GFM Wealth Advisory | TRADE SECRETS

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SMSF Specialists | Investment Management | Financial Planning | Accounting

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CHRISTMAS GREETINGS 2018

By Paul Nicol

It has been another big year for GFM in 2018, as we continue to grow and most importantly differentiate ourselves from the rest of the financial services industry which has been plagued by negative press for the majority of the year.

On the positive side, during the year we welcomed another two new employees into our business. Anthony Yannakakis joined us as a Para-Planner to assist the advisers with the high-quality advice you are accustomed. Kerry Taylor then joined us in October as a Senior SMSF Accountant to support with the growth of our SMSF business and to also allow Melany McLennan to take over the day to day running of the company. Both Anthony and Kerry have been excellent additions to our business, and over a period of time, you will no doubt bump into them at our office or at a GFM function.

Unfortunately, the financial services industry has come under much-deserved scrutiny for conflicted and unconscionable advice which leaves a sour taste in our mouths. To read and hear of the terrible stories graphically exposed during the Royal Commission is heartbreaking. Our only hope is that the Royal Commission provides the impetus needed to remove the industry of rogue "advisers". Needless to say, at GFM we pride ourselves on quality, non-conflicted advice while ensuring a high level of ongoing service.

We have been incredibly fortunate at GFM that all staff and our immediate families have remained healthy and safe. But unfortunately, throughout the year, we have also experienced the passing of long-standing loyal clients. Our hearts go out to these families over Christmas, our thoughts are with you.

Looking forward to 2019, we expect the GFM team to continue to grow. But most importantly, we will look to continue to build and maintain the relationships we have with our clients.

From the whole team at GFM Wealth Advisory and GFM Gruchy Accounting, we wish you and your family a Merry Christmas. Enjoy your New Year break, and please stay safe. We look forward to seeing you in 2019.

OFFICE CLOSING OVER CHRISTMAS

By Bryan Meehan

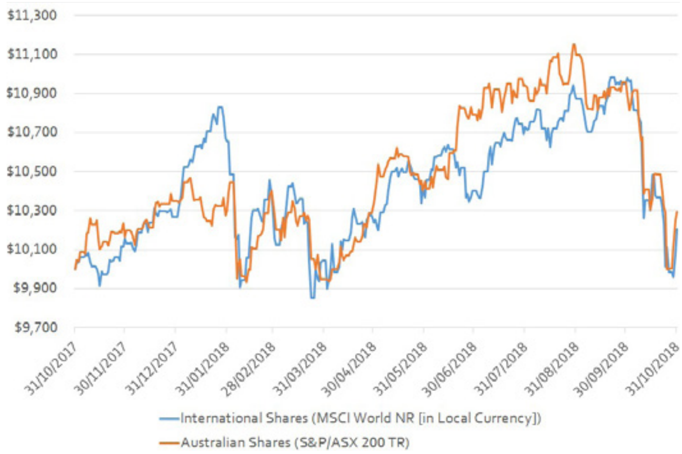
With Christmas Day falling on a Tuesday this year, please note that our office will be closing at 11.30 am on Friday the 21st December so the team can attend our Christmas lunch. Our office will re-open on Wednesday the 2nd of January 2019 at 8.30 am.

RECENT SHARE MARKET VOLATILITY

By Patrick Malcolm

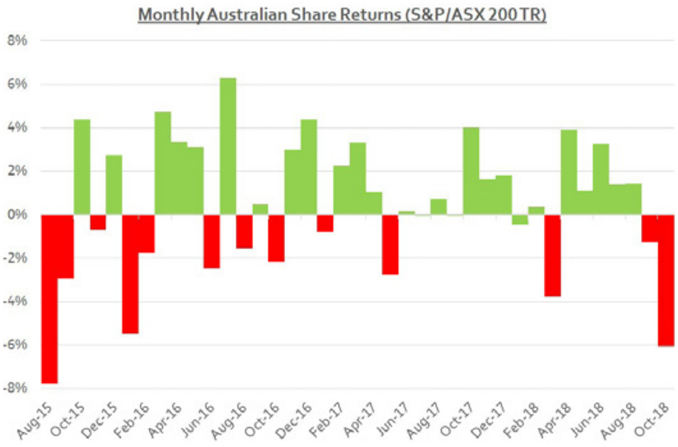
October was an ugly month for investment markets. US inflation and rising rates played a role, combined with the China/US trade war and concerns about emerging markets and Europe.

