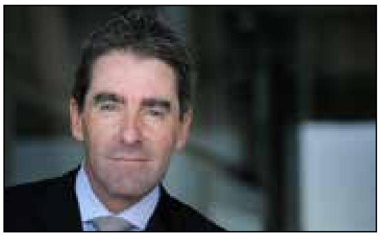
JUNE 2015 • www.stockbrokers.org.au

Stockbrokers MONTHLY

MEMBERSHIP • iLEARNING • EVENTS • EDUCATION • POLICY & REGULATORY ISSUES

Tips for Attracting Talent

Stockbrokers
Association of Australia®



Inside...

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Dear Colleague,

S&P Dow Jones Head of Index Investment to speak at conference on May 28

We are delighted to announce that the Global Head of Index Investment Strategy for S&P Dow Jones, Mr Craig Lazzara, will speak at this year's annual conference on May 28th & 29th. A graduate of both Princeton and Harvard, Craig's presentation will give us valuable signals about the direction of global markets.

If you have not already signed up to attend, make sure you register soon as registrations are about to close! To register please visit the Stockbrokers Association website.

New strategic plan to contemplate an impossible dream

Once the conference is over, we will contemplate the blue sky that lies beyond!

We are developing a strategic plan with an exciting vision and actionable items. It's really quite amazing to contemplate the possibilities for the Association. The future is rich with opportunity. With your support, we are going to grab it!

A key part of what we do will be engagement with members. By engagement, we mean being in the moment. When we are in the moment with members, we will be putting ourselves in the shoes of members and looking inwards at the Association. Our job is to pro-actively discover how we can help you get a better outcome for your business. Please call me with ideas on 02 8080 3208.

Public Policy & Education

Our Policy Executives, Doug Clark and Peter Stepek, have done a great job on our PJC Submission to Government. In essence, the Government is proposing a regulatory scheme for financial advisers that will mandate membership of a professionally accredited industry Association. The Association will develop and deliver professionally accredited courses that teach members the fundamental skills needed to be an adviser.

Our Head of Education, Gillian Gilmore, with over 20 years of experience in financial services education, is already delivering high-quality, targeted courses for our members.

New training program with India

We are pleased to announce that following our MOU with BSE Institute Ltd (a wholly owned subsidiary of BSE Limited), we will be delivering our training programs to Indian students. We are hopeful that this will be the start of an exciting export opportunity for the Association. The CEO of the Bombay Stock Exchange, Mr Ashish Chauhan, will speak more about the program during his address at our annual conference on May 28th.


Andrew Green

New education partnership with Vanguard

I am delighted to announce a new education partnership with Vanguard. I am still amazed to meet self-funded retirees who have significant investments in Australian stocks but no global equities! Enter Vanguard. With almost $4 trillion in assets under management globally, including $600 billion in ETFs, they provide an important diversification tool to our advisers. Interestingly, Vanguard is a mutual fund, and as such, its ETFs have very low expense ratios.

