Funds Focus®

Issue 7, March 2011

In this issue:

Strategies for all seasons

Our aim is to give you…..

Value, Information & Clarity

I am often asked where I feel the markets are heading and what the best strategy is for investing your money. Everyone has an opinion, be it the man on the street , a fund manager, trader or financial planner.

And you can bet your bottom dollar, everyone has a slightly different opinion, either on where the markets are heading or how best to invest your money. There are numerous products out there suited to investors. As financial planners, our role is to try and fit our knowledge of products to investor needs, but differing market conditions require different investment approaches.

As a result, this issue focuses on Strategies for all seasons, whether you are an income investor, bullish or bearish on where 2011 is headed, we've highlighted a number of investment strategies suited to your needs.

Inflationary issues

I expect that the focus over 2011 will gradually move towards the inflationary issues many countries are likely to face.

Currently, economists are divided as to how inflationary concerns are going to pan out. The huge levels of debt have been moved from the private sector to government borrowing, effectively, robbing Peter to pay Paul. Eventually this debt will need to be repaid.

The initial focus has been on boosting the economy with stimulus packages, after all, an unemployed economy leads to unrest , and a productive economy, ensures more taxes. However, allowing the economy to run away creates inflation, devaluing the value of the currency leading to the withdrawal of investment stimulus from overseas.

The majority of economists are erring on the side of greater stimulus to further boost economies, which could be the potential catalyst for 20%+ digit returns over the next year, however, we are still sitting in uncharted territory and investors would do well to consider some of the alternative investment options we have highlighted in this issue.

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wealth FOCUS

Where to next?

Synthetic Happiness
Why do we sit on failing investments?

Strategies for rising markets
Margin Lending
Geared Share Funds
Limited Recourse Loans
Self Funded Instalments

Strategies for falling markets
Term Deposit Broking

Strategies for income
Annuities
Capital Protected Income
Bonds

Investments in this issue

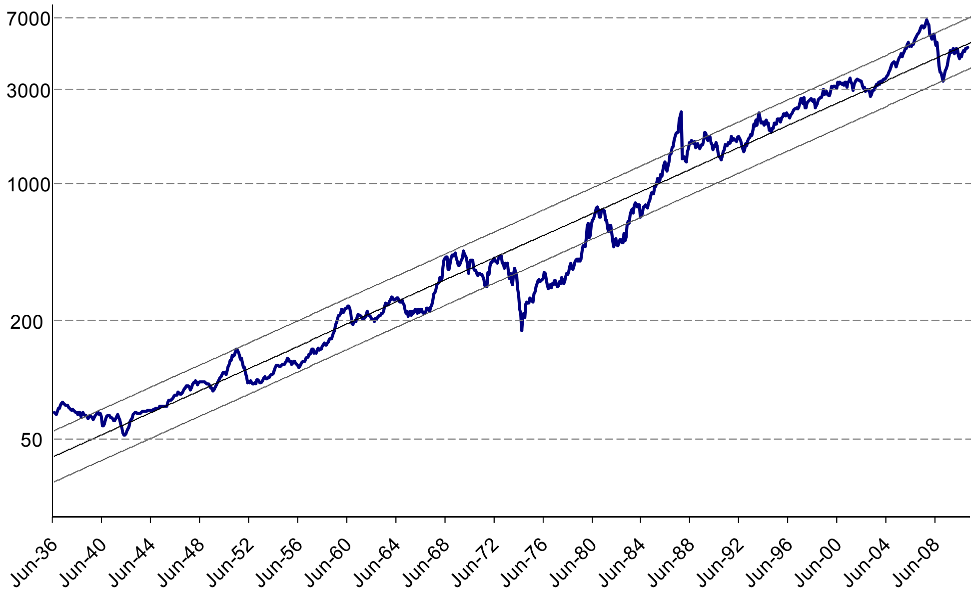
The ASX S&P200 was flat in 2010, recovering from a mid year setback related to European debt concerns.

Investors find themselves questioning whether now is a good time to invest. Our view remains that opportunity exists in times of uncertainty.

Investors may take comfort in the long term performance of the All Ordinaries price index. The long term trend shows that Australian equities are trading near their historical valuation mid point.

It is perhaps a good time to remind ourselves that the trend of the ASX All Ordinaries Price Index is still below the long term average.

All Ordinaries Price Index – Long Term Performance



Source: Australian Foundation Investment Company. Note: A semi log scale has been used to better show a comparison of the relative size and percentage changes over the period

Investment Ideas

Margin Lending Comparison Tables

Turn to p.5

Synthetic Happiness – Why do we sit on failing investments?

Two years ago (Funds Focus Issue 3, November 2008), I discussed the psychology of our investment decisions and why we have a psychological predisposition to buy when the markets are high and sell when markets are low.

At the time, I felt that my article had addressed the basics of structuring an investment portfolio to avoid the common pitfalls whilst highlighting the emotional attachment that we develop with our own investments and our propensity to avoid loss.

I have thought about this a lot since then as I have always felt that not only are we disadvantaged by our emotional attachment and natural aversion to loss, but we are disadvantaged in our ability to initially identify which investments are the proverbial dogs in our portfolios.

We are far more likely to invest new money into a poor performing investment we already hold than if we didn't already hold it.

Why are we happy?

I recently watched a seminar by Harvard psychologist Dan Gilbert that challenged the idea that we'll be miserable if we don't get what we want.

Our ability to imagine possible outcomes for the decisions we make is a key reason for the progression of our species as it allows us to understand the ramifications of our decisions and choose what should make us feel happier. As a result, our decisions are often tainted with ambition as we start to imagine how much happier we would be if we achieved X instead of the most likely outcome Y.

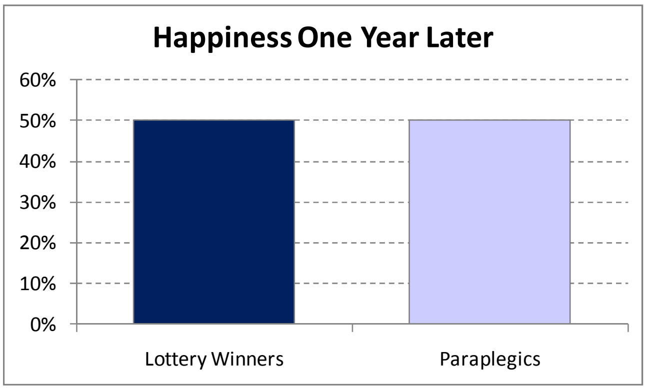
Reach for the stars

and at least you'll hit the rooftops

Synthetic Happiness

What I found most intriguing was Gilbert's argument that we have also developed a "***synthetic happiness***", a psychological immune system to protect us from constant disappointment. Allowing us to "change our view of the world, so that we can feel better about the world in which we find ourselves".

We tend to view these individuals as deluding themselves, that they cannot be as happy as those who have achieved natural happiness by achieving their goals, but research has shown that over time, those that have fallen on hard times become just as happy in their lives as those who have realised their ambitions.



His seminar demonstrated numerous examples of individuals who have fallen on hard times, despite now being worse off, feel that they are happy now.

"I'm happier than I would have been with the Beatles"

Pete Best (quote 1994), the Beatles original drummer

And this has been demonstrated again and again, across countless psychological experiments. Simply put, our brains are hardwired to make us feel better about the world in which we find ourselves. How often have you heard the expressions "make the best of a bad lot" or "happiness is a state of mind" or something similar? It's programmed into us.

Investment Ideas

Strategies for Income

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Synthetic Happiness – Why do we sit on failing investments? cont...

Synthetic Happiness in our Investment Strategies

Having spent some 14 years working in financial services including some time working as a research analyst, I found myself drawing parallels. The analogy of Synthetic Happiness goes some way to explaining why we find it so difficult to switch out of poor performing investments. How can we expect to address our emotional attachments and instinct to avoid loss with our investments when we are disadvantaged in our ability to assess whether the investment is performing poorly in the first place?

Overcoming the Happiness Trap

Whether you are a DIY or professional investor, you will be affected by these irrational investment choices and helps to explain why so many of us sit tight when investments turn sour. Professional managers have a whole range of sophisticated indicators to try and overcome our behavioural disadvantages. As DIY investors we need to recognise our shortcomings and structure the way in which we assess our investments to overcome our natural *"immune system"*.

So what can we do to stop ourselves falling into the Happiness Trap?

As a DIY investor, it really helps if you can write down the reasons as to why you are investing in a product before you invest - This is a significant crutch when we come to re-assess our investments. Investors who have used a financial planner will have received a Statement of Advice (SoA), listing why the recommendations were made in the first place. I regularly see clients pulling out old SoAs to refer to when we meet. DIY investors don't have this luxury, so it makes sense to write things down as a sanity check when reviewing your portfolio.