The recent falls resulted in a swift turnaround in market sentiment, regardless of how you look at it. By numbers, the global share market fell by 6.8% over October (in local currency terms) and the Australian share market by 6%, wiping out all of the Calendar Year gains and taking us back to around November 2017 levels.



If you measure the falls from highs this year to recent lows, the retreat has been even more significant. The decline for International shares has been around 9% and 10% for the Australian market.

The Australian share market had its worst month since August 2015:



This is unpleasant. However it has barely put a dent in the two, three, five and ten-year performance numbers, as can be seen below:

Name	Two Years (p.a.)	Three Years (p.a.)	Five Years (p.a.)	Ten Years (p.a.)
S&P/ASX 200 TR	9.34%	8.25%	6.02%	8.53%
MSCI World NR LCL	11.45%	8.12%	8.46%	10.28%

Perhaps it is the relative performance that is most compelling. While every sector fell over the month, it was a tale of two stories. Sectors with stretched valuations such as tech fell hard, while those at the cheaper end, such as utilities and consumer staples, kept their losses to less than five per cent.

So, where does this leave things? Many investors are scratching their heads, although we would encourage maintaining perspective and not to let facts outweigh emotions.

That is, you should focus on valuation and invest for the long term. We certainly look to integrate this thinking when constructing portfolios.

Sharp falls with headlines screaming that billions of dollars have been wiped off the share market are stressful as no one likes to see the value of their investments decline. This provides no perspective and only adds to the sense of panic. It is funny that you never see the same headlines on the way up!

Various risks still exist and so another bout of volatility remains possible, but we don't believe that this is the start of a significant bear market. We would really need to see the US economy going into a severe recession, dragging the rest of the world down with it and at the moment there does not appear to be signs of that happening. While the US Fed is raising rates, they have a long way to go before being painful.

Business and consumer confidence are very high and fiscal stimulus is continuing to boost US growth. Finally, we have not seen the excesses – in terms of debt growth, overinvestment, capacity constraints and inflation – that normally precede recessions.

Countries other than the US are still a long way from hiking rates, and if anything, countries like Australia could even engage in monetary stimulus.

While it is messy after the US/China standoff at the recent APEC forum there have been some positive signs on trade. Talks between the US and China on trade have reportedly resumed and President Trump has repeated that he is optimistic of a trade deal with China. We remain of the view that some sort of deal will be agreed before the tariffs cause too much damage to the US economy. Rising unemployment and higher prices at Walmart will sink Trump's re-election prospects in 2020. Investors are now highly sceptical of any progress on the trade front so any break-through in the next six months could be a big positive.

Nevertheless, the future carries a lot of uncertainty. Predicting the short-term and trying to pick the top or bottom of markets is a futile exercise. Instead, portfolios need to be positioned for multiple outcomes, not one. Portfolios must also be positioned probabilistically, which means carrying a bias towards those assets that are the least expensive.

Selling or switching to a more conservative investment strategy or superannuation option after a fall crystalises a loss. It is tempting to sell when all the talk is of billions being wiped off the share market. But this just turns a paper loss into a real loss.

While share prices may have fallen, dividends haven't. So the income from a well-diversified portfolio remains attractive, particularly against term deposits.

Finally, turn down the noise. Negative news reaches fever pitch when markets are down. It is easier said than done, but the headlines are often a distortion, and it is best to stick to an appropriate long-term strategy in times like these.

PETER AND GERALDINE BIRLESON:
CLIENTS OF GFM SINCE 2008

By Nicola Beswick

Peter has kindly written the article below on their family, working life, retirement and their experiences as clients of GFM Wealth Advisory since 2008. We greatly appreciate Peter's contribution to Trade Secrets.

Geraldine and I became clients of GFM in July 2008, the year before the Global Financial Crisis hit the Australian share market. This was an uncomfortable time and we are still grateful that we were so well supported then by the GFM team. Our hearts had sunk in February 2009 as the ASX fell by 54% and superannuation valuations dropped by a significant amount, but the GFM team reminded us about previous market corrections and the course of inevitable market recovery. Indeed, markets have since climbed back and most of our investments have done very well, but it was very nerve racking at the time. We remain grateful to the GFM team whose support enables us to be much more relaxed about our finances, as well as providing sensible advice and looking after all the compliance and paperwork involved in managing our SMSF.