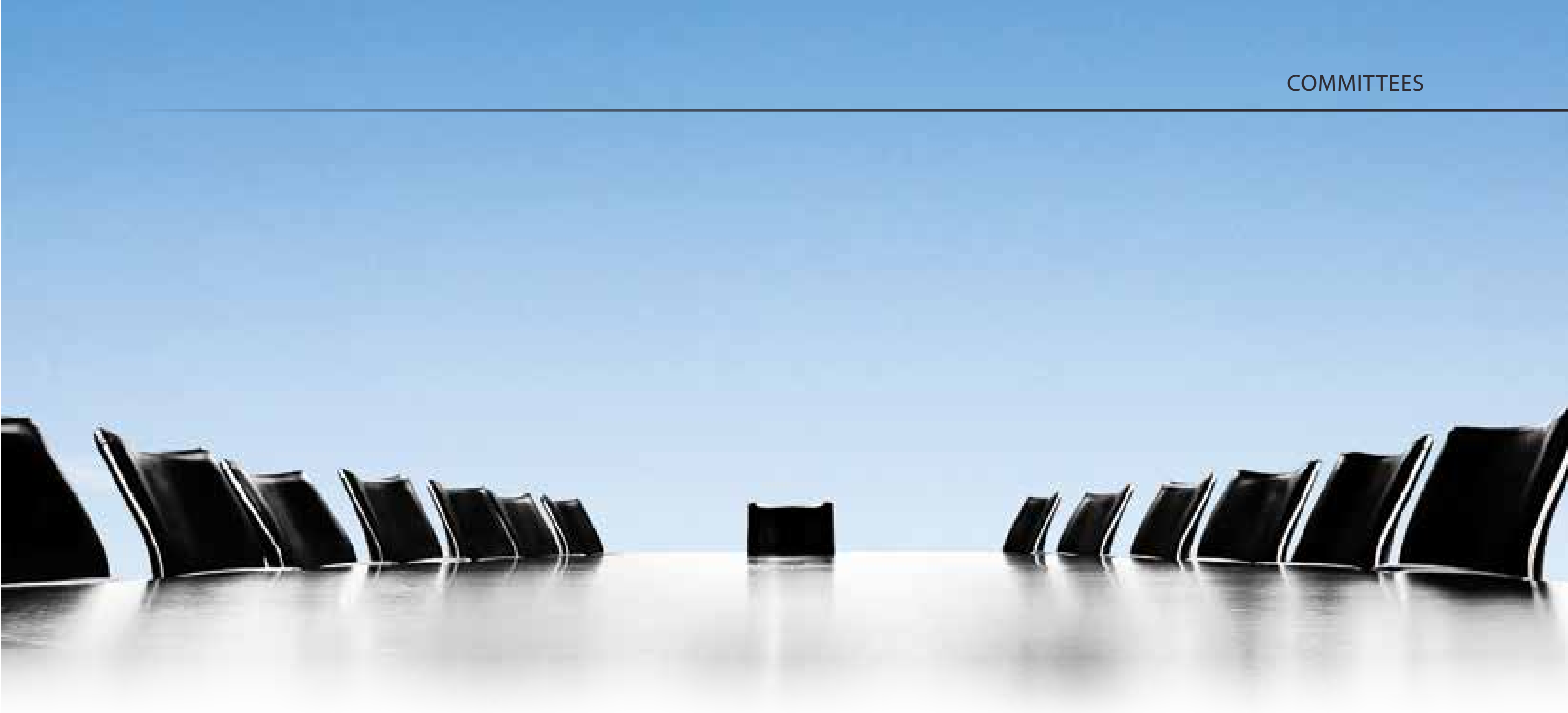
Vanguard was started by the legendary Jack Bogle. Now retired, the 86 year old still takes a keen interest in the business. He has published a number of books on investment, including the popular *Common Sense on Mutual Funds.*

So you're a stockbroker?

A quick way to polarise members is to ask whether they like being described as a stockbroker. Some love it and some hate it! It's amazing how by representing ourselves differently we can attract a different market. Make sure to read the piece by Paul Rayson at CommSec on how subtle changes in job descriptions can have vastly different outcomes! Scroll to page 13. ■


ANDREW GREEN

Sunrise at Bondi. 6.09am 18 May 2015 | Each morning is filled with promise



Committee News

Recent and upcoming meetings of Stockbrokers Association Committees, Working Groups and Advisory Panels, and major issues discussed:

Profession Committee Meeting, Tuesday 12 May 2015

Chair: Murray McGill MSAA, Patersons Securities Limited

Derivatives sub-Committee Meeting, Tuesday 19 May 2015

Chair: Peter Tardent MSAA, Commonwealth Securities Limited

Board of Directors Meeting, Thursday 28 May, 2015

Chair: Karl Morris MSAA, Ord Minnett Limited

Retail Broking Committee Meeting, Friday 29 May, 2015

Chair: Dean Surkitt MESAA, Bell Potter Securities Limited

New Individual Practitioner Master (MSAA) Membership applications approved:

- Simon Fraser
- Sean Lawrence

New Individual Practitioner Member (MESAA) Membership applications approved:

- Ian Aspinall
- Nicholas Carlton
- John Lindsay
- Toula Petrou

New Individual Affiliate (AFSAA) Membership applications approved:

- Immanuel Barbour
- Nathan Bourne
- Tracy Bradsell
- Cyrus Kasempa
- Jay Murphy
- Johnny Nicola
- Tamas Szabo

Policy & Regulatory Issues

FOFA: Wholesale / Retail Issue; Adviser Register

Wholesale/Retail Definitions: in past editions we have noted that some non-controversial issues with FOFA were not addressed in the December 2014 changes which did address the Accountants Certificate issue. These additional matters date from the 2005 *FSR Refinements*, which extended the definition of wholesale client, giving the ability to include a client's companies, trusts and related parties, in the assessment of the client's status as wholesale or retail.

