



A middle ground

Planning a couple's investment strategy often means taking two very different risk tolerances and profiles into account, as Mark Story reports

When it comes to financial matters, Sydneysiders James and Jenny Pittar are the quintessential odd couple. While Jenny has a moderate appetite for risk, James - who works for the tax office - would prefer to shove their savings under the mattress. When they met, Jenny, who'd dabbled in equities and property investments, owned her own apartment. Meanwhile, James was sitting on a mountain of dormant UK-based direct equities that had done little since he inherited them 10 years earlier.

While Jenny knew a thing or two about investing, she lacked the discipline to do anything about it. That's one of many reasons why she approached friend, and financial adviser, Lisa Faddy to find an investment middle ground comprising capital protection and growth upside.

LIFE-CHANGING DECISIONS

Armed with a balance sheet and no specific idea of what the couple wanted to achieve, Jenny gave Faddy an open-ended brief to improve their financial situation. What also drove Jenny to seek financial advice was her growing dissatisfaction with their financial set-up.

It seemed incongruous to Jenny that selling her apartment to fund an \$800,000 house should leave them \$600,000 in debt when they had this languishing war chest in the UK.

"We always knew that we could bail ourselves out using the UK shares, but we had little idea of when or how it should be done," Jenny says.

The decision to start a family, relatively late in

life (at 41), also meant they would have to reassess their income while Jenny took 12 months' maternity leave from her job in IT consulting and James became the sole bread-winner.

Jenny was also keen to ensure that if anything happened to her, James - who'd been blind since his teens - would have sufficient income to look after himself and their daughter, Annica, who's now a year old. She also wanted to ensure James would be able to continue his charity work as a marathon swimmer.

REFINANCE AND DIVERSIFY

Having assessed their financial situation, Faddy's first mission was to bring the UK-based shares into Australia. Not only would that address their high debt level, it would also remove the risk of negative foreign exchange volatility.

"Given market and exchange rate movements, they would have lost a lot of money over the last year had they not made the change," Faddy says.

But instead of bringing the shares down in one lump sum, Faddy recommended that the Pittars spread the CGT hit over two years. This meant selling shares with the least capital gains tax (CGT) late June and those with the most CGT early in the new tax year.

Funds from the shares were put aside to pay tax bills, and reduce the non-tax-deductible debt on the mortgage to \$50,000. Some of the proceeds from the shares were also paid to the Pittars to top up cash flow while Jenny was on maternity leave. Faddy managed to achieve an annual tax saving



**PORTFOLIO SNAPSHOT
JAMES AND JENNY PITTAR**

Managed funds

BT Wrap: Now valued at \$265,000. Diversified investment portfolio of wholesale managed funds. Distributions taken in cash.

Capital protected investments

Macquarie Fusion: Total annual cost, \$18,700
HFA Octane Asia: Total annual cost, \$16,000

Personal super

Jenny: Colonial First State. Increased contributions to capitalise on government co-contribution scheme. Around \$100,000.
James: A defined benefit, PSS Fund. Increased salary sacrifice by 3 per cent.

Direct property syndicates

Centro MCS: \$40,000.
Trilogy Medillink Property Income Syndicate: \$25,000.

Property

Rental: Part share in a Jindabyne unit delivering nominal income.

Insurance cover

Jenny: Life insurance: Increased within super fund to \$600,000.
Jenny: Life insurance and trauma policy (\$4800 per month), MLC.
James: Income protection policy (\$3000 per month), MLC. Payable for five years (after 30-day waiting period).
James: Also increased life cover within his PSS super.

of around \$16,000 for the Pittars and, overall, \$25,000 and \$65,000 were redeemed for income needs in late 2007 and 2008 respectively.

MORE DEBT

To maximise the Pittars' earning power, Faddy recommended taking out an investment loan to establish a diversified investment portfolio. Interest on the loan would be tax-deductible, as the loan was being used to produce taxable income via dividends and managed fund distributions.

While the Pittars had the capacity to borrow up to \$550,000, they only felt comfortable drawing down around \$350,000.

"Lisa recommended drawing down more, but

we didn't want to be too close to the edge on repayments," Jenny says. "With interest rates up around 7.5 per cent, we were keen to use extra cash flow to reduce the size of our overall loan."

Having substantially reduced the debt on the home loan, Faddy proceeded over a few months to establish a \$335,000 diversified investment portfolio of wholesale managed funds using BT Wrap as the administrators. Faddy recommended managed funds over direct shares for the diversification they provide. While index funds are a core part of the portfolio, active funds also provide greater growth upside.

Meanwhile, the \$100,000 that Jenny held across six super funds was consolidated into her company fund with Colonial First State's FirstChoice.

"Had Jenny and James been 20 years older, tipping proceeds from shares into super may have been an option. But I wanted to provide a vehicle that would maximise their gearing potential, and still provide the flexibility to use those funds prior to retirement," Faddy says.

Given the Pittars' limited appetite for risk and their ongoing cash-flow requirements, Faddy also recommended two \$200,000, 100 per cent capital protected investments: Macquarie Fusion, and HFA Octane Asia.

Faddy also steered the Pittars into two, five-year direct property syndicates that would pay tax-deferred income while providing longer-term capital growth.