I retired in 2010 at the age of 63 years, while Geraldine had retired three years earlier aged 60. Both of us worked in the Health sector, Geraldine as a part-time GP in Croydon. She also did most of the work in raising our three children while I had focused more on my job - being a typical adult male raised in the 1950s and 60s. We had migrated to Melbourne from Edinburgh in 1981 where we met while studying Medicine.

I had just completed specialist training in Child and Adolescent Psychiatry at the Royal Edinburgh Hospital, and took up my first consultant post at the Royal Children's Hospital here. We came over to look at somewhere warmer than Scotland, and after a year here liked Australia so much that we stayed. Flying across the world with three children aged six years, four years and four months was quite an adventure, made more interesting by the fact that our arranged accommodation fell through just before we set off. However, friends helped us to survive that challenge and we now enjoy a quiet retirement in Canterbury. Our grown up children have left home to live their own lives and we have five lovely grand-children so far – three girls and two boys.

Work as a Child and Adolescent Psychiatrist was always challenging. Child and Adolescent Psychiatry is the Cinderella of Health Services, not well-enough funded or supported by governments and often under-valued and poorly understood by other medical specialties. This is surprising when we know that 50% of all life-time mental disorders are first evident by the age of 14 years, so early intervention seems wise. Despite this, working with children, adolescents and their families was a great privilege as my clients taught me much about life, resilience and courage. In 1994, I left the Royal Children's Hospital to take on the role of Director of Travancore Child and Family Centre and enrolled in a health services management course at RMIT to learn how to manage a service properly and make my service as effective and efficient as possible. This role at Travancore led to a secondment to the Health Department to review the Victorian Child and Adolescent Mental Health Services (CAMHS) System and write the policy directions for the Victorian Child and Adolescent Mental Health System.

In 2006, I was encouraged to return to the Royal Children's Hospital to be Director of Psychiatry and Associate Professor of Psychiatry at the University of Melbourne. During this time I was pleased to increase service efficiency and service outputs there, but changes in the Hospital leadership meant that promises of increased research funding and support for a more integrated mental health service suddenly disappeared, so retirement seemed more attractive. Luckily, by then we had become clients of GFM on the advice of my accountant. The importance of being money-wise had only dawned on me when I was about 50 years old, at which time I decided to buy a few shares and subscribe to Ian Huntley's 'My Money Weekly' to better understand the 'stock market' and financial services. Through buying and selling a few stocks every year and following the market, I had accumulated a useful nest egg as well as acquiring useful financial knowledge. When I met with GFM, I was impressed by the confidence and experience of their team and took their advice to establish a SMSF with money transferred from my previous super fund, my own shares and an inheritance from Geraldine's parents.

Geraldine doesn't take an active interest in how our finances work, and is happy to leave me to attend review appointments and various educational seminars, but she does see the wisdom of the major joint decisions we've made over the years. She prefers to invest her time into activities like horse-riding, wrangling grand-children, walking, travelling, movies and learning Spanish and Mandarin. But, we are both delighted with the personal level of advice and support we have experienced at GFM, which has blended friendliness with professionalism. As someone who believes in the concept and practice of lifelong learning, goal-setting and outcome measurement, I have found a very good match with GFM. I'm very pleased to recommend GFM to anyone who wants to play an active, but not onerous part in running an SMSF, so they can focus most of their time on doing the things they always wanted to do in retirement.

INTRODUCING ANTHONY YANNAKAKIS

By Rebecca Lowe

In May this year, we welcomed Anthony to the GFM family, joining our paraplanning team as a Junior Para-planner. Anthony brings a wealth of knowledge to the team having completed a Bachelor of Commerce (Accounting and Finance), a Diploma of Financial Planning and a Master of Applied Finance.

Anthony was previously employed with National Australia Bank, helping find payment solutions for business clients before realising his passion for financial planning and a desire to pursue this passion working for a privately owned firm.

Anthony has a passion for food and fitness and enjoys eating out at restaurants and keeping active on a daily basis. A keen soccer fan, Anthony is a Chelsea supporter in the English Premier League and Melbourne Victory in the A-league.

NICOLA ATTAINS CERTIFIED FINANCIAL PLANNER (CFP®) STATUS!

By Paul Nicol

GFM Wealth is proud to announce that another of our Financial Planners, Nicola Beswick, has attained the Certified Financial Planner® (CFP®) certification.

The CFP® designation is a professional certification mark for financial planners conferred by the Certified Financial Planner Board of Standards in the United States, and by 25 other organisations affiliated with Financial Planning Standards Board. This is the Financial Planning Association in Australia.

The attainment of Certified Financial Planner® status is the highest designation in financial planning. There are substantial education, experience and ethics requirements, in addition to a marathon examination as the culmination of many hours of study.

As many of our clients would know, Nicola has now been with GFM for 4 years. Nicola commenced employment at GFM as an Associate Adviser, but very quickly she progressed to the role of a Financial Adviser looking after many of our firms valued clients. The CFP® is the gold standard in our profession, so we are all immensely proud of Nicola's achievement.

At present, we estimate less than 25% of advisers in the industry have the CFP®. Nicola joins Patrick and James as our other advisers that hold this designation.

Once again, we congratulate Nicola on her achievement. We suspect that Nicola has got her eye on furthers studies to compliment her practical experience.

WALKING THE GREAT WALL OF CHINA FOR MULTIPLE SCLEROSIS

By Nicola Beswick

On the 15th of October 2018, I was part of twelve strangers that boarded a plane heading for Beijing China, with one common goal which started around ten months earlier. The goal was to raise funds for those who live with Multiple Sclerosis – the challenge was to walk for five days across the Great Wall of China.

Everyone's journey did not just start on the day we left, but a lot earlier. All twelve people who undertook this challenge had a personal connection with Multiple Sclerosis (MS). Two of our team have MS, a few had worked directly with those with MS, one being a doctor who had spent four of her professional years caring for those with the disease and had seen the slow, and unpredictable and undiscriminating, deterioration that MS has on anyone who is diagnosed with MS. Another was a physio and another an occupational therapist. The very nature of this disease is that no one really knows if, and when, they will be impacted. Finally, myself and like many of the others who travelled to China that day, have a close family member who lives with MS.

My connection is my Dad, who over 10 years ago at the age of 55 was diagnosed with MS – something that took his medical team years to agree to, as he 'did not fit the box' of those who are commonly diagnosed with MS. For Dad, his symptoms manifested in the loss of use in his right arm. Dad, like many of us, is right-handed. Think about all the things you do with your dominant hand and the everyday things in life that we don't really think about now – writing, shaving, getting dressed, doing your shoelaces… the list goes on. Eventually, MS has also led to Dad losing a lot of use of his right side. The positive side of this for Dad is his MS has remained dormant for an extended period of time. Others aren't so fortunate, with their deterioration being concentrated over a short period of time. The symptoms of MS are often controlled by an array of drugs.

My Dad's story also inspired me to change from working in Intellectual Property Law to become a financial planner – Dad's inability to write impacted his ability to work, and fortunately he had income protection insurance. For those who know me, insurance is something that I talk about the importance of, as I have seen firsthand the positive result of having insurance in place.

We all also started our fundraising earlier than the time we departed. Many held cake stalls, sausage sizzles and one lady even ran the Gold Coast Marathon earlier in the year! Mark (my partner) and I were extremely fortunate that many of our friends, family, workplaces, work connections and clients, contributed to our fundraising goal. Mark and I had a fundraising target of $7,000, which we exceeded through the generous donations of those we know. Collectively, we raised over $150,000, which went to the MS Society, to assist those who currently live or who become recently diagnosed with MS.

Our challenge of walking the Great Wall of China for five days was incredible. We walked a total of 50 km's and saw many areas of the Wall. After travelling from Beijing for approximately three hours by bus, we arrived at a somewhat excluded section of the Wall, on the top of a mountain. We walked from Taipingzhai to Huangyaguan, which was a strategically important section of the Great Wall. Our accommodation was an old fort, that was a uniquely constructed building that was a maze and designed to confuse and trap invading armies.

The following day, after a short bus ride from the fort, we arrived in a small village called Gubeikou. We saw the Hidden Dragon and Crouching Tiger section of the Wall and was one of the most spectacular sections we walked. The Wall was not as reconstructed compared to other sections, with some parts of the track missing. It turned out that this section of the Wall was bombed by the Japanese during WWII and was the most invasion prone section of the wall, as it crossed through a valley just north of Beijing. That evening we stayed in a homestay, where our hosts could not speak a word of English, but they looked after us well, right to the very end of our stay. They were beautiful people.

Day three of our walk followed on from the end of the second day and consisted of us scaling some of the steepest sections of the Wall – many of which you had to use the side of the wall to make it down safely. The views were spectacular, and this was my equally favourite section of our walk.

On the fourth day, we travelled to the Mutianyu section of the Wall, where we encountered a more touristy part of the Wall. Our guide told us that many Chinese travel to the Wall to pay their respects to Chairman Mao. Many were dressed in suits as they climbed a section called the 1000 steps (which were more challenging than the Lyrebird track in the Dandenong Ranges), to be near an inscription on the mountainside to honour Mao.

Day Five, the last day of our walk, we climbed the Juyongguan section of the Wall, which spans two sides of a fortified gate. Here, the Great Wall loops across the Badaling highway, snaking off through the landscape and into the scenery. Another touristy and very steep section of the Wall, we climbed up one hillside and completed our journey by climbing down another slope.

It was a real privilege to undertake this challenge and complete this journey in such a beautiful part of the world we live in. It was amazing also to raise such a large sum of money, more than our collective $100,000 target, and humbling to receive the financial support, kind words, and support from those that Mark and I know. However, the most touching aspect of this trip was all of the personal stories I received from many who have been touched by MS.

CASE STUDY:
DOWNSIZER CONTRIBUTIONS

By Bree Hallett

Effective from 1 July 2018, if you are aged 65 or over, and you sell your principal home, you could be eligible to make a **downsizer contribution** of up to $300,000 ($600,000 combined for a couple) into your superannuation account.

The key benefit of the downsizer contribution is the ability to invest the sale proceeds of a primary residence into the concessionally taxed super environment when over age 65 without having to meet the work test or contribution caps. Given the tax advantages, the ATO is responsible for administering the downsizer contribution scheme. If you are eligible to make a downsizer contribution, you will need to complete the downsizer contribution form provided by the ATO, and give this to your superannuation fund when making, or before making, the contribution.

Eligibility:

For a contribution to qualify as a downsizer contribution:

- Contracts for the sale of the main residence must be exchanged on or after 1 July 2018.
- You must be aged 65 or over at the time of the contribution, but no other age or work tests apply.
- The contribution must be sourced from the proceeds of the sale of one qualifying main residence.
- Either you, your spouse or your former spouse (or a combination) must have had an ownership interest in the main residence for at least 10 years immediately before the sale.
- The contribution must be made within 90 days of the change of ownership of the main residence.
- Notification must be provided to the super fund trustee on the approved ATO form of the choice to treat the contribution as a downsizer contribution at the time the contribution is made.

Key features:

- The downsizer contribution must relate to a dwelling located in Australia and does not include proceeds following the sale of a caravan, houseboat or another form of mobile home. This includes up to two hectares of adjacent land on the same title.
- The downsizer contribution can only be used once, in relation to one dwelling. That is, you can't reaccess it for the sale of a second home.
- If you sell your home, are eligible, and you choose to make a downsizer contribution, there is no requirement for you to purchase another home.
- The $300,000 can be made up of multiple contributions, over the 90 day period.
- The downsizer contribution funds are an assessable asset under both Centrelink's and DVA's assets and income tests.
- The dwelling will qualify as a 'main residence' for downsizer contributions if any capital gain or loss from the sale of the home is:
  - eligible for a full or partial CGT main residence exemption or
  - would qualify for a full or partial CGT main residence exemption, except for the fact that it was acquired before 20 September 1985.
- Proceeds from the sale of an investment property that is not eligible for any main residence CGT exemptions will not be eligible.

Other points of note:

- **Downsizer contributions are not tax deductible:** you are not able to claim a tax deduction on any contribution they have elected to be a downsizer contribution.
- **Downsizer contributions cap:** downsizer contributions are limited to the lesser of:
  - $300,000 per person, less any downsizer contributions already made to that person's superannuation fund from the sale of the same main residence, or
  - capital proceeds received by a person (and their spouse, if relevant) from the sale of a main residence, less any downsizer contributions already made in respect of that person and their spouse (if relevant) from the sale of the same main residence.
- **Total Superannuation Balance:** downsizer contributions are not impacted by your total superannuation balance as they are not classified as non-concessional contributions. Therefore, if your total superannuation balance exceeds $1.6 million, you are still able to make downsizer contribution.

However, once the downsizer contribution has been made, it may impact the ability to make future non-concessional contributions as it increases the future total superannuation balance.

Case Studies/Examples

Case Study 1:

David and Rhonda are spouses who are both age 67. They sell their main residence which was owned by David for $1.2 million. David and Rhonda may each make one or more downsizer contributions (to one or more of their own super funds) totalling no more than $300,000 each. David and Rhonda then purchase a beachside cottage in Rhonda's name which they live in as their main residence. Upon the sale of this beachside cottage several years later, neither David nor Rhonda could make a downsizer contribution as they have both made downsizer contributions in the past.

Case Study 2:

Margaret (67) and Bob (63) are married and own their main residence in Bob's name only. They sell their home, and Margaret is able to make a downsizer contribution up to $300,000 given she is over 65 and her spouse is the owner of the dwelling (assuming all other criteria are met). Downsizer contributions could be made in respect of an individual if they or their spouse held an ownership interest in the dwelling, whether that ownership interest was held solely, joint tenants or as tenants in common.

Case Study 3:

Ron and Judy are married and both aged 76. They wish to sell their home and purchase a new home for a similar value. Despite not extracting equity from the property exchange Ron and Judy are still eligible to contribute other funds as a downsizer contribution, up to the amount of the sale proceeds or $300,000 (whichever is lesser). There is no legislative requirement to purchase a home of a lower amount or indeed to purchase a new home at all. For example, they could withdraw funds from superannuation and recontribute those funds as a downsizer contribution (assuming all other eligibility criteria are met). This strategy is similar to a re-contribution strategy and may have estate planning benefits due to the reduction in the taxable component.

Case Study 4:

Sophie (65) has a holiday home that she wishes to sell. Although the property is not her current main residence, it has been the main residence for 10 years in the past. The qualification criteria to make a downsizer contribution requires the property being disposed of to qualify for a full or partial CGT main residence exemption. There is no requirement for the property to be considered Sophie's main residence at the time of disposal.

Whether a dwelling qualifies as a main residence depends on the facts and circumstances of each case. The ATO will generally take the following factors into consideration:

- the length of time they have lived there
- whether their family lives there
- whether their personal belongings are situated there
- where their mail is being delivered
- their address on the electoral roll
- the connection of services (e.g. phone, gas or electricity) to the dwelling
- their intention to occupy the home.

Therefore, if the holiday home was Sophie's main residence at some point during the ownership period and qualifies for at least a partial CGT main residence exemption, it could be eligible under the downsizer contribution qualification criteria.

Summary

Before considering the downsizer contribution strategy, it is imperative to consider all of the options and the subsequent outcomes with your financial adviser so you can make the most out of the sale proceeds. Careful consideration needs to be given to the potential tax, social security and aged care implications before taking advantage of the strategy.

PROTECTING YOUR INCOME

By Rebecca Lowe

Most people wouldn't drive their car without car insurance or live in a home without home and contents insurance, yet many people don't consider protecting their ability to earn an income. How would you pay your bills if you couldn't work for a period of time? Or how or who would look after the kids? Even if you do have savings, these are likely to run out very quickly during an extended period of illness or injury.

Rather than putting your lifestyle at risk, you should consider taking out Income Protection insurance (sometimes known as salary continuance). An income protection policy allows you to insure up to 80% of your earnings, which in the event of a claim, will assist meeting your cost of living so you can focus on more important things like recovery.

Income Protection insurance covers you against a loss of income while you are unable to work due to illness or injury. The policy pays a benefit after the waiting period is over and will continue for the full benefit period or until you are in a position to return to work. Generally, to qualify for an income protection benefit, you must be unable to perform at least one of the duties of your occupation, not be working and be under the care of a doctor.

When establishing an income protection policy, consideration needs to be given to the following:

Waiting period

The waiting period is the period of time you have to wait after incurring an injury or illness before the benefit will be paid. Depending on the insurer, the waiting period selected could be anywhere from 14 days to two years and generally the longer the waiting period, the lower the premium. When choosing a waiting period, it is essential to consider any sick, annual or long service leave benefits provided by your employer that could be utilised during the waiting period of a policy.

Agreed or indemnity cover

'Agreed value' cover will pay the predetermined sum insured, no matter what your income is at the time of the claim (but limited to 75% of your pre-disability earnings). 'Indemnity' cover will pay whatever is the lesser amount between your sum insured and your income at the time of claim.

Benefit Period

The benefit period is the maximum period of time that the insurer will pay the benefit and depending on the insurer can range from one year to age 70. The longer the benefit period, the more expensive the premium will usually be.

When discussing income protection cover with clients, there are often common misconceptions about why they don't have cover which include:

- "I'll be covered under Workers Compensation" – Workers Compensation is limited and only applies if you are injured during working hours or for illness directly resulting from your employment.
- "My private health insurance will cover me" – Private health insurance will cover your medical bills related to treatment and recovery but won't provide you with an income stream to cover household bills and debts.
- "I can't afford it" – Income protection premiums are tax deductible when the cover is owned personally.

The table below shows the tax deductibility of personally owned income protection at each marginal tax rate, assuming an annual premium of $2,500:

	Marginal Tax Rate		
	34.50%	39%	47%
Income Protection Premium (After Tax)	$1,637.50	$1,525.00	$1,325.00

If still in doubt about the importance of protecting your income, consider a 35-year-old currently earning $60,000 p.a. Assuming their salary increases in line with inflation each year with no breaks in employment, they have the potential to have earnt $1.92 million by the time they reach 67 (in present dollar terms), this is worth protecting. Anyone who cannot afford to be without their income for a length of time should consider Income Protection insurance.

If you wish to discuss your insurance needs, please contact your adviser.

BERKSHIRE HATHAWAY

By James Malliaros

Berkshire Hathaway is a holding company for a multitude of businesses, run by its famous Chairman and CEO, Warren Buffett. Berkshire Hathaway is headquartered in Omaha, Nebraska, and began as a group of textile milling plants. When Buffett became the controlling shareholder in the mid-1960s, he started a progressive strategy of diverting cash flows from the core business into other investments. In 2017, Berkshire Hathaway had a market capitalisation of close to US$540 billion, one of the top five largest publicly traded companies worldwide.

Because of Berkshire Hathaway's long history of operating success and keen stock market investments, the company has grown to be one of the largest in the world in terms of market capitalisation. Berkshire stock trades on the New York Stock Exchange in two classes, A shares and B shares. The Class A shares are noted for their very high prices – they are the most expensive publicly traded stock of all time, currently selling at around US$328,350 per share. By way of comparison, in 1980, one share of Berkshire Hathaway stock cost less than US$300!!!!

The more frequently traded Class B shares, which were introduced 20 years ago in response to retail investors wanting to purchase Berkshire stock directly rather than having to go through unit trusts or mutual funds, trades at a much lower price but carries correspondingly lower voting rights. The Class B stock currently trades at around US$220 per share.

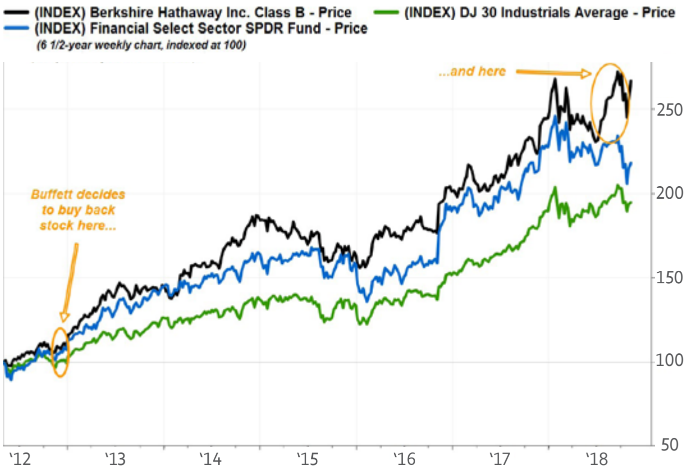
There is probably no other investment portfolio more closely watched than that of Warren Buffett's Berkshire Hathaway. His remarkable track record of outperforming the S&P 500 is unmatched. He has never veered from his most fundamental principle: to buy great companies at good prices, and hold them forever. His top six holdings (as at August 2018) all have several things in common. They are big, well-run companies with strong balance sheets, and they generate a lot of cash that they return to shareholders through dividends.