The grass will always look greener - The freedom to choose can also impair judgement as we can also imagine how much happier we would be in another investment. We often place too much emphasis on past performance and jump ship to a riskier/inappropriate investment when our existing investment has achieved everything we expected.

Just being aware that we have a tendency to favour investments we already hold will influence your decision making - This then allows you to question whether you are making a decision based on real or just perceived results (natural or synthetic happiness?).

Perform a risk profile and stick to the appropriate asset class make up - Diversifying in this way helps ensure that your portfolio doesn't roller coaster up and down, allowing to sleep at night and avoids you taking undue risk in trying to make up for your losses. We automatically perform a risk profile for all our clients and provide an asset allocation specific to their needs. The common mistake we see is investors often consider a portfolio of Australian Equities spread across a number of sectors to be diversified, when in reality these sectors are generally heavily reliant on one another. Sectors such as emerging markets, fixed interest, property, international western economies and our own local market all offer different levels of risk and returns at different times in the cycle.

I generally consider an asset allocation as a track to run on with your portfolio. It's a real sanity check when you find yourself naturally deviating towards opportunity and allows you to visualise the relative risk your taking by changing the makeup of your portfolio.

Ask yourself, if you were to invest new money today would you be invest into this fund/product/share versus its peers? My proviso on this rule is the phrase "relative to its peers" since an investment fund may be performing well relative to others within its asset class but the overall asset class may just be running through a natural downturn. Jumping ship from one sector to another injects undue risk into your portfolio, so it is important to consider this rule alongside your planned asset allocation.

If the answer is "no I wouldn't use this investment if I were to invest in this sector", that's generally a warning sign to look at moving on.

Is it worth taking the risk? In essence, much of our investment decisions should boil down to how much return are we expecting to receive in excess of cash in the bank. Consider the long term returns you expect to achieve and by how much do you expect this to beat cash. Is the risk of losing money worth the risks we are taking?

Take emotion out of the equation - If an investment no longer meets the criteria you have established, get out and move on.

Take advice - Everyone can benefit from getting a little advice along the way. After all, it's your money, so you don't have to follow it if you choose not to, but considering advisers spend all day every day analysing these things, there's no harm in getting another opinion

Planner Perspective

First Time Buyers

Turn to p.15

Strategies for a rising market

Many pundits are tipping double digit returns for Australian equities in 2011. We consider ways in which you can take advantage of a rising market through the use of leverage.

Gearing (borrowing to invest)

If you think the markets are going to bounce back this year, then borrowing to invest is almost certainly going to give you the best returns. There are now a number of different ways to do this, from margin lending, structured products, self funded instalment warrants and internally geared managed funds.

Margin Lending

If you're not familiar with this term, a Margin Loan allows you to borrow money to purchase shares or managed funds with a deposit in the region of 20-50% of the purchase price. The maximum Loan to Value Ratio (LVR) varies on the individual share or managed fund (higher risk stocks require a larger deposit).

The premise of margin lending is that by only having to pay for 50% of the cost, investors can double their returns (or losses). Dividends/distributions are often used to cover the cost of interest accrued on the loan.

3 Golden Rules to margin lending

1. Use a provider who is going to be around for the long term (smaller players are likely to entice you in with a lower rate but less likely to offer the higher LVRs as a buffer against margin calls)
2. Ensure that your investments or savings can meet margin calls and interest costs
3. Don't over gear, 50-60% is considered reasonable. Overstretching your lending can mean regular margin calls, costing you money and heartache.

The downside of having just come through the GFC is that the underlying cost of borrowing has gone up significantly whilst dividends have fallen somewhat.

Investors would therefore do well to shop around as rates can vary significantly and larger loan sizes (> $500,000) can negotiate a better rate. Last year saw us negotiate a 1 year fixed rate of 7.4% for all our clients with one of the industry's largest margin lenders.

We provide a comparison table of current margin loan rates on our website www.fundsfocus.com.au/margin-lending/ and regularly negotiate rates for clients.

Company	Interest Rate	1 yr pre-paid / fixed rate	Further discount with WF for new or existing loans	No. of approved securities	No. of approved funds	Min. loan size	Preferred trading platform	Notes
ANZ Investment Lending	9.79%	100-250k - 8.75% $250k-500k - 8.60% >$500 - 8.50%	**0.10%**	9	1	$20,000	E*Trade	
Bank of Queensland Margin Lending	9.75%	As per Leveraged Equities below	**0.10%**	480	2480	$20,000		Bank of Queensland Margin Loans are operated by Leveraged Equities
BT Margin Lending	9.74%	8.95%	**0.20%**	410	1600	$20,000	Westpac Online	Generally able to negotiatae discounts on loans in excess of $500k
Colonial Geared Investments	9.74%	8.95%	**0.05%+ further 0.40% if refinancing from another loan**	478	1664	$20,000	CommSec	A subsidiary of CommSec
CommSec	9.60%	8.95%	**0.00%**	463	1664	$20,000	CommSec	
Leveraged Equities	9.75%	9.10%	**0.10%**	480	2480	$20,000		Bought Macquarie Margin Lending in 2008, good admin., largest range of approved funds. Generally accomodating on adding new
Macquarie Prime	***8.35%***	***8.50%***	***0.10% (of 1st yr, payable in arrears)***	***2665***	***0***	***No min. but $100k to receive WF discount***	***Macquarie Prime***	***Lowest Variable Rate, high LVRs. One of the few providers to allow short positions. Short positions are offset against margin loan***
Morgan Stanley Smith Barney Margin Lending	9.74% < $250k 9.59% $250K - $1Mill 9.44% $1Mill - $2Mill 9.24% > $2Mill	9.74% < $250k 9.59% $250K - $1Mill 9.44% $1Mill - $2Mill	**0.10%**	319	167	No minimum		
NAB Equity Lending	9.55% < $250k 9.30% $250k - $1Mill 9.05% >$1Mill	9.00% < $250k 8.80% $250k - $500k 8.60% $500k - $1Mill 8.40% >$1Mill	**0.15%, (0.25% if more than 70% invested via MLC mastertrust)**	448	1064	$20,000	National Online Trading	Typically offer competitive rates
St George Margin Lending	9.80% < $250k 9.55% $250k - 500k 9.30% > $500k	8.85% < $250k 8.60% $250k - 500k 8.35% > $500k	**0.05%**	415	1595	Min. loan size	Direct Shares	Westpac ow nership provides financial strength.
Suncorp Margin Lending	9.24% <500k 8.99% >500k	8.10% <$500k 7.90% $500k - $1Mill 7.70% > $1 Mill	**0.10%**	422	1675	$20,000	ShareTrade *(run by CMC markets)*	Typically offer very competitive rates, good administration

Investment Ideas

Strategies for Income

Turn to p.13

Strategies for a rising market cont...

Geared managed funds

With many DIY investors focused on control and choosing their own investments, geared managed funds have typically been overlooked.

We consider how the current climate has also provided an opportunity to investors looking to gear their portfolio for a rising market and how these funds can offer a greater investment opportunity than margin lending.

Geared share funds

Often considered as an alternative to margin lending, geared share funds ease of administration, low cost of borrowing (around 6% rather than 8.35%+ through margin lending) and availability to SMSFs offer a number of advantages over margin lending.

Utilising current conditions to your advantage

As is the case with un-geared managed funds, geared share funds are regulated under trust tax law which requires the fund to distribute income and realised capital gains to investors each year.

As a result, gearing strategies centred around managed funds can often fall short of the tax nirvana for which they are intended as the annual distribution of realised capital gains means investors are often realising gains in each tax year as a part of the normal buys and sells incurred by the fund.

The sweet spot

Many non-geared managed funds are still nursing a 30% realised loss on the value of their investments held prior to the GFC as a result of investors cashing in their investments or the portfolio managers pruning their portfolio. The subsequent recovery we've had since the bottom of the market is likely to have already offset a large part of the realised capital losses.

Now that we have survived the GFC, geared share funds that were forced to redeem holdings to maintain their loan to value ratios in 2008 harbour a significant amount of realised capital losses. A taxation sweet spot remains for investors as they are unlikely to pay a capital gains distribution for some time as they work their way through realised capital losses.

Investors considering margin loans to invest in the Aussie share market would do well to consider geared share funds as an alternative as the low cost of borrowing coupled with the current taxation benefits means that these funds offer a compelling after tax investment alternative to margin loans.

Analysis of geared share fund offerings

We recently preformed an analysis of Australian Geared Share Funds. While the majority harbour significant losses, a number of these funds are still relatively small and benefits of accrued losses can quickly be diluted if the fund sees a large amount of new fund inflows. We would therefore recommend that investors looking to defer capital gains should favour the larger fund sizes such as Colonial's Australian Geared Share Fund.