The anomaly is exacerbated by the fact that licensees can continue to include the client's income and assets from related or controlled companies or trusts in the context of the prospectus provisions of the Act.

ASIC has indicated that these are not matters likely to be remedied by the use of its relief powers or no-action positions. Accordingly, we have raised these issues with the Government as a matter of urgency, seeking further regulations to restore the law to its pre-1 July 2014 position. We hope to be able to report recent developments to Members shortly.

Adviser Register: the new Register of Advisers was launched in March. Only advisers who provide personal advice to retail clients will have to be registered. Initially the Register includes the following details:

- Name
- Date of Birth
- AFSL details, and controlling entity of the AFSL, if applicable
- History – last 5 years history for each adviser
- Date commenced giving advice
- Financial Products authorised to advise upon.

From May, the register will include:

- Adviser Qualifications
- Professional body memberships

In April, ASIC released details about the additional information to be included in May. ASIC Connect will be available to register the additional information from 25 May, which should be done by 30 May, and the public website will be live from 31 May.

For up-to-date details, please see the dedicated ASIC website which has been established with information about the register.

PJC Report on Professional Standards

In December 2014, the Parliamentary Joint Committee on Corporations and Financial Services (PJC) released its Report into *lifting the professional, ethical and education standards in the financial services industry.*

In March 2015, the Government commenced consultation on whether the PJC recommendations ought to be adopted. After discussions with the Assistant Treasurer and Members, the Association lodged its submission in May, with the following key points:

- the stockbroking industry has been collateral damage in FSR, FOFA and continuing reforms, despite the fact that there have been no problems in this sector, which is subject to higher standards of regulation than other sectors;
- nevertheless the practical reasons why the Government is proposing a standard regime applying across the financial advice industry are understood;
- there is broad but not unanimous support for regulatory proposal along the lines of the PJC Model with suitable modifications;
- issues relating to the PSC cap on liability and its powers need to be resolved at the outset, otherwise another regime may be necessary; and
- it is essential that any model adopted should have some flexibility so as to keep implementation and ongoing costs down and to avoid adverse consequences.

Senate Scrutiny of Financial Advice Inquiry: in addition to the work around the PJC Report, we also await the report of the Senate Economics References Committee inquiry into the *Scrutiny of*

> In late February 2015, ASX announced that it had taken up the Association's suggestions that ASX should streamline its (ASX Clear) rule on PI insurance notification, and its (ASX Settlement) rule which requires ASX consent to sending letters to clients on the bulk transfer of HINs.

Financial Advice, including measures to stop unethical and misleading advice, regulatory oversight, compensation, and action where professional standards are breached. The Association made a Submission to this Inquiry in December. The Senate Committee is due to report by July 2015.

Further Review of Competition in Clearing Australian Cash Equities

We also await the Government's final decision on whether to allow competition in clearing of cash equities. Our written submission in March made the following key points:

- in-principle, everyone supports competition, and the potential for financial benefits, including efficiencies and innovation, that competition may bring;
- the regulatory framework must not shut Australia out from these potential benefits;
- however, the benefits of introducing competition must clearly exceed the costs that would be involved, and
- financial stability and investor confidence must not be undermined.

While there is no imminent threat of competition in clearing, in the absence of another deal on the table, most Members think that there is little incentive to open the floodgates in the short to medium term if ASX can offer a meaningful reduction in clearing fees.

We noted that there is a real lack of data available on the costs and benefits of possible clearing competition in order to put a compelling case either way. It would be of benefit to all parties if some feasible independent research could be undertaken, which takes into account internal costs to participants as well as headline clearing costs charged by CCPs.