Company Name	Dollar Value ($US, 000's)	Percentage of portfolio %
Apple	$46,639,553	23.85%
Wells Fargo and Company	$25,059,643	12.82%
Kraft Heinz Company	$20,456,379	10.46%
Bank of America Corporation	$19,141,009	9.79%
Coca-Cola Company	$17,544,001	8.97%
American Express Company	$14,857,849	7.60%

Buffett recently increased the holding in Apple back in February when Berkshire bought an additional 75 million shares in the company to add to the 165.3 million shares already owned at the end of 2017. This placed the stock well above Wells Fargo as the highest allocation in the portfolio.

Then a short time later in early November, after disclosing a big jump in third-quarter profit, Buffett announced that for the first time in six years Berkshire had repurchased their own shares. The size of the buy-back was US$930m worth of Class A and Class B shares. The disclosure comes after the company changed its share buyback policy in July to give Chairman and Chief Executive Buffett and Vice Chairman Charlie Munger more flexibility on when they can buy back stock.

This was an important development for Berkshire Hathaway investors as it means that Buffett and Munger believe the repurchase prices are below Berkshire's "intrinsic value," based on the new buyback policy. In December 2012, the last time Berkshire undertook a share buy-back, the Class A shares have soared 147%, and the Class B shares have run up about 144%. In comparison, the Financial Sector Index, of which Berkshire is the most heavily weighted component, has rallied 101%, the broader S&P 500 Index has climbed 92%, and the Dow Jones Industrial Average has hiked up 94%.



As can be seen from the graph above, considering how well the stock has performed since the last time the company bought back its shares, when Buffett bets on himself, investors tend to listen.

END OF YEAR SEMINAR: JAMES HOLT

By Mai Davies

We held our Market Update & Outlook for 2019 Seminar on Monday 19th November at Riversdale Golf Club. The seminar covered investment market activity during 2018 and the outlook for 2019.

Our special guest presenter on the night was James Holt, who is the Senior Investment Specialist for Equities at Perpetual Investments.

James is responsible for providing technical investment support to financial advisers and investors of Perpetual Investments' equity funds. James has worked in the financial services industry for over eighteen years. Before joining Perpetual Investments in 2014, James was a Director and Investment Specialist with the Portfolio Management Group of Black Rock Australia and Senior Investment Specialist at Zurich Investments.

James discussed the key themes for 2019 and provided a detailed overview of the global economic backdrop, and how this is likely to affect investment markets over the next few years.

James's presentation covered the following:

- The US economy has kicked into high gear, and interest rates are on the rise there
- Trade and Twitter wars rage in the background
- The Australian economy continues to chug along, but the housing market has begun to weaken
- What does it all mean for investment markets?
- Looking at investment themes as 2019 starts to come into view

This was the third year that James had presented to our clients, and the feedback was excellent. There was an abundance of questions from very interested clients.

As this was our last seminar for the year, we concluded the evening with some celebratory drinks and canapés. Our team enjoyed the opportunity to have a drink and a chat with our clients.

Daniel Moore, James Holt, James Malliaros

Barbara Ward, Paul Nicol, Gary Ward

CHRISTMAS CARDS AND CHARITABLE DONATIONS

By Mai Davies

For 20 years now, it has been our standard policy not to send Christmas cards, but instead send an e-card and contribute an equivalent amount of money to a well-recognised group of charities.

If you would like to recommend a charitable cause, then please send me an email at **mai@gfmwealth.com.au** with a note about the charity and why you believe that we should support it. We are happy to take any suggestions.