and the type of investments that would be required to produce the income to meet our requirements.

We were both impressed how all of the necessary administration was handled so smoothly by the GFM team. In the early days of our Self Managed Super Fund, Tony was always available to take our phone calls and respond to our questions on performance and the rule changes that seem to be constantly confronting the Superannuation Sector. Our Self Managed Super Fund was just over 2 years old and my retirement was on the horizon when the GFC hit. Tony gave us the sound advice not to panic and laid out the reasons why perfectly good company shares should not be jettisoned. We are both grateful for Tony's firm hand in an era of uncertainty and for the valuable lesson he taught us about investing. More importantly this solidified our confidence in Tony's judgement and this has allowed our investments to prosper.

We are always impressed with the detail provided on all our investments, we understand most of them quite well, and we hold many impressive investments that have done exceptionally well for us.

I retired in 2010 and loss of contact with the working community was high on our list of challenges. We overcame this by becoming volunteers at St Vincent's Private Hospital. I have also played golf from the age of six and have never ceased involvement in the game. At least two days a week you will find me on the links at The Australian Golf Club.

We are fortunate Vanessa came back to Australia. Matter of fact she received her citizenship before us, moved to the Byron Bay area 14 years ago and is married with one son. We have hopefully passed on to Vanessa our approach to life of enjoying the present but ever mindful of the future and several years ago she and her husband Steve met Tony and have also started investing for their eventual retirement.

We have been absorbed by the many client stories relayed in "Trade Secrets". The most compelling theme is the longevity of the relationship. We have only been associated with GFM since 2005, yet in that short period of time we have felt fortunate to have become members of a unique family and recipients of advice that has made our lives free of the stress of financial management in retirement.

INTRODUCING SANTA TOLO: CLIENT ADVISER ASSISTANT

By Paul Nicol

Santa joined the GFM team in March 2017 as Client Adviser Assistant. Santa's career has been focussed in financial planning having worked in the area for 20 years. She has a keen interest in the industry and very much enjoys the client contact.

Santa is married to Daniel and they have two son: Michael (28) and Gabriel (23). In her spare time Santa enjoys cooking, entertaining, travelling and being a mum.

Santa is working closely with Mai to arrange our client appointments. Santa will be working Monday to Wednesday.

As you know, Mai has been the main point of contact for several years in arranging appointments for the advisers. As the business has grown, the demands of making appointments for the advisers and organising client seminars and events has seen the need to expand the team that works on these extremely important roles.

Whilst Santa will be contacting you for your next appointment, Mai will be focussing on the growing marketing activities and the introduction of social media.

We are delighted to have Santa on our team and she is looking forward to speaking with you soon.

INTRODUCING GERARDINE WALSH

By Bryan Meehan

Gerardine Walsh is an Office Administrator at GFM Wealth Advisory.

Gerardine joined the GFM team in February 2017 as an Office Administrator located at our reception area working alongside Maree. Gerardine has had an extensive administration background with Telstra for the last 28 years and we are very fortunate to have her join our team.

Apart from her extensive administration skills, Gerardine has excellent communication skills, a very strong work ethic and a very pleasant nature and has fitted perfectly into our organisation. Gerardine, who lives locally, is delighted to have joined us. You will meet Gerardine when you next attend our office for an appointment.

Gerardine is married to Tim and they have three children: Harry (20), Nicholas (18) and Abbey (14). In her spare time Gerardine enjoys staying fit, spending time with family and going to watch North Melbourne win.

STAFF PROFILE: PATRICK MALCOLM

By Paul Nicol

Incredibly, Patrick has now been with GFM for 15 years. Patrick started at the tender age of 15 on work experience (we identify talent early!) and continued to work with us part time whilst at university, finally becoming a full time employee as his studies were concluding. It was extremely obvious from a young age Patrick was extremely ambitious and hard working. Prior to becoming one of our six current Financial Planners, Patrick was our Senior Para-planner responsible for running a large para-planning team. He is now a Senior Financial Planner and a Partner in GFM.

Q. Your family

A. I've been married to Liesl for seven years (no itch yet, from me anyway). We are lucky to have two wonderful children, Jakob (three years old) and Zoe (six months). So our lives are fairly hectic at present!

Q. Favorite holiday destination?

A. Liesl and I were fortunate to be able to travel quite a bit before we started our family. We've travelled to Italy, England, the Czech Republic, Germany and Poland. Our most enjoyable trips were when we spent three weeks in Spain, travelling to a number of cities and a similar amount of time in France where we also did a similar thing.

My favourite cities are Madrid in Spain and Krakow in Poland.

Our holidays since having children have been a little more sedate!

Q. Hobbies?

A. I like to have a hit of golf when I can, which has obviously gotten a little tricky to find the time for with a young family. I'm a member at the Kingswood Peninsula Country Golf Club and I'm also on the board.

Most of my free time on weekends is spent with the family which I enjoy more than anything else in the world.

Q. Favorite food/drink?

A. I'm fairly easily pleased when it comes to food. When my wife & I get the chance to go out, we tend to seek out Asian restaurants simply because we find it so much harder to recreate the same quality of food at home.

I'm not much of a drinker but I do look forward to a beer on a hot day after being on the golf course.

My only vice is caffeine. I find it extremely hard to function in the morning without a coffee.

Q. Your proudest moment?

A. Obviously the birth of my children and watching them grow. Both of my children have been fortunate enough to inherit my wife's looks however Jakob unfortunately seems to have all of my personality traits (an impatient, fastidious practical joker) much to Liesl's disappointment.

Q. What sports do you follow?

A. I follow Carlton in the AFL which hasn't been easy over the last fifteen years. I do enjoy going to games as it is a little bit of a family affair, going along with Jakob, my brother and sister in law. I'm sure Zoe will join us when she is old enough as well.

I also like the cricket and golf, which doesn't make me very popular at home when it is on TV.

Jakob has an incredible fascination with cars so I have actually started to take an interest in motor sport with him. Jakob and I went to the Grand Prix for the first time this year which we both thoroughly enjoyed. As a three year old he obviously has no concept of time and keeps asking me if we can go & see the fast cars next week.

Q. Best part of working at GFM

A. What I enjoy most about my work by far is the opportunity to get to help people make sensible financial decisions to set them up moving forward. It is something that I am extremely passionate about and I always look forward to the day ahead with the opportunity to do this.

It is also incredible to work with such a group of likeminded, passionate people at GFM.

$20,000 IMMEDIATE ASSET DEDUCTION FOR SMALL BUSINESS

By Andrew Goldman

As part of the 2015/16 Federal Budget, new laws passed that allowed small businesses to claim an immediate deduction for assets they start to use – or have installed ready for use – provided each depreciable asset costs less than $20,000. The temporary measure was designed to replace the previous instant asset write-off threshold of $1,000.

Under the rule, the Australian Tax Office (ATO) defines a small business as one with an annual turnover less than $2 million and the changed rule applies to assets acquired between 12 May 2015 (7.30pm AEST) to 30 June 2017.

All depreciating assets (including new and second hand) are eligible, except for a small number of exclusions which receive different depreciation treatment.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter. Once the balance of the simplified depreciation pool (the pool) is less than $20,000 over this period, the pool can be immediately deducted.

At the time, the deduction was designed to encourage innovation and grow by helping small businesses invest in their business and replace or upgrade business assets. And whilst the deduction was due to expire on 30 June 2017, the Federal Government announced in the most recent May budget, a measure to extend the immediate deduction for a further 12 months until 30 June 2018.

The turnover threshold has also been increased to apply to businesses with an annual turnover less than $10 million (previously $2 million), after the definition of a small business was redefined in the recently introduced company tax rate legislation.

So what is a depreciating asset? A depreciating asset is an asset used in a business that has a limited effective life and is expected to decline in value of the period you use it. Examples include vehicles, IT hardware such as desktop computers or photocopiers, office or shop furniture and fittings and tradesmen's tools and equipment.

Whilst the extension of the immediate asset deduction is welcome news for small businesses, you should not rush out to buy any asset before checking with us. If your business is not making a profit, then a tax deduction is of no use to you. You also should not take on unnecessary debt chasing the tax deduction. Whilst interest rates are at 40-year lows, they will not stay low forever.

The ATO will be watching closely to all claims submitted so if you need assistance in identifying assets that may be eligible for the immediate asset deduction, do not hesitate to call our accounting team on 03 8809 0700.

STAMP DUTY ABOLISHED FOR FIRST HOME BUYERS IN VICTORIA

By Bree Hallett

From 1 July 2017, first home buyers purchasing properties valued below $600,000 will be exempt from paying stamp duty. Further, first home purchases valued between $600,000 and $750,000 will receive a concession applied on a sliding scale. It will be available for new and established home purchases.

The initiative is designed to provide assistance to first home buyers across Victoria by substantially reducing the upfront cost of purchasing a home.

The criteria to qualify for a stamp duty exemption or concession include:

- The home must have a value of less than $600,000 to receive a full stamp duty exemption.
- A concession applies on a sliding scale for purchases with a value between $600,000 and $750,000.
- The qualifying value of a property is generally the greater of the purchase price or market value, minus any deductions (such as a deduction for an off-the-plan the purchase).
- The purchaser and the purchaser's partner must both be first home buyers, consistent with the definition under the First Home Owner Grant Act 2000.
- The purchaser must be an Australian citizen or permanent resident (New Zealanders holding a special category visa are considered permanent residents if they are in Australia at the time of settlement).
- The purchased property must be used as the purchaser's principal place of residence for a continuous period of 12 months, commencing within 12 months of possession of the purchased property.

It has been estimated that up to 25,000 first home buyers will potentially benefit each year by being able to contribute more towards the equity of their home and therefore reduce their mortgage payments. A summary of the savings at various home values is summarised in the table below.

Table 1: Duty savings for first home buyers.

Home Value	Savings for first home buyers from duty abolition/concession
$400,000	$8,185
$500,000	$10,985
$600,000	$15,535
$700,000	$12,357

The exemption and concession are available for new and established home purchases and will be applicable to contracts signed from 1 July 2017.

STOP PRESS: First home super saver scheme

To reduce pressure on housing affordability, in the Federal Budget, the Government has proposed to allow voluntary superannuation contributions to be withdrawn for a first home deposit.

- From 1 July 2017, individuals can make voluntary contributions of up to $15,000 per year, up to $30,000 in total, to superannuation for the purposes of this measure. Voluntary contributions can be made before or after tax and are subject to the relevant contribution caps.

- From 1 July 2018 those voluntary contributions (along with deemed earnings) can be withdrawn for a first home deposit.
- Withdrawals will be taxed up to an individual's marginal rate, less a 30% offset. Withdrawals of after-tax contributions will not be taxed.

It's important to note that at this point in time, this proposed measure is not yet law and may be subject to change.

We will provide further information on the operation of this scheme once it is legislated.

THE PASSIVE VERSUS ACTIVE INVESTMENT DEBATE

By Paul Nicol

There has definitely been a heightened level of debate recently on the merits of passive investing versus active investing. While passive funds use computer programs to select investments, active funds rely on stock pickers to identify companies which are expected to perform better than the market.

In his most recent annual letter, Warren Buffett, the world's most famous investor, estimated that investors had wasted more than $US100 billion on Wall Street fund managers over the past 10 years and recommended that "both large and small investors should stick with passive low-cost index funds."

In fact, back in 2007, Buffett famously bet $1 million that a low-cost index fund would outperform a handpicked basket of expensive hedge funds over a period of 10 years. Although the wager doesn't officially end for another eight months, Buffett says there's "no doubt" he'll win. After all, the bundle of hedge funds had compound annual returns of 2.2 per cent in the nine years through to the end of 2016, well below the 7.1 per cent for the index fund. Whilst we believe there are some obvious weaknesses in Buffett's argument for using hedge funds as a proxy for assessing the strength of active management, his point is extremely powerful.

Also recently, BlackRock, the world's largest asset manager with more than $US5 trillion under management, fired several prominent stock pickers amid plans to switch funds to passive investment strategies.

It seems as if Buffett and BlackRock are not alone in their view. In the US the shift from active to passive funds is at a crescendo. In the last two years alone there has been $US923 billion in inflows into passive funds in the US and $570 billion in outflows from active funds. In the first quarter of 2017 alone, Vanguard had inflows of $111 billion (that's $2 billion every day).

It will come as no shock, but we are firmly of the view that disciplined long term active investing is far more likely to produce superior investment returns that the average return produced by passive strategies. Yes, there are many fund managers out there who are poorly performed. But there are also many fund managers who consistently outperform the market over long periods of time due to superior research, analysis and intuitive investment skills.

We have spent a great deal of time analysing the passive investment debate for which we have identified the following issues with this approach:

Buy High/Sell Low:

Generally speaking, **the first rule of investing is to buy low and sell high.** However, in passive investing, over the longer term, the opposite occurs. In order to replicate the performance of an index, passive funds need to make sure the portfolio weightings mirror those of the index. Generally speaking, companies which are candidates for inclusion are companies which have had strong share performance. Companies which are candidates for removal from an index are generally companies which have had a poor performing share price. So on the day that one company replaces another one in an index, passive funds will sell the stock which has been removed from the index (ie the one where the share price has been weak) and buy the stock which has been included into the index (ie the one where the share price has been strong). This buy high, sell low mentality stretches beyond index inclusion/removal. As a company's share price strengthens, its index weighting will increase and hence passive funds will have to buy the stock. On the other hand as a share price falls and the index weighting decreases, passive funds will be forced to sell the stock to mirror the weighting of the index.