ASX Red Tape reduction measures – No more ASX Clear REs from June

In October 2014, ASX released a discussion paper on proposed red-tape reduction measures. The proposals include:

- Streamlining admission requirements
- Simplifying notification requirements, and
- Removing the ASX Clear Responsible Executive requirements.

In late February 2015, ASX announced that it had taken up the Association's suggestions that ASX should streamline its (ASX Clear) rule on PI insurance notification, and its (ASX Settlement) rule which requires ASX consent to sending letters to clients on the bulk transfer of HINs. ASX is also proceeding with its proposal to remove the ASX Clear requirement for Responsible Executives. The new rules commence on 1 June 2015.

Access to and use of Share Registers

One of the unintended consequences of the 2010 amendments to the *Corporations Act* to restrict unsolicited off-market share offers was to restrict stockbrokers from accessing registers to send research reports to shareholders, while allowing shadow brokers specifically to do so. Once again, we wrote to the Government in September 2014 seeking a resolution to this issue. We raised this issue in Canberra again in February and will advise progress. This is an ideal opportunity for a Government that espouses deregulation to remove unjustifiable regulation and to reduce red tape.

ASIC to Revisit HFT and Dark Pools

In recent years, the subjects of High Frequency Trading and Dark Pools have occupied the attention of the market like few other issues in memory.

Members may recall that ASIC established twin task forces in 2012 to look into these areas, analysing data from the Australian market for 2012 on which to base its conclusions. In March 2013, ASIC published Report REP 331 setting out the conclusions of the task forces. The findings in REP 331 *Dark Liquidity and High Frequency Trading* did much to inform debate about the impact of these in the Australian market context, and assisted ASIC in formulating its regulatory response.

ASIC has recently announced that it would be revisiting REP 331 to update its analysis and to see how things may have changed, if at all, since the Report was issued.

According to its announcement, ASIC has foreshadowed that it will be:

- considering how dark trading and dark venues are evolving
- looking at the balance of lit and dark liquidity, and re-testing whether price formation is being harmed
- assessing the nature and extent of participants trading with their clients as principal or allowing other traders, such as high-frequency traders, to cross with theirs, and
- considering the implications of liquidity segmentation on public markets and in participant pools
- looking at HFT in the futures market, as well as relationships and behaviours across markets and products
- looking at the contribution of HFT to 'meaningful' liquidity (e.g. size, depth, actionable resting times), and
- assessing the prevalence and impact of less desirable trading strategies,

> The Stockbrokers Association has been pressing for some time for a change to the Cost Recovery model so that the burden of costs, which has fallen predominantly on the shoulders of the stockbroking industry, is shared more evenly across other users of the market. Deferring a review of the model for another year delays the chance for a fairer outcome to be obtained.

such as latency arbitrage, liquidity detection and layering.

ASIC has indicated that it is looking to publish the key findings of the review in around October/November 2015.

The Stockbrokers Association has been monitoring these subjects closely with a view to ensuring that the integrity and high standing of Australia's markets is maintained. The Association will look to contribute to ASIC's review, and as we have done in the past, we invite members to provide feedback on these issues.

The Association will also shortly be convening a working group to develop industry feedback to be provided to ASIC.

ASIC Cost Recovery – Latest Developments

Members will by now be well aware of the cost recovery arrangements that have been in place for the last few years to fund ASIC's costs of market supervision. Under the current model, market participants bear the burden of meeting approximately 80% of ASIC's market supervision costs, with the Exchanges bearing the remaining 20%.

The funding model is reviewed periodically, with the current model due to finish on 30 June 2015. Following the release of the Financial System Inquiry (FSI) Final Report last December, which included a recommendation that ASIC be placed on a full recovery model for all of its budget, it was foreshadowed by Treasury that review of the ASIC Market Supervision Cost Recovery arrangements at the end of the current cycle would be deferred. This would enable the Government to consider the FSI recommendations, and avoid the potential for wasted effort in reviewing Market Supervision cost recovery in isolation.

Since then, on 15 May 2015, Treasury issued for public comment a Cost Recovery Impact Statement outlining the proposed arrangements to apply to ASIC'S Market Supervision Cost Recