

Trust in advice

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Having a financial plan is one thing, but it sometimes takes a life-altering experience before good advice has real value

Being somewhat intimidated by “all things financial”, Sydney-based audiologist, Martha Follent, thought little of the complimentary financial plan that a former employer paid for her to have done some years back - in fact she filed it straight in the bin. But an unexpected redundancy three years ago, from her role as international trading manager with a listed healthcare device provider, then forced her to seek and pay for financial advice for the very first time. Recognising that Follent had no idea what to do with her redundancy package or how to structure her finances while transitioning to self employment, a friend referred Follent to her own financial adviser, Michael Johnsen. Based on little more than her friend’s recommendation, Follent felt sufficiently comfortable to place her financial affairs in Johnsen’s care, despite the fact she lives in Sydney and his business was 300 kilometres away in Scone. “I often admired the way my friend was always coming back from exotic holidays, and thought she must be getting some pretty good financial advice to be able to afford this,” recalls Follent. “Being a frequent visitor to Sydney meant that Michael would always come to me, so in reality the distance issue worked in my favour.”

MAKING THE TRANSITION

When Follent was retrenched, she owned her own apartment on Sydney’s North Shore, had a modest amount in a company super fund, plus a six-figure parcel of shares accumulated while working for her former employer. In an attempt to diversify, Johnsen’s first job was to reinvest Follent’s employee super by rolling it into a platform encompassing nine different funds. With a maximum of 20 per cent in any one fund, her super was divided into a balanced portfolio comprising domestic, international, cash and fixed interest.



The Planner

Michael Johnsen

Johnsen Walker Financial Services

To offset tax payable, Johnsen recommended tipping more into these funds utilising the MDC (maximum deductible contribution) rules, which changed in the lead-up to July 1, 2007. But because of her age (55), Follent’s super contributions are now subject to a concessional limit of \$100,000 a year. Beyond the obvious rollover of her super fund, Johnsen’s recommendations centred on rearranging Follent’s finances to help the leap from the corporate world into self-employment. Adding to this dynamic, Follent concluded that she needed to upsize her house to accommodate what would become a home office. “As Martha is a single woman with no dependants, her key financial drivers were wealth creation

and tax minimisation, especially given the direct shares she needed to sell to acquire another property,” says Johnsen.

TAX MINIMISATION

Her initial plan was to do this by selling down her sizeable parcel of shares and remain debt-free. Strategically it made sense for Follent to diversify her one-stock share portfolio. But what Follent didn't realise, says Johnsen, is that a complete sell down of her shares to either diversify into other shares or buy another property would have left her with a significant capital gains tax (CGT) bill. Instead, they decided to spread the taxable income over two tax years to reduce the impact of CGT. They also decided that the new property would be partly funded by a partial sell-down of shares, and partly by bank debt. According to Johnsen, the biggest potential downside for Follent would have been an ill-timed sell-down of her entire shareholding, instead of rebalancing it with appropriate debt levels. A gradual divestment of the remaining 40 per cent of shares will be used to diversify into other equities. By deciding to sell half the shares in a year when her income was demonstrably lower, Johnsen saved Follent around \$90,000 in income tax as a result of reducing her net capital gain. In the '06/'07 year she made deductible contributions to super of \$138,484, which resulted in a tax deduction of \$105,113. “We could have significantly boosted Martha's super by cashing all the shares out and transitioning to a retirement pension,” recalls Johnsen. “But given the cash flow potential ahead of Martha in her new business, and without compelling tax reasons to do this, it wasn't a realistic option.”

TRUST TRAIL

In addition to arranging the necessary bank loan, Johnsen also helped Follent with insurances, salary protection, and associated tax issues. Given the time he invested in explaining the various options along the way, Follent says her trust in Johnsen's advice grew fairly rapidly. “I was very comfortable with paying a fee for this service, and as a one-stop solution, I know exactly what I'm up for,” says Follent. “I no longer feel browbeaten by financial decisions. This experience has built my confidence and I now feel like I'm in control of what I'm doing.” Had she not been able to establish a personal rapport with Johnsen, Follent suspects that it would have been considerably harder to ask questions in fear of looking stupid.

Portfolio Snapshot

Martha Folent

Managed funds

Balanced portfolio – Maximum 20 per cent in any one fund

Domestic:

Deutsche Australian Bond 9.65 per cent

ING Australian Share Fund 16.29 per cent

Perpetual Industrial Share 14.63 per cent

Reef Property Securities 12.52 per cent

International:

Axa Global Equity – Value 11.71 per cent

Credit Suisse International Share 11.90 per cent

Perpetual International 11.96 per cent

Defensive:

FirstChoice Fixed Interest 9.85 per cent

Colonial First State Cash 1.51 per cent

Equities:

A significant parcel of shares in ASX listed healthcare device provider which will be progressively sold down

Rental property

Apartment on Sydney's lower North Shore.

Home residence, lower North Shore

Net worth

Now \$2.2 million

Before the sharemarket decline \$2.5 million

At December 2004 \$1.7 million

"By having the patience to answer my questions, no matter how silly, I've been educated in how doing certain things will deliver the lifestyle I'm looking for over time," Folent explains. But that doesn't mean she has accepted without question every piece of advice Johnsen has provided. Contrary to his initial sell recommendation, Folent has chosen to retain her former residence as an investment property. A good test of the quality of any client/adviser relationship, says Folent, is the ability of the client to say: "Well... I don't want to do that, but what if we do this instead?" "A degree of scepticism is always healthy, and the better educated you become, the greater the scrutiny you can bring to the table," she says.

RIDING THE DIPS

Folent has made a significant paper profit on the apartment she bought back in 1994. However, the same cannot be said for either her super funds, direct equities or the new home she bought last year. Best estimates suggest her net wealth is down from around \$2.5 million to around \$2.2 million since last November's market meltdown. To Johnsen, the fact that Folent hasn't panicked and forced a mid-stream change in financial strategy is testimony to her growing sophistication as an investor. "While few advisers factored

in the magnitude of the sharemarket downturn, confident investors are nevertheless prepared to ride current losses out over the longer term," Johnsen says. "But what we have done since the market turned sour is factor in increasing interest rates against ongoing cash flow requirements."

Over the next few years Follent plans to continue building up her super fund, sell her remaining share portfolio, discharge her loan, and possibly buy another property. In hindsight, she regrets waiting 18 months after being made redundant to seek financial advice.

"Had I known then what I know now, I would have acted a lot faster," says Follent. "I now have a much greater sense of what I want my money to do for me. Before approaching a financial adviser I just didn't realise the importance of building up my super."