Share price driven by flows:

In a 100% passive world, share prices will not be determined by the underlying fundamental valuation of the individual company, but rather the inflows into a certain index. In a country like Australia where there is mandatory superannuation and a disproportionate amount is invested in Australian equities, there will be material positive net inflows into the market for the foreseeable future. This sounds great in theory, but forcing people through superannuation to buy something well above its fundamental valuation is never going to end well. Buying an asset well above its intrinsic value because you are confident that at a later date someone will buy it at a higher price sounds very dangerous. The point here is that in a 100% passive market, share prices will be driven well beyond intrinsic value by non-fundamental factors (both on the up and the down).

Investment Fundamentals being lost:

In a world where 100% of managed funds are passive, we would have share prices which do not reflect the underlying fundamentals of a company but rather its popularity. **In fact, a world that is dominated by passive investing is probably the most lucrative market for skilled stock pickers.**

Good fund managers look to invest in companies where there is a disconnect between the underlying fundamentals of a company and the valuation assumed by the share price. This is particularly difficult to do. However, in a world dominated by passive investing this becomes much easier.

Whilst the view that passive investing will produce superior results appears to be in vogue, we work with exceptionally skilled and well performed fund managers who consistently produce returns superior to a comparable index fund or exchange traded fund (passive investments). We have no doubt a swing back to active investing is inevitable.

ANNUAL GOLF DAY: FRIDAY 17TH MARCH 2017

By Mai Davies

We held our 15th Annual Golf Day at Riversdale Golf Club on Friday 17th March 2017, attended by 87 of our keen golfing clients. We were blessed with perfect weather for the day.

It was great to have some new players join us this year. The course was in pristine condition and we had some terrific prizes on offer. The competition was Ambrose and the winning score on the day was 54.20, followed by the runners up on 56.70.

The photos from the day can be found on our website: gfmwealth.com.au/events/past-events/annual-golf-day-2017/

Congratulations to Olivia Fleming, Chris McGibbon, Patrick Malcolm, Jenny Eddy – The winning team with a score of 54.20!

The runners up with a score of 56.70 were Tony Harford, Ric Casey, Tony Watson, Damian Craven (missing)

$1.6M SUPER CAP SEMINAR

By Mai Davies

We held our second seminar for the year on the 29th March 2017 at Riversdale Golf Club on the introduction of the $1.6M super transfer balance cap. This session was well attended by clients that were identified as being directly impacted.

One of the more contentious changes to the simple rules is the introduction of a $1.6m transfer balance cap. From 1 July 2017, for those that have a member value in superannuation in excess of $1.6m, there will no longer be the ability to invest more than $1.6m tax free in superannuation in an Account Based Pension. Thankfully, there will not be a requirement to withdraw funds in superannuation above $1.6m, but complicated taxes are being imposed for those who have superannuation account balances above $1.6m as at 1 July 2017.

Patrick Malcolm and Paul Nicol provided a detailed overview of the impact of the $1.6m transfer balance cap and the potential taxation implications of having above $1.6m in superannuation. We also covered the ability to contribute to superannuation before June 30 as well as the once off opportunity to reset the CGT cost base of assets within your superannuation.

The super reform package has made superannuation even more complex. It is virtually impossible for the average person to understand the complexities of the superannuation system and high quality advice will be paramount.

If you didn't attend the seminar and would like a copy of the presentation or would like to make a time with your financial adviser to discuss, please call Mai on 9809 1221.

TEN YEAR TEAM DINNER

By Mai Davies

Miryam with her son Ari

We recently celebrated at Chez Oliver in Prahran to acknowledge those team members that have been with the company for more than ten years. We congratulated Miryam on reaching ten years at GFM and welcomed her to the club. Miryam is the Practice Manager of GFM Gruchy Accounting.

It is quite amazing to think that with 26 staff members, 13 have been with the company for more than ten years. We are looking forward to other staff members joining the Ten Year Club in the next couple of years.

This is our 7th celebration and is an annual event. The team members are:

Miryam	10 Years
Denise Slattery	11 Years
Annie An	11 Years
Bryan Meehan	12 Years
James Malliaros	15 years
Patrick Malcolm	15 years
Lorraine Miller	16 years
Paul Nicol	18 years
Maree Meehan	20 years
Witi Suma	20 years
Mai Davies	27 years
Phil Gruchy	39 years
Tony Gilham	43 years