No Entry Fees

All of the geared share funds listed below are currently available via Wealth Focus with **no entry fee**. Investors looking to invest into any of the following funds with no entry fee can contact us on **1300 55 98 69**.

Australian Geared Share Funds – Overall level of losses available to offset against future gains

	Size of fund (Millions)	Gearing ratio	Cost of borrowing	Management fees (p.a.)	Overall Losses to offset against future gains		Performance			
					Shown in dollar value	Percentage of overall fund	6 mths	1 yr	3 yrs	5yr
CFS Australian Geared Share Fund	$135.0	55%	6.22% p.a.	1.45%	$73,396,603	**54%**	16.3%	-12.6%	-17.2%	**-1.5%**
BT Retail Geared Imputation Fund	$18.3	40%	6.30% p.a.	1.95%	$ 5,776,229	**32%**	14.2%	-12.5%	**-16.0%**	N/A
Perpetual WFIF Geared Aus. Share Fund	$38.9	54%	5.31% p.a.	1.95%	$19,278,385*	**21%***	**24.6%**	**3.6%**	-18.2%	-2.1%
OneAnswer OptiMix Geared Aus. Shares	$4.5	50%	5.71% p.a.	2.90%	$ 9,537,000	**69%**	18.5%	-10.4%	-22.6%	N/A
AMP FLI - Future Dir'ns Geared Aus. Share (S1)	$15.6	35%	6.30% p.a.	2.25%	*Not disclosed*		21.9%	-3.8%	-20.5%	-3.9%
AMP FLI - Future Dir'ns Geared Aus. Share (S2)	$0.5	35%	6.30% p.a.	1.85%	*Not disclosed*		N/A	N/A	N/A	N/A

*Disclaimer: Whilst Wealth Focus makes every effort to ensure that the information is correct at the time of publishing, Wealth Focus takes no responsibility for the accuracy of the information supplied. *Figures are estimated based on information provided in June 10 annual report, growth in fund size and performance*

Investment Ideas

Strategies for a Falling Market

Turn to p.10

Strategies for a rising market

Limited Recourse / Flexible 100% Investment Loans

One of the biggest changes in the investment lending landscape over the last 18 months has been the introduction of Investment Loans offering a "Walk-Away" feature.

As the name suggests, 100% Investment Loans provide investors with 100% gearing and are attractive to investors who want to gain leverage to the investment markets with no capital outlay. Investors need only fund the 7% - 9% pa which, in some cases, can be capitalised onto the loan. The investment is then used to fund a capital protected investment which ensures that the loan is paid off at maturity.

The flexibility of 'Walk-Away' feature should the investment fall in value is extremely valuable in volatile markets, especially when your investment has lost money. With the 'Walk-Away' feature, you are not obligated to fund the interest costs for years in to the future which allows you the opportunity to reset into a new product and benefit from an increase in markets from a lower level.

SMSF Friendly

Investors familiar with SMSF lending rules will also be aware that SMSF gearing strategies revolve around whether or not a loan is limited recourse. ie SMSF's cannot be at risk for more than their initial investment . Since Investment Loans with a 'Walk Away' feature no longer have the risk of ongoing interest costs, these products can typically be considered to be suitable for SMSFs.

The vast sums of money controlled by SMSF investors are the prime focus of product issuers. We are confident that the Walk-Away feature is here to stay.

With the added flexibility now available to all investors, we feel it counter-intuitive to consider 100% loans with older style products.

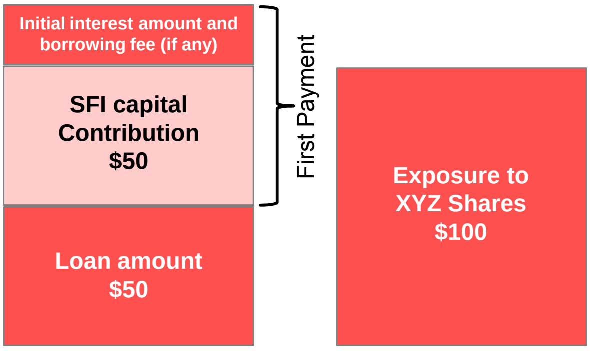
Our capital protected comparison tables are regularly updated and highlight current offers available to investors. www.fundsfocus.com.au/latestoffers/

Self Funded Instalment Warrants – A protected loan with no interest payments

Self Funded Instalment Warrants have long been the preferred method of gearing for retirees and SMSFs and offer one of the lower risk ways to gear your portfolio.

Self Funded Instalment Warrants are a combination of a loan, your deposit and an insurance policy (put option) used to purchase shares.

The benefit to investors is that they only need to fund 50%-60% of the purchase price, the remaining 40%-50% is borrowed from the provider, the ongoing interest and insurance premium are covered by the dividends paid with any excess being used to pay down the loan amount.



Benefits include:

Greater potential returns. Since SFIs provide you with around twice as much exposure as your deposit payment, your potential gains are also doubled.

Borrow to invest without having to make annual interest payments. The annual interest costs are typically covered by the dividends with any franking credits received directly by the investor when they lodge their personal tax return.

Gain potential tax benefits. Investors benefit from the passing through of franking credits, providing a tax advantage for many investors greater than what they could achieve on their own equity.

Use gearing without the risk of margin calls. If the shares fall in value, the put option/insurance kicks in and ensures that the loan is paid off allowing the investor to walk away without further recourse

Unlock equity without selling shares and avoid triggering a capital gain. By converting your existing portfolio of shares to SFIs you can free up cash, whilst still maintaining exposure to the shares you originally owned. At maturity investors can also elect to repay the loan in full and take full legal title of the securities or roll them over to a new instalment.

The Insider

Shortcomings of 100% Investment Lending *Turn to p.16*

Strategies for a rising market

Self Funded Instalment Warrants cont...

The re-emergence of SFI's

If you are familiar with SFI's you will have noted that these were no longer being offered during the GFC as the increase in uncertainty throughout the GFC meant that the cost of the put option insurance soared, making these products unviable.

Now that share price volatility is around its lowest point since the mid 90's, SFI's seem set to re-emerge as the gearing option of choice for investors with limited downside. Westpac have recently launched a SFI offering and we wouldn't be surprised to see other providers such as Macquarie follow suit in the near future.

No Entry Fee

HOW TO APPLY

Download online: Download a copy of the PDS direct from our website www.fundsfocus.com.au/latestoffers

By post: You can request a hard copy of the PDS by calling us on **1300 55 98**

Although the in-built insurance (put option) provides additional security should the share price fall below the outstanding loan amount, the cost of put protection is a non-deductible expense and our current preference remains RBS's offering. Unlike other SFI providers, their product does no contain a put option. Their SFI offers protection to investors by maintaining a stop loss at approximately 10% above the outstanding loan balance, avoiding the need to fund insurance.

Example pricing of RBS Self Funded Instalment Warrants – 22nd February 2011

Current Interest rate: 9.20%							Expiry SZX/W/V/U series	04-Feb-19
		First Payment			Shareholder Applicant		Stop Loss Details	
Code	Share Price	First Payment	Daily Instalment Payment (loan)	Gearing Level	Cashback Amount	Gross Dividend Yield	Stop Loss Level	% movement to Stop Loss
CBASZU	$53.69	$23.60	**$30.09**	56%	$30.088	18%	$33.04	38.5%
CBASZV	$53.69	$28.58	**$25.11**	47%	$25.109	15%	$27.58	48.6%
CBASZW	$53.69	$38.12	**$15.57**	29%	$15.573	11%	$17.11	68.1%
CBASZX	$53.69	$42.93	**$10.76**	20%	$10.759	10%	$11.82	78.0%
TLSSZW	$2.81	$1.46	**$1.35**	48%	$1.346	27%	$1.49	47.0%
TLSSZX	$2.81	$1.20	**$1.61**	57%	$1.611	33%	$1.78	36.7%

Trail Rebate Service

Following on from the success of our wine pack offer in June last year, we have once again decided to offer a free wine pack to investors appointing Wealth Focus as their fund broker by 30th June.

Benefit from ongoing commissions in excess of $400 pa*

How much can you save with Wealth Focus?

Value of your investments	Average commissions (received in each year)	Your rebate (each year)
$100,000	$500	$100
$250,000	$1,250	$850
$500,000	$2,500	$2,100

Note: *Trailing commissions have been calculated at an average of 0.5%p.a. Only applicable to those participating fund managers who pay a trailing/ongoing commission to Wealth Focus*

How to participate

You will not need to cash in/re-apply for your investments. In most cases simply faxing back or posting a **broker nomination form** with your name, and address and the name of the companies you hold investments with is sufficient for us to locate your existing investments.

