stone house
WEALTH MANAGEMENT

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Articulating the Stonehouse Investment Philosophy

Ben Hancock, Partner/Senior Adviser
Mark Stewart, Partner/Senior Adviser

Since its inception, Stonehouse has maintained an investment philosophy founded on the principles of diversification, conservatism, value orientation and considered opportunistic asset allocation. For many years, these principles have been applied through the use of multi-asset portfolios which incorporate strategic allocations to particular asset classes with a tactical allocation overlay.

The strategy of multi-asset investing is simply about allocating funds to a number of different asset classes such as equities, property, fixed interest, cash and 'alternative' investments in order to achieve a certain level of anticipated returns. The primary motive for this approach is that each asset class has its own attributes and brings unique benefits when combined within a portfolio, hence increasing the probability of performing well in a variety of market conditions.

To illustrate the techniques further, an overview of the various approaches used in multi-asset investing is required. Strategic asset allocation is the style utilised for the majority of 'Balanced' funds such as industry super and other traditional offerings. It involves the determination of a static allocation to a certain mix of asset classes from the outset and its success in delivering value to an investor is determined by its performance relative to a composite benchmark index of assets reflecting its own rigid asset mix. The downside to this approach is that allocations to the best performing assets must always be reduced, and allocations to the worst performing assets be increased to enable portfolio rebalancing to the pre-ordained allocation mix in spite of the particular prospects for the asset classes concerned.

While similar in some ways to this approach, Stonehouse has traditionally used a more active method of multi-asset investing known as tactical asset allocation. Tactical asset allocation is similar in that a base asset allocation is determined to meet a client's long term needs from the outset but differs in that the asset allocation may be altered (generally within certain mandated boundaries) to take advantage of current opportunities and thereby seek to add value.

Our measure of success with this approach however does remain a relative one; assessing the performance of client portfolios with a composite index of similar assets - attaining a rate of return equal to, or greater than, a weighted allocation to certain asset benchmarks.

Reflecting a desire to add even further value in the management of client portfolios, and no doubt accentuated during the global financial crisis, Stonehouse embarked on an approach that would no longer set a relative benchmark but rather an 'absolute' one when determining its success in the management of client monies.

"As Warren Buffet once proffered, the number one rule of investing is not to lose money; the number two rule is not to forget rule number one!"

As such, no longer did we intend to congratulate ourselves for the outperformance of a benchmark, no matter whether the outcome be positive or negative but rather to set in place an absolute return benchmark for the core of client portfolios.

As Warren Buffet once proffered, the number one rule of investing is not to lose money; the number two rule is not to forget rule number one!

In order to enable this approach, the use of dynamic asset allocation was employed through the ASIC regulated Stonehouse Core Value Portfolio which delivers the most flexible multi-asset investing approach. This

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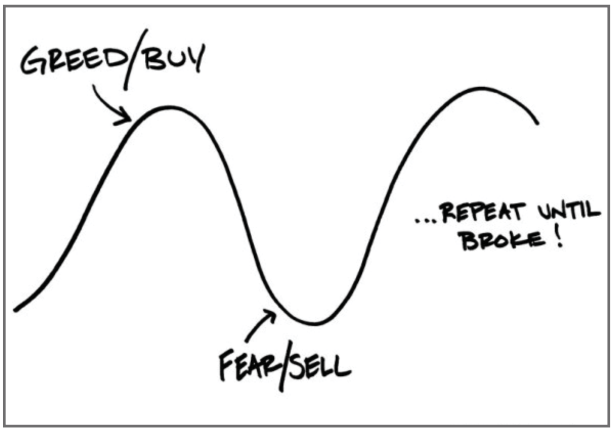
allows for no pre-set weightings to any particular asset class, providing the freedom to generate profits in whichever assets show the most promise and hence provide for a focus on absolute (i.e. positive) returns in all market cycles.



Though a process of redeeming assets as their valuations become stretched and buying those whose valuation metrics are more compelling may seem simple, it is a technique that requires a systematic approach that mitigates the human inclination to buy assets while they peak and sell when they deteriorate in value, the folly of which is illustrated left.

As the name suggests, this 'core' to client portfolios may be complimented by the use of additional assets referred to as 'satellite' investment holdings. This unique 'core and satellite' approach enables Stonehouse Advisers to tailor the investment needs of all clients, from a focus on income and selective asset draw down for those in retirement, to lower turnover and tax efficiency for asset accumulators.

While not the focus on this article, asset class segment and individual security selection is also very important and here our focus on value and return on equity is paramount. This being said, it is widely acknowledged that asset allocation is the overriding determinant of portfolio performance and hence the hook upon which asset composition decisions hang.

The Risk with Risk Comparison Websites

Click, compare and save. It's that simple. Or is it? Life insurance comparison websites have come under close scrutiny lately for a series of issues ranging from claims regarding misrepresentation to questions about the fullness of disclosure.

The claims came after it was noted that one website in particular, listed a range of common insurer logos (such as AMP, Zurich and BT) on their home page which then did not correspond to the actual products offered.

Furthermore, the seven different insurers that were listed, were found on closer inspection to be all owned by the one company – which incidentally, also owned the comparison website.

In December 2012, the Australian Securities and Investments Commission (ASIC) warned such websites about the need to provide accurate information.

The regulator noted that there was insufficient disclosure regarding relationships between website operators and the issuers of the insurance brands being compared.

Furthermore, ASIC found that, "Some of the websites only compare a limited number of brands/products from a limited number of providers. This may not be clearly disclosed, which creates the impression that the extent of comparison is much broader than it actually is."

Stonehouse partner Mark Stewart says that using comparison websites may offer very little choice or value as well as limiting customers to generic 'one-size-fits-

all' policies that may not be fully suited to their needs or requirements.

"As advisers, it's our job to study an array of policies in detail so as to be able to provide suitable, tailored, cost effective options to our clients whose situations we need to be well aware of as part of our strict industry guidelines."

Furthermore, in most cases Stonehouse advisers are paid by the insurance providers after successful underwriting of policies for their clients. The client's will likely pay the same premium if they went direct to the insurer, or utilised an online option if it was available.

"I guess the question is, why wouldn't a client want an experienced adviser to take them through the process, removing much of the 'guess work', and providing appropriate advice through what may seem a simple, but can actually be a complicated area?"

Superannuation Changes Update

Louis Strange, Financial Adviser

In the latest Winter edition of our newsletter I wrote an article on the proposed changes to the superannuation system by then Treasurer, Wayne Swan.

On the 6th of November, the current Treasurer, Joe Hockey announced the Government's decision to abandon some of the previous Government's superannuation proposals.

A key measure that would have affected superannuation was the proposal to tax people's superannuation pension's earnings above $100,000 in pension phase. This measure has been withdrawn due to its complex nature and administration nightmare for superannuation funds as well as following pressure from advisers and industry bodies.

Also, the Government confirmed that it will proceed with the increased concessional contribution cap for those aged 60 and over in the 2013-14, and 50 and over in the 2014-15 financial year. From 1 July 2013 taxpayers aged 60 and over will have a $35,000 concessional contribution cap, and, from 1 July 2014 taxpayers aged 50 and over will have a $35,000 cap. This is an increase from the current concessional cap of $25,000 in a financial year - a great outcome.

However, the Low Income Superannuation Contribution (LISC) has been repealed. The LISC was a government contribution to superannuation for those who earn under $37,000 per year, to ensure that they did not pay more in tax on their employer contributions to superannuation (at 15%) than they would personally at their marginal tax rates. The LISC will no longer be available from the 2013-14 financial year.

In the 2012-13 Federal Budget the also government announced that from 1 July 2012, individuals earning income of more than $300,000 will have their contributions tax rate increase from 15% to 30% (excluding Medicare levy), paid within superannuation. No changes to this policy have been announced.

Finally, the Excess Contribution Tax (ECT) regime for concessional contributions will proceed as announced by the previous Government. This will allow taxpayers that have exceeded their concessional contribution cap after 1 July 2013 to withdraw the excess contribution which will be taxed at their marginal rate. This will be beneficial for those whose taxable income is below the highest marginal tax rate.

For further clarification or if you believe any of these changes may apply to you or affect your superannuation, please contact your Stonehouse adviser.

Five Minutes with ...

Emma Judd, Client Service Officer
Stonehouse Group

What does your job entail?
I provide support to the Advisers and Client Service Managers, which involves sending correspondence, data entry and also liaising with external companies to follow up recommendations or obtain required information.

What first drew you to the industry?
I have always been interested in finance and the different strategies which can be implemented to increase wealth. When Stonehouse had an opening in their Client Service Team I thought it would be an interesting role as the industry is always improving and changing. It has been a great opportunity for me to grow and expand my knowledge in wealth management and administration.

When not in the office you can be found?
Spending time with my husband of 5 years and our dog Russ, catching up with friends, going out for breakfast and lunch or just relaxing, watching movies and going to the beach.

Latest holiday destination?
I am going to Phuket and Koh Samui over the Christmas holidays for two weeks, which I am very excited about as it will be my first time to Thailand. I'm looking forward to relaxing on the beach, shopping, seeing the sights and doing Hanuman Zip Lining.

Favourite meal?
My favourite meal is my Mum's famous Corn Beef, nothing beats Mum's cooking.

What are you currently reading?
I have just started reading 'The Note Book' by Nicholas Sparks. I love the movie and have heard that the book is just as good.

Merry Christmas and a Happy New Year!

We would like to wish all our clients, staff and associates a very Merry Christmas and a happy, healthy and prosperous New Year.

Each of our Stonehouse offices will be closed over the festive season from Friday, December 20 and will be re-opening Monday, January 6.

Thank you all for an outstanding 2013 and may 2014 bring you every happiness.

Kane and Kirsty

Congratulations!

A big congratulations to Stonehouse Partner and Financial Adviser Kane Livingstone, who tied the knot recently with fiancé Kirsty Ehlers.

Their fun-filled reception was held at Yandina Station on the Sunshine Coast and was followed by a brief sojourn in Fiji's beautiful Mamanuca Islands.

Prestigious FPA Fellowship Awarded to Stonehouse Adviser

Ben Hancock, Partner and Senior Adviser with Stonehouse Wealth Management, was announced as a Fellow of the Financial Planning Association of Australia in October this year.

This award, one of only three awarded in 2013, made Ben the youngest and one of only 67 Fellows to attain this honour from over 10,500 members of Australia's peak professional association for financial advisers.

FPA Fellowship is awarded by the board of the FPA for outstanding financial planning practitioners who have made a selfless contribution to the profession and the community displaying leadership and the respect of peers as an exemplary role model.

SMSF Notice Board

- For those superannuation fund clients who have not sent the necessary documentation in for the preparation of the 2013 returns, can you please do so immediately.
- The Quarter 1 BAS were lodged in October. The BAS for Quarter 2 will soon be issued. Can you please ensure that you have your information for these early in the new year.
- Have you changed your contact details? If so, phone or email our office and let us know.