PROTECTION

The next step was to review the Pittars' insurance requirements and ongoing super fund contributions. As Jenny had always been the family's primary bread-winner, it was decided to increase her life insurance cover to \$600,000 within her company super fund, and to take out trauma insurance (with MLC) that would pay \$4800 per month if anything happened to her. They also took out an income protection policy for James (also with MLC) that would pay \$3000 per month, if needed. His life insurance cover was also increased through his PSS staff super fund. Both James and Jenny also increased their super fund contributions to maximise co-contribution benefits.



**THE PLANNER
Lisa Faddy**

*Majella Wealth Advisers
Neutral Bay, NSW*

Faddy holds a Bachelor of Commerce and Law from the University of NSW, a Graduate Diploma of Applied Finance from the Securities Institute, an MBA (Executive) from the Australian Graduate School of Management, and is a Certified Financial Planner. A former authorised representative of Godfrey Pembroke, she co-founded Majella Wealth Advisers in 2002 with business partner Joanna McCreery.

Advice structure

Majella charges a percentage of funds under advice (on the Pittars' BT Wrap portfolio) based on the amount of work undertaken. By rebating back to the Pittars as many of the entry fees as possible on the property syndicates and capital protected funds, they paid no entry fees or were given additional units.

History

Faddy was a long-standing friend of the Pittars who had known James since her school days. Their decision to seek financial advice for the first time was triggered by plans to implement several life-altering events – notably plans to start a family. Temporarily going from two salaries to one also raised income protection issues. Reduced income also placed closer scrutiny on a sizable offshore share inheritance that had been trading water for almost a decade.

Strategy

Faddy's recommendations revolved around restructuring and diversifying a significant basket of under-utilised assets to deliver the best, tax-efficient outcome, and improving insurance protection to ensure they could maintain their lifestyle in the event of injury or death. "I also wanted them to maintain tax-effectiveness through use of some index-based funds, tax-deferred distributions from property syndicates, and tax deductions from interest used to purchase income-earning investments," says Faddy.

PERFORMANCE

Since joining forces with Faddy, the Pittars' portfolio is up around 8 per cent (less dividends) - and considering the 25 per cent equity market fall

over the first quarter of 2008, they aren't complaining.

Having successfully restructured their finances and provided the needed cash-flow to see them through Jenny's maternity leave, Faddy is now taking a watching brief on their investment strategy going forward.

While the fall-out from the subprime meltdown has dragged down overall portfolio performance, Faddy says there's no need for a major strategic re-think. As long-term investors, she says it's more important that their investment strategy is sufficiently flexible to cater for any planned or unexpected lifestyle changes.

While the Pittars are contemplating having another child, self-employment for Jenny is also on the horizon. Over the next two months she's planning to transition from her current role into her own book-keeping business. "I'm currently doing a Masters in Accounting and eventually plan to have book-keepers working under me," Jenny says.

"I will no doubt be calling on Lisa's expertise to work out how much I should be paying myself, and increase super contributions to reduce tax."

HINDSIGHT

To Jenny, the decision to pay a fee for financial advice - rather than commissions - was fashioned somewhat by her parents. They'd successfully convinced her that people who paid a fee were better off.

She was also attracted to the range of products that Faddy was able to offer. "I was also encouraged by Majella's client-base, as many of them weren't too dissimilar to James and me," says Jenny.

In hindsight Jenny wishes she and James had sought professional advice years earlier - especially when it came to the festering UK-based stocks. What she regrets most is not having more specific investment goals when they first engaged Faddy. "I realise now how useful it is to have a well defined idea of what you want your money to do for you, before you engage professional advice," Jenny says.

"The more you know, the more an adviser can gear their advice to you." ■

Why not Gen Y?

They can be a pain, but Gen Y could also prove to be lucrative clients, writes Kristen Paech

Typically considered overconfident and overpaid, Generation Y has a reputation for asking for the world and offering little in return.

They aspire to run their own business - but balk at the thought of a 40-hour week.

They expect training, cash bonuses and other perks as part of their employment package, yet wouldn't hesitate to leave a job after as little as one year.

But while their attitudes and values might be at odds with their Baby Boomer parents, Generation Y is the future of the workforce and is soon to be the lifeblood of financial planning firms.

Bernard Salt, partner at KPMG and commentator on consumer, cultural and demographic trends, says financial planners must establish a connection with the Baby Boomers' Gen Y kids or risk being left behind.

Gen Y - broadly defined as those born between 1978 and 1994 - will inherit Baby Boomer wealth and should be a major focus of the planning industry over the next five years, he adds.

"You have a relationship established over 30 years with Baby Boomers as parents, you need to establish a relationship with Generation Y," Salt told planners at the Securitor convention in Auckland in late April.

"The financial services industry is starting to wake up to the fact that the Baby Boomer opportunity ends at the end of the decade and if you don't move now as a financial planner or business you'll be wrong-footed and out of sync with the market in five to 10 years."

Salt says while the bulk of funds under advice belongs to Baby Boomers, this will change imminently as this older generation moves into retirement and eventually dies off.

He also quoted unpublished data from the



NEIL YOUNGER

'Gen Y will inherit Baby Boomer wealth, and should be a focus of the planning industry over the next five years'

2006 Census, which revealed the average income per person aged 15 to 100 typically rises through their 20s and 30s and peaks between the age of 45 and 49.

Contrast this with the 1986 Census, which found wealth peaked at between 39 and 44 years