SAVE WITH THESE PARTICIPATING MANAGERS

- Advance Asset Management
- AMP Capital Investors
- AMP Financial Services
- Australian Ethical Investment
- Australian Unity Funds Management
- AXA National Mutual Funds Management
- BlackRock Investment Management
- BT Funds Management
- Challenger Funds Management
- Colonial First State Investments
- Credit Suisse
- Hunter Hall Investment Management
- Onepath Funds Management Limited
- Macquarie Investment Management
- Man Investments (Capital protected products)
- MLC Investments
- Perpetual Investment Management

Investment Ideas

Geared Managed Funds

Turn to p.6

Strategies for a volatile sideways market

There are some that believe that investors can make money if the market is rising and money if the market is falling, but not in a volatile sideways market. We beg to differ...

Product providers are always developing new products for the market conditions we seem to be facing and Alpha Structured Investments' Results Series and the UBS Perles & Goals Series are prime examples of investments suited to the volatile and sideways moving markets we have been experiencing this last year.

Last year provided opportunity for a fixed return as high as 17.5%pa

These products typically provide investors with a high level of fixed income over a set period of 1 or 2 years, regardless of market movement, and the benefit of conditional capital protection*. With returns last year fixed as high as 17.5%pa, the returns are not to be sniffed at.

ALPHA Structured Investments

*Conditional capital protection

Alpha Results Series 5 - June 2010	
(15.5%pa*)	(17.5%pa*)
Portfolio O:	Portfolio P:
BHP Billiton	AMP
NAB	Rio Tinto
QBE Insurance	Macquarie Group
Wesfarmers	Newcrest Mining
Westfield Group	Woodside Petroleum

Alpha Results Series 9 - Feb 2011	
(14.75%pa*)	(13%pa*)
Portfolio U:	Portfolio V:
NAB	Brambles
Rio Tinto	Leighton Holdings
QBE	Macquarie Group
Stockland	News Corporation
Wesfarmers	Toll Holdings

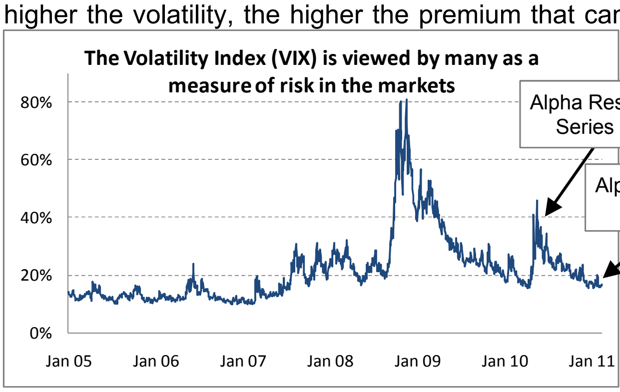
The main risk associated with these products lies in the conditional protection. Both offer a dollar back for every dollar invested, provided none of the reference shares fall by more than 40% over the term of the investment (Alpha Results) or 30% at maturity (UBS Perles). Should a reference share breach the barrier, then the value of the capital at maturity becomes linked to the lowest performing share.

For example, consider Alpha Results with is typically links the conditional protection to 5 blue chip shares: If the worst performing share falls by more than 40% then rises to 95% of starting value, $1 invested would return $0.95 (in addition to the fixed income received).

It should also be noted that if all 5 of the blue chips had fallen by 30% but none had breached the barrier, a dollar is still returned for every dollar invested.

Why is volatility a good thing for these products?

Volatility is one way of measuring uncertainty or the risk of the reference shares falling in value. The higher the volatility, the higher the premium that can be commanded on the income, and having just come out of the GFC, volatility has been at historically high levels.



The view among many investors is that we are still sitting at much lower levels than before the GFC and that the downside is relatively limited, a fall of more than 40% on a blue chip seems an unlikely event. Indeed of the 38 Series issued by Alpha since 2007, to date, none have breached the 40% barrier but it remains a risk investors would do well to understand.

Current volatility has dropped significantly and income levels now offered are in the region of 14.75%pa, still a considerable premium over term deposit rates and an attractive proposition for those that feel investment markets are likely to track sideways over the next 18 months.

Our view is that investors would do well to take advantage if we see a spike in volatility again. We consider this as part of an investors overall allocation towards equities.

Access Alpha Results Series through Wealth Focus

Alpha Results is only available via financial planners or can be bought on market once they have listed.

Wealth Focus offers access to Alpha Results and UBS Perles Series to both DIY investors and full advice clients. The next Alpha Results is due out in March 2011 and with volatility tipped to rise again, investors may benefit from a greater income on these products.

Turn to p.17

Strategies for a falling market

In times of falling markets, even the most hardened investment professional can panic and overlook the simplest solution.

I recently found myself watching a feature on Bloomberg covering investor strategies in a falling market. A panel of experts were sitting around a table discussing what investors could do to protect their portfolio or possibly benefit from falling share markets. Their discussion centred on bonds, as the debt markets tend to rise when equities fall; gold, as the ultimate safe haven; and hedge funds, as providing returns in both rising and falling markets. I agree that these all provide investors with potential upside in a downward market and we have highlighted one or two of these options below. However, I found it amusing is that not one of the experts mentioned cash as a way of protecting your income in a falling market.

We have all heard that it's time in the market, not timing the market that counts and history has shown this to be true. History has also shown that sharemarkets provide greater returns than cash over the medium to long term, but cash provides certainty and certainty helps you sleep at night. Term deposits have started to look attractive for many looking for the certainty of a fixed return; unfortunately, shopping around and rolling money from one term deposit to another can become a costly affair since the investor inevitably loses around 1 month of interest at the higher rate. As a result, Term Deposit platforms such as Australian Money Market have begun to appear, requiring investors to complete only one application when they first apply, allowing them to then roll from one maturing term deposit directly into another.

HOW TO APPLY

0.2%pa Rebate

Download online: Download a copy of the PDS direct from our website
www.fundsfocus.com.au/latestoffers

By post: You can request a hard copy of the PDS by calling us on **1300 55 98 69** or using our online request form on
www.fundsfocus.com.au/latestoffers

FAQs and concerns

1. Why lock in now when rates are rising?

Yes interest rates are rising, but term deposit rates have typically already incorporated anticipated price rises.

2. Can I break a term deposit to access funds?

Although early termination is generally discouraged, Term Deposits can be broken and depending on the particular company and Term Deposit rate applied for, break costs can be as low as the interest accrued to date. It is important to note that Term Deposits offer a higher rate of return than at-call accounts as they are compensating you for having your money locked up.

***Australian Money Market** – Rates shown as of 28th February 2011 and can vary on a daily basis*

Provider	Min Inv.	1m	2m	3m	6m	9m	1y	2y	3y	4y	5y
Highest Rate		**5.3%**	**5.5%**	**5.9%**	**6.1%**	**6.1%**	**6.3%**	**6.4%**	**6.8%**	**7.0%**	**7.1%**
NAB	$ 25,000	4.7%	5.1%	5.3%	5.8%	5.8%	5.9%	5.9%	6.0%	6.2%	6.7%
CommInvest	$ 5,000	4.3%	4.4%	5.4%	5.8%	6.0%	5.9%	5.8%	6.0%	6.0%	6.2%
ANZ	$ 5,000	4.9%	5.1%	5.4%	5.8%		5.9%	5.9%	5.9%	5.9%	5.9%
ANZ V2 At Call Account	$ 5,000	4.5%									
St George	$ 20,000	4.5%	4.9%	5.2%	5.6%	5.6%	5.8%	5.8%	5.8%		6.5%
Macquarie Bank	$ 10,000	4.6%	4.7%	5.3%	5.7%	5.9%	5.9%	5.9%			
AMP	$ 25,000	3.1%	3.1%	3.2%	5.8%	5.8%	6.0%	6.2%	6.3%	4.1%	6.3%
Bank of Cyprus	$ 10,000	4.7%	4.7%	**5.9%**	***6.1%***	6.0%	***6.3%***	5.8%	***6.8%***	6.1%	6.3%
Bank of Queensland Bonds	$ 5,000						6.1%	6.1%	6.1%	6.2%	6.2%
Adelaide Bank	$ 25,000	4.7%	4.9%	5.5%	5.9%	5.6%	6.0%	6.1%	5.9%	6.4%	6.6%
Bank of Queensland	$ 5,000	4.8%	5.1%	5.3%	***6.1%***	***6.1%***	6.2%	6.3%	6.3%	6.5%	6.8%
Investec - Private Client Rates	$ 25,000	5.1%	5.1%	5.3%	5.9%	6.0%	6.1%	***6.4%***	6.8%	***7.0%***	***7.1%***
The Rock Building Society	$ 10,000	4.7%	5.0%	5.3%	6.0%		6.2%				
Savings and Loans	$ 100,000	5.3%	**5.5%**	5.6%	5.9%	5.9%	5.9%	6.1%			
Defence Force Credit Union	$ 100,000	4.7%	5.0%	5.2%	5.7%	5.7%	5.8%				
Queensland Teachers Credit Union	$ 50,000	4.7%	5.0%	5.2%	5.8%	5.9%	5.9%	6.0%	6.1%		

Structured Products

Capital Protected Product Comparison Tables *Turn to p.18*

Strategies for a Falling Market

Term Deposit Broking

This investment is a low risk investment aimed at investors seeking a fixed income without equity market risk.

A term deposit supermarket which offers flexibility to switch providers to obtain the best rate can provide a significant advantage when looking at your term deposit options.

In terms of investment opportunities, it is no wonder that Term Deposits are so popular, they are by far the easiest product to understand. You put your money in the bank and you get paid an income.

Yes, there are options, such as do I want to receive interest daily, monthly, yearly, but at the end of the day, on a "sleep-ability "scale, Term Deposits come out on top every time.

The current 'investment' climate has seen a flood of money into Term Deposits as investors head for security in uncertain times and who could blame them, the RBA cash rate is still relatively low, the disparity between the rates offered on Deposit and the BBSW rates currently provides an opportunity to investors.

The relative increase in the global cost of credit coupled with stricter funding requirements for the banks has meant that they need to hold larger sums on deposit.

We expect that the current interest rates on offer will revert to their long term margin. This presents an opportunity for clients to invest to lock in higher rates for the longer term.

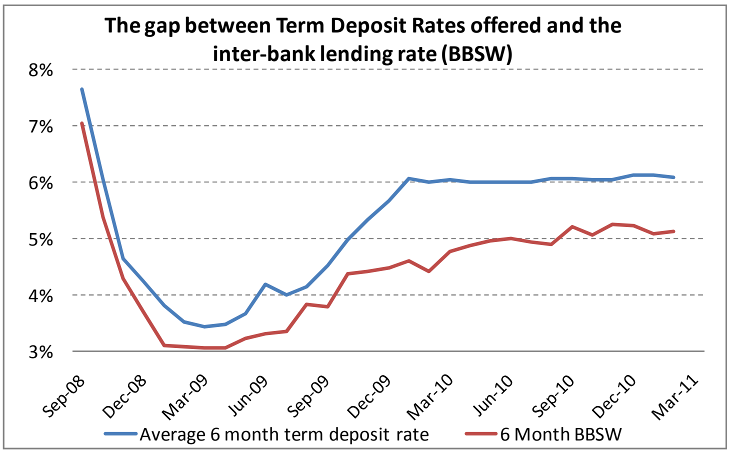
Term Deposit Broking

The problem when it comes to shopping around for a good rate is that many of the banks either entice investors with a teaser rate that then drops after 6 months or are no longer competitive when you come to roll into another term deposit.

Courtesy of the cumbersome Anti-Money laundering/ID requirements and numerous application forms, banks are aware that they don't need to be once your current term deposit matures. The likelihood is that you will stick with them.

Even when investors do switch, many find themselves sitting in an at-call account paying little, if any interest, while waiting for the paperwork to be processed at the new bank.

As a result, it is little wonder why the majority of Deposit holders just roll into another Term Deposit offered by their bank.



The average rate shown is based on 6 mth deposit rates offered by CBA, Macquarie and Adelaide Bank . Source: Australian Money Market

Managing Director: Stephen Jewell

"We have already seen a downward trend in Deposit rates over the last 12 months.
A year ago, you were able to secure 8%pa on a five year fixed rate, now you would be lucky to get 7%pa."

Australian Money Market – Term Deposit Platform

0.2%pa Rebate

One of the more recent developments has been the introduction of term deposit platforms allowing investors to broker the best rates and perform overnight switches from one bank to another without having to complete another set of paperwork or ID.

Over the last year, we have used Australian Money Market for our clients and have been very impressed by their high level of service.

Being able to shop around from over 20 bank, building societies and credit unions and switch overnight with a phone call, not only provides investors the opportunity to obtain a higher interest rate, but also avoids cash sitting at a lower at call rate whilst waiting on a new provider to set up paperwork.

We expect to see the popularity of these products continue to grow as investors switch onto getting a better deal, after all, a difference of 1-2%pa doesn't sound like much but when you're expected return is around 6-7%pa, that's a huge difference.

One application form, covering 20+ financial institutions takes the effort out of opening or switching accounts

Simple switching process means you can avoid having your funds reinvested at non Honeymoon rates

All institutions covered by the Government Guarantee Scheme

The investment is always in your name. Ownership of the funds is always with you and cannot be transferred to anyone else.

Investment Ideas

Self Funded Instalment Warrants

Turn to p.7

Strategies for income investors

Having managed a team of planners for a number of years, one of the common mistakes I have seen with advisers and retirees is the assumption that a 12%pa average return in equities is better than a fixed return of 7%pa from cash.

For the most part, that's not a bad assumption to make as we know that sharemarket returns are typically volatile but tend to outperform cash over the longer term.

As financial planners we are also taught to expect that clients in retirement should take less risk. However, there is an assumption amongst many that the primary difference in attitude to risk between a retiree and non-retiree is mainly due to their age and the same investments are suitable with a small tweaking to reduce the risk slightly. After all, if the markets fall, when they eventually recover the client is likely to be better off.

This makes a compelling argument for equities over cash, especially when you consider that cash rates of 7%pa are considered relatively high for this illustration.

Even if you were to consider the effect of rolling your returns, a fixed 7%pa produces provides an overall annual return of 8.04%pa, whereas the variable return (12% average used in this example) still produces 9%pa.

There is therefore no doubt that higher variable returns are more beneficial than lower fixed returns for those that do not need an income.

The following scenario is typical of an illustration in favour of investing in equities over cash.

Years	Fixed return 7%pa	Variable return 12%pa
1	7%	-30%
2	7%	5%
3	7%	20%
4	7%	29%
5	7%	36%
Total return	**35%**	**60%**
Average (p.a.)	**7.0%**	**12.0%**
Rolled up annual return	8.04%pa	9%pa

Sharemarket falls have a much larger impact on the viability of your portfolio when drawing an income

What many planners and investors fail to realise is the significant effect that drawing an income has on sustaining this growth. There is an assumption that if you draw an income of 7%pa and maintain an average growth in your portfolio of 12%pa that your fund will always be able to fund your 7%pa requirement.

However, this is simply not the case. Drawing a fixed income once your portfolio has had a significant fall (such as what we have seen in the last 2 years), can significantly affect the portfolio's ability to provide an ongoing income and illustrates the need for reduced risk in structuring a portfolio.

The thought process that increasing risk to produce greater returns doesn't always fit and investors can easily find themselves increasing risk and reducing their returns.

To illustrate this point we used an investment simulator to look at possible outcomes for $100k investment with an income requirement of $7k pa.

What we found, and is arguably typical of the scenario many post GFC retirees now find themselves in, is an unsustainable portfolio being eroded by the need for income.

The bills don't wait for the sharemarket to recover

Unlike, non-income investors, those in need of an income, are unable to sit on the sidelines and wait for the sharemarket to recover before resuming an income.

Investing for income should therefore have a much greater consideration for capital preservation than other types of strategies, after all, those reliant upon the income generally don't have the luxury of a second chance if they get it wrong.

Where to next?

Where are the markets heading in 2010 *Turn to p.3*

Lifetime Annuities

This investment is a low risk investment aimed at investors seeking a fixed income for life without sharemarket risk.

Simple, secure, single digit investing

1% Rebate Offer

Often considered "boring", overlooked for their lack of zip and flexibility, a guaranteed income for life is not to be sniffed at

Annuities are often overlooked by advisers in structuring client portfolios. The cynic in me says "of course, they don't pay enough for advisers to consider them", but I think the reality is that many investors and advisers alike have historically shunned them because of their perceived "low returns". Who could blame them, with the markets consistently delivering double digit returns, its very hard to consider single digit investing.

Now that we have seen that Australia is not immune to global meltdowns, investors have found themselves considering secure alternatives (you only have to look at the inflows to term deposits to see what I mean).

Annuities may be boring, but do you really want to gamble with your retirement?

One of the easiest and most secure ways of ensuring you receive a fixed income has been to purchase a lifetime annuity. Offering investors a fixed income for the remainder of their life, regardless of how long they live for, an annuity can be an attractive proposition for investors wanting to step away from running the gauntlet of the sharemarkets or the uncertainty of rolling from one term deposit to another.

***CommInsure** Lifetime annuity rates 22nd February 2011*

		Income payable p.a. ($100,000 invested) Age 60	Age 65	Age 70
Level income	**Male**	$6,126	$6,816	$7,803
	Female	$5,741	$6,312	$7,127
Income indexed at CPI	**Male**	$4,132	$4,818	$5,786
	Female	$3,743	$4,371	$5,180
***Challenger** Lifetime annuity rates 22nd February 2011*				
Income indexed at CPI	**Male**	$5,413	$5,926	$6,608
	Female	$5,071	$5,554	$6,157

Although you can bolt on options such as a residual value in the event of death or inflation proofing, the 2 main factors influencing the income you receive is your age (the older you are the greater the income), and sex (men receive a higher amount as women tend to live longer).

Our view is that the certainty offered by a fixed income has a definite place with the income investors' portfolio. Those investors who don't want to tie themselves in for life are also able to opt for fixed term annuities with a guaranteed return of capital at maturity.

Investors looking to gain access via CommInsure and Challenger are able to invest via Wealth Focus with a 1% rebate of the initial commission.

Axa North Protected Retirement Guarantee Option – The annuity killer

Axa have gained a lot of attention recently as Australia's fastest growing investment platform with their capital guaranteed investment options. However, their success in the US (where Axa North is heralded as having first been developed), has been around their Guaranteed Income Options.

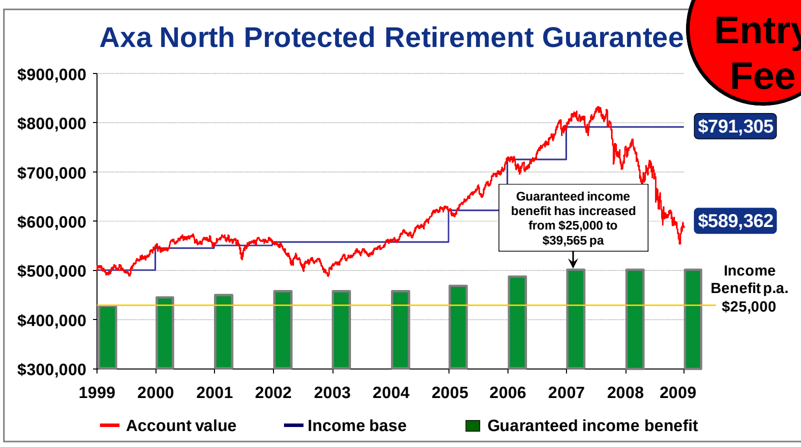
The recent launch of the Protected Retirement guarantee is Axa North's first launch of an income stream to investors and we feel is likely to follow in the same way in Australia.

Have your cake and eat it

Offering an income of 5%pa of the highest fund value* for the remainder of your life, the Retirement allows you to stay invested in equities, secure in the knowledge that should your investments head south, you will always receive 5%pa for the remainder of your life.

With lifetime annuity rates currently sitting at around 6%-6.5%pa (age 65) this could be argued to be an annuity killer. The fallback of 5%pa can almost be considered as an annuity equivalent yet investors can participate in rises in the share market and lock in gains each year.

No Entry Fee



** Growth lock-ins are calculated on each annual anniversary and is the positive performance of the Account Value over the underlying fund value.*

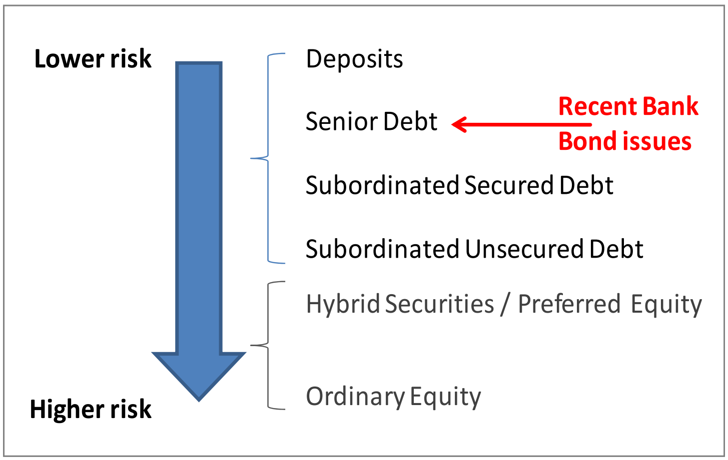
Margin Lending

Comparison Tables

Turn to p.5

Bonds

This investment is a low risk investment aimed at investors seeking a fixed income without equity market risk.



With the increase in the cost of funding globally and changes in legislation making it easier to offer bonds to retail investors, Bond issues are on the rise.

We look at whether the wave of new bank bond IPOs are worth considering.

If you have never heard of corporate bonds, you are not alone. The regulation surrounding the issuance of these products has until recently been cumbersome. As a result, new issues have until recently typically been aimed at the wholesale sector. However, recent easing of paperwork on new issues has meant that bonds issuance is being more readily offered to retail investors.

Since the GFC, the cost of lending has gone up considerably and companies are looking for alternative funding routes. Bond issuance has provided a readily accessible alternative, allowing investors to benefit from the current high cost of lending.

We have seen a number of issuances towards the end of last year, from Healthscope Notes, which we consider to be higher risk bonds, paying a fixed return of 11.25%pa to the opposite end of the spectrum with CommBank Retail Bonds, paying a floating rate of 6.05% pa (1.05% over the 90 day Bank Bill Swap Rate).

Bank Bond Offers

With huge swathes of money currently sitting on deposit, many investors have naturally, compared the yields on offer to those available from their bank. We feel that the bank bonds currently being issued are reasonably attractive on a number of measures;

1. **Interest rests.** Most term deposits for periods of 12-months or longer pay interest only once a year. Bonds typically pay interest (coupons) quarterly, meaning investors can reinvest their coupons quarterly to uplift their overall return.
2. **Liquidity.** Listed bonds can be bought and sold easily on market without penalty*. A change in circumstances for a term deposit investor leading to an unexpected requirement for funds can mean a hefty claw back of interest (break fees) by the Bank if early access to the term deposit is required. Compare break fees for a five year term deposit if access is required after, say, two years, with the cost of selling your bonds via the ASX.
3. **Potential for capital gain.** If the bond price rises above its issue price, the holder has the option of locking in a capital gain by selling his/her holding on the ASX. Several events, including a further tightening in credit spreads, could move the price higher.
4. **Benefit from rises in interest rates.** Investors should take note whether the rate on offer is floating (variable) or a fixed rate bond. The recent issues have tended to favour floating rates, allowing investors to capture any further interest rate rises over the life of the bonds. Interest rates (coupons) on the bonds are typically tied to the 90-day Bank Bill Rate which moves up and down with the cash rate.

FAQs

What are corporate bonds? In its simplest form a corporate bond is a loan to a company. In exchange the company agrees to repay you a fixed or floating rate of interest for a fixed period of time, after which, it will need to repay the original amount borrowed.

What is a floating rate? Bonds pay either a fixed or floating interest rate (coupon), those offering a floating rate will typically link this to the BBSW, allowing you take advantage of anticipated rises in interest rates.

What is the Bank Bill Swap Rate (BBSW)? The Bank Bill Swap Rate is the rate that the major banks lend money to each other at. Whilst this moves on a daily basis, this typically tracks the RBA cash rate.

Why are the yields being offered much lower than the Hybrids I own? Whilst Hybrids generally offer similar income benefits such as fixed or floating rates, it is important to note that Bonds offer more security. In the event of insolvency, Hybrids are typically paid out just before shareholders, whereas Bonds are often ranked as Senior Debt.

Each Bond is different, so you should look closely at where the Bond sits in the capital structure and whether the company can suspend payments. e.g. The recent bank Bond issues only allow suspension of payments in the event of insolvency.

Alpha Results

High Income Structured Product

Turn to p.9

First Time Buyers – A planner's perspective

First Home Saver Accounts

The recent establishment of First Home Savers Accounts has provided investors looking to purchase their first home with an opportunity to get a return of over 50%pa.

A First Home Saver Account (FHSA) is designed for home buyers who are trying to save for their first home. The FHSA is a commitment to saving as a FHSA must receive minimum contributions over four financial years and can only be used to purchase a home once this condition has been satisfied.

It is important to plan ahead when considering a FHSA. If you buy a home before you satisfy this requirement, your account balance is transferred to your superannuation.

NW Advice Strategy Tip:

The FHSA can be reduced to two years and two days if you make contributions in the following manner:

$5,500 on 30 June 2011

$5,500 on 30 June 2012

$5,500 on 30 June 2013

$5,500 on 1 July 2013

Each contribution receives $935 from the Federal Government

Based upon the above contributions and assuming your account pays interest of 6.0% and tax of 15%, the time weighted return on your savings is in excess of 50%.

The good news does not stop there. Having accumulated a deposit of approximately $27,717, you continue to qualify for any State or Federal Government first home buyer incentive such as nil/reduced stamp duty and the First Home Owner's Grant.

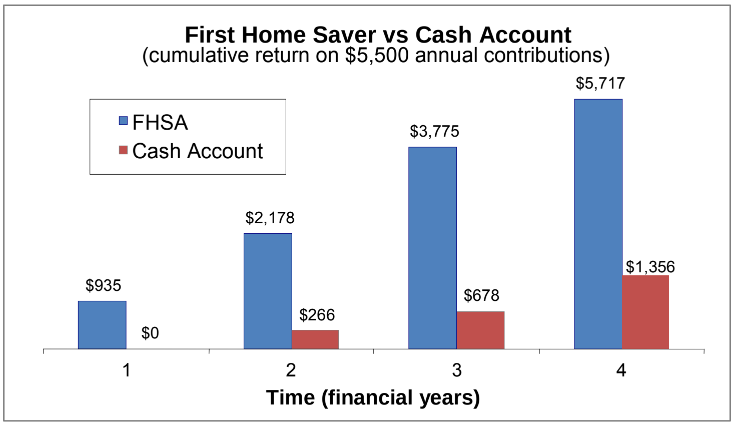
NW Advice Strategy Tip:

By saving a sizeable deposit, you can avoid mortgage insurance and pay less interest which means you can direct your efforts to reducing your mortgage rather than simply paying the interest on it.

It is important to select the right FHSA provider as the interest rates they offer can differ substantially. We are licensed to provide you with advice on the right FHSA.

We have presented a simplistic overview of the FHSA. For further information on the FHSA and the important fine print, please go to: www.fido.gov.au/firsthomesaver

- **High interest rate**
- **Concessional tax rate of 15%**
- **Government contributions of up to $935 per year**



Eligibility

An individual can open an account if they:

- are aged 18 or over and under 65;
- have not previously purchased or built a first home in which to live;
- do not have, or have not previously had, a First Home Saver Account; and
- provide their tax file number to the provider.

REQUEST PERSONAL FINANCIAL ADVICE

Full Name

Address

Postcode | Email

Daytime contact number | Approx. Portfolio Size $

Please tick each service of interest to you: ☐ Investments ☐ Retirement planning

Please return to: NW Advice, Reply Paid 506, Manly 1655

Feature

Synthetic Happiness – Why do we sit on failing investments *Turn to p.3*

The Insider - Shortcomings of 100% Investment Lending into Capital Protected Products

Having worked within the financial services landscape for many years, The Insider provides investors with a behind the scenes view on the financial services industry.

I was recently asked to look at a protected product for a friend of mine; an adviser had recommended he take out a 100% loan ($800,000) and invest in two protected products with a 7 year term in 2008. The view at the time was that since it was a protected product, his worst case scenario was that he would simply receive his money back. He considered that it a punt, but with an annual interest bill of just under 10%, it was worth it as he could always just cash in the investments if the markets didn't perform as expected since it was a protected investment and all he would have lost was the interest he had paid.

Unfortunately, this is not the case. What he had failed to understand (and is clear that his adviser had also not understood) was that the protection only applies at maturity.

In the meantime, he has to continue to paying the interest and what he thought was a punt at 10% was actually a commitment to pay the 10% pa until maturity where his protection would repay his loan. This means he has paid 70% over the 7 years of his investments less the tax deduction on the interest.

There's no point me saying, "The lesson to be learned is ....he should of read the PDS, ... he should of diversified, ... he shouldn't of gambled". In 2008 I distinctly remember questioning one of the sales reps from the companies offering these products as to how their protection mechanism worked. The response I received was "Who cares, it's protected, that's all you need to know".

There was simply a lack of knowledge as to how these products were protected. There was a common misconception among both investors and advisers that you paid an ongoing fee for protection and if the fund fell in value, you could cash it in and get your money back. Many, to their financial detriment, now know the harsh reality.

The changing landscape benefits new investors

Post GFC, advisers and investors can now draw on personal experience that investment markets do 1 in 20 year worst case scenarios seem to be ever more prevalent has forced these products to evolve, providing investors with greater freedom and choice:

1. Many products now offer the flexibility to "Walk-Away" each year without penalty if the investment is below the starting value. This provides flexibility to break your current terms without a financial consequence and the option to reinvest if you desire at a lower level.
2. By far the worst advice I have seen with these products are investors tied into high fixed rate interest loans. With best case returns of around 10%-11%, investors were advised to take a fixed interest loan at a cost of around 10%-11% pa. Not only were they unlikely to ever see a return, but if they tried to cash in early, they would be breaking the loan agreement, regularly resulting in costs of up to 30%.

Rules to investing with 100% investment loans

1. **Do the numbers stack up -** If you are borrowing at say 9% pa, then you need a return of 9% pa to break even. If you don't think this is realistic, don't invest.
2. **Don't get caught in the trap of thinking it's a tax deduction** - You still pay tax if you make a profit, it's therefore better to think of structured products as providing tax deferral.
3. **Steer clear of fixed interest options** – Fixing your interest rate is often seen as a way of reducing the risk of rising interest rates. My view is if you can't afford interest rates to rise, then you can't afford the investment. Fixing your rate often means paying a premium on the interest rate and typically has a high break cost. You are simply locking in a profit margin for the loan provider.
4. **Flexibility is king** – Unlike home loans, investment loans generally mean that your are tied to the same provider until maturity and are often at the mercy of the rates offered by the product provider.

   If you are concerned rates my rise, look for a product with a Walk-Away feature, that way, if the interest becomes unaffordable or the investment falls in value, you can simply Walk-Away.

The new products offering a Walk-Away feature generally means that there is no need for costly fixed interest loans. If interest rates rise and become too costly, you can just "Walk-Away".

I welcome the evolution of the protected product and with the 'Walk-Away' feature my friend would not be nursing a $560,000 financial loss. In fact, had he been able to 'Walk-Away' and reset with a new investment at a lower level, he would already be benefiting from the lower interest rates currently offered and be participating in the market recovery.

With the 'Walk-Away' feature also allowing SMSFs to borrow and invest, flexible capital protected investments and loans are likely to be here to stay.

Structured Products

Limited Recourse Investment Lending *Turn to p.7*

Structured Products

Emerging Trends & News

With investors continuing to consider alternative investments in their portfolios, the structured product space has flourished. Our mission is to provide you with a useful framework in which to assess the new product offerings.

Capital protected products remain the most popular choice for investors as the downside risks are quantifiable. We have covered the popular products in our past newsletters and we continue to up date our reviews in our "At a Glance" comparison table.

Structured Products have continued to evolve with providers focusing on investors primary needs of flexibility, income and protected leverage.

Warrants

Warrants are a central feature of a number of the emerging products. For those investors unfamiliar with Warrants, I have found it easier to think of them as a structured product investment wrapper.

What is the attraction?

The main benefit within Warrants is that investors retain beneficial ownership over the underlying investments which entitles them to franking credits and dividends.

The recent return of investor confidence in the markets coupled with the low cost of options has allowed providers to structure Warrants offering leverage to investors such as SMSFs.

Investors should note that the underlying investment can offer a whole range of features such as providing a fixed income, linking the returns to the performance of a single or basket of shares, some level of capital protection or even a leveraged return.

Our view is that Warrants are not something to be afraid of but investors should make sure they do their due diligence in understanding the features of the particular product they are looking at.

Westpac Self Funded Instalments (SFI's) Launched

We have featured SFIs on page 7. SFIs have been a popular strategy amongst SMSFs looking to leverage their equity exposure. the high cost of protection due to elevated volatility made SFIs expensive and unviable. The recent drop in market volatility has reduced the cost of protection and SFIs are likely to experience a resurgence. We will not be surprised to see a relaunch from the other major banks over the coming months.

Income Focus

There have been a number of products such as Alpha Results (Income) Series, UBS Goals and JB Global Income Generator launched over the last 12 months. These offer investors an enhanced fixed income for a fixed term and a return of capital provided one of the shares in the reference basket does not fall by more than the barrier (typically 25%-40% below the starting price). With the baskets typically made up of a handful of blue chip shares, investors looking for enhanced income have viewed a barrier event unlikely.

We expect to see a number of variations on this theme as income generation continues to be highly desirable to investors.

More on Volatility Overlays

In our March 2010 issue we discussed the increasing prevalence of volatility overlays in structured products. Investor participation in the growth/loss of the underlying investment decreases as volatility goes up and increases as volatility goes down. This results in a lower product costs as the issuer does not have to bear the cost of hedging when volatility is high, and therefore costly.

Volatility band	Asset weighting
0%-9%	150%
9%-12%	125%
12% -15%	110%
15%-19%	100%
19%-21%	80%
21%-25%	60%
25%-30%	30%
>30%	0%

Comparing volatility overlays

It should come as no surprise that not all volatility overlays are equal and investors should note both the targeted volatility of the investment, ie what does volatility need to average to obtain 100% participation, and the period of time that the volatility is averaged over, ie volatility averaged over a short period such as 20 days, or a long period, such as 6 months, can be counterproductive to the risk management process.

We consider 60 days to be a reasonable time frame to track rises and falls in volatility and typically use this as our yard-stick when comparing products. Investors looking for a reference point on volatility of the ASX 200 should expect this to typically sit in the range of 15%-20%.

Questions to ask when considering Warrants

1. Are they (ASX) listed or unlisted?
2. Is there any capital protection?
3. Am I getting leveraged gains/losses?
4. Is there a fixed return/income?
5. Is there an overriding contingent criteria to receiving the return?

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Capital protection comparison table

Last updated: 4th March 2011

2011 Capital Protected Products

Investment name	Min. Initial Investment	Type Capital Protection	Investment Term	Income	Level of protection /guarantee	Level of participation in underlying investment fund	Able to borrow to invest	Closing date	Fund choice	Wealth Focus Rebate Offer	Lonsec Rating	Notes
Alpha Results *Series 10* (Income)	$20,000	Put options	18 mths	Monthly 12.1%pa irrespective of performance	100% provided lowest share does not fall > 40%	N/A	No	28/03/2011	Capital return linked to basket of shares AMP, BXB, RIO, WES, QBE	-	Recommended	This strategy could be considered suitable for sideways markets as capital growth is given up in lieu of receiving a fixed monthly return. Some limited protection provided - provided no share falls by >40%, 100% capital return.
Alpha Results *Series 10* (Leveraged Income)	$20,000	Put options	18 mths	15%pa irrespective of performance	100% provided lowest share does not fall > 40%	N/A	No	28/03/2011	Capital return linked to basket of shares AMP, BXB, RIO, WES, QBE	-	Recommended	Leveraged Income is identical to Income option. Higher income = greater risk. If 40% barrier breached, investors get 75% of lowest performing share.
Axa North (Investment Guarantee)	$20,000	Dynamic Hedging	6 or 8 years	Distributions reinvested until end of term	100% rising guarantee	100%	No	Ongoing	49	**No initial fee**	Recommended	Charge for protection is explicit and can initially look more expensive than other products. Added benefit of ability to turn off when not needed. Ability to switch funds
Axa North (Growth Guarantee)	$20,000	Dynamic Hedging	10 or 20 years	Distributions reinvested until end of term	100% rising guarantee	100%	No	Ongoing	49	**No initial fee**	Recommended	Charge for protection is explicit and can initially look more expensive than other products. Added benefit of ability to turn off when not needed. Early encashment benefits from an "accrual" of protection level.
Axa North (Retirement Guarantee)	***$20,000***	***Dynamic Hedging***	***Lifetime***	***5% pa guaranteed for life***	***100% rising guarantee***	***100%***	***No***	***Ongoing***	***49***	***No initial fee***	Recommended	***The guarantee of 5% pa of the highest annual anniversary fund value makes this an attractive alternative to lifetime annuities.***
CBA - Capital Series *Cornerstone* (strategy 1)	$10,000	Bond + Call	5.5 years	5%pa after 18 mths	100%	100% *(hurdle of 25%, capped at 70%)*	Yes	11/04/2011	Basket of 20 largest ASX shares	***2% (1% if no loan)***	Investment Grade	A fixed income of 5%pa, provides an alternative for term deposit investment holders with the potential for further upside of over 8%pa should the basket of shares increase in value
CBA - Capital Series *Cornerstone* (strategy 2)	$10,000	Bond + Call	5.5 years	NIL	100%	165% *(capped at 50%)*	Yes	11/04/2011	S&P ASX 200	**2% (1% if no loan)**	Recommended	Investment Return capped at 50% x 165% = 82.5% capped return.
HSBC 100+ - Emerging Markets Outperformance *(Income)*	$20,000	Bond + Call	3 years	Distributes gains as income each year	100%	70% (Volatility overlay participation between 0-150%)	No	18/03/2011	Outperformance of the Global Emerging Markets (GEM) Index over developed markets	**1%**	Recommended	Income option is our preference on HSBC growth vs income, however, we feel the volatility overlay is calculated over too short a time frame. There is a further participation reduction to GEM based on market trends which seems questionable.
HSBC 100+ - Emerging Markets Outperformance *(Growth)*	$20,000	Bond + Call	3 years	NIL	100%	100% (Volatility overlay participation between 0-150%)	No	18/03/2011	Outperformance of the GEM Index over developed markets	**1%**	Recommended	Good strategy for those who feel Emerging Markets will outperform developed markets. We feel the volatility overlay is calculated over too short a time frame and the further reduction to GEM based on market trends seems excessive.
INstreet - Mast ARC (Series 5)	$25,000	Bond + Call	3 years	Distributes gains as income each year	100%	100%	Compulsory *(available for SMSFs)*	8/04/2011	Absolute Return Commodities Index *(Barclays Capital ComBATS 6 VOLT 5% Excess Return Index)*	**No initial fee**	Recommended	100% loan is in-built to this product. Low cost of borrowing (6.35% pa). Can Walk-Away at any time if investment falls in value without any liability. Annual reset feature is attractive.

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Capital protection comparison table

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2011 Capital Protected Products

Investment name	Min. Initial Investment	Type Capital Protection	Investment Term	Income	Level of protection /guarantee	Level of participation in underlying investment fund	Able to borrow to invest	Closing date	Fund choice	Wealth Focus Rebate Offer	Lonsec Rating	Notes
INstreet - Mast ASX200	$25,000	Bond + Call	5 years	Distributes up to 5% gains each year	100%	Volatility overlay - participation between 0-150%	Compulsory (available for SMSFs)	8/04/2011	ASX 200	**No initial fee**	Recommended	100% loan is in-built to this product (interest rate of 8.8% pa). Can walk away at any time if investment falls in value without any liability. Annual Walk-Away / reset feature is attractive
JB Global - Income & Accelerator 16 - ASX200	$50,000	Bond + Call	3 years	Distributes up to 9% gains each year	100%	Volatility overlay - participation between 0-150%	Compulsory (available for SMSFs)	30/03/2011	ASX 200	-	Investment Grade	All 3 years are paid up front. A performance fee is unusual to see within these types of products. We like the annual distributions and 3 year term.
JB Global - Income & Accelerator 17 - Berkshire Hathaway	$50,000	Bond + Call	3 years	Distributes up to 9% gains each year	100%	Volatility overlay - participation between 0-200%	Compulsory (available for SMSFs)	30/03/2011	Berkshire Hathaway Class B Shares	-	Approved	All 3 years interest paid up front. The 10% performance fee is unusual to see within these types of products. We like the annual distributions and short 3 year term.
JB Global - Income & Accelerator 18 - Chindia	$50,000	Bond + Call	3 years	Distributes up to 9% gains each year	100%	Volatility overlay - participation between 0-150%	Compulsory (available for SMSFs)	30/03/2011	Average of Hang Seng China Enterprises & CNX Nifty Futures (India)	-	Investment Grade	All 3 years interest paid up front. Average of growth in China & India offers investors a good alternative to other products. A performance fee is unusual to see within these types of products. We like the annual distributions and short 3 yr term.
Macquarie - Flexi 100 (Class AD - AE)	*$25,000*	Bond + Call	5.5 years	4%pa	100%	100% *(hurdle of 22%, ASX 200 is capped at 100% growth)*	Compulsory (available for SMSFs)	18/03/2011	S&P ASX 200 or Asian Equities	**2% rebate on loan fee**	Recommended	Fixed income is an attractive feature. Note that the final growth deducts this (the hurdle). Play off is the cap on returns Annual walk away feature means investors are not tied in
Macquarie - Flexi 100 (Class AF)	*$25,000*	Bond + Call	3.5 years	6.5%pa in years 1&2 + 3.25% in year 3	100%	150% *(hurdle of 16.25%, capped at 65%)*	Compulsory (available for SMSFs)	18/03/2011	Australian Equity Focus Basket	**2% rebate on loan fee**	Recommended	Investors receive 100% of gains over the 16.25% hurdle, ie the distributions are deducted from the final growth payout *Enhanced participation rate of 150%* Annual walk away feature means investors are not tied in
Macquarie - Flexi 100 (Class AG)	*$25,000*	Bond + Call	3 years	Growth distributed each year as income *(capped at approx. 17%)*	100%	100%	Compulsory (available for SMSFs)	18/03/2011	S&P ASX 200	**2% rebate on loan fee**	Recommended	Annual walk away feature means that investors can walk away if the investment falls in value and reset at the lower level.
Man Investments Australia - OM-IP Global	$5,000	Bond + Call	9 years	No	100% and rising as fund value increases	160% (100% participation in AHL and 60% to GLG Global)	100% available through NAB	21/04/2011	100% exposure to AHL Diversified Program plus 60% to GLG Global (hedge fund)	**3.8% rebate**	Highly Recommended	The lower cost of protection has seen a reduction in the term to 9 years. Primary returns anticipated to come from AHL. One of the few investments that aims to provide returns in both rising and falling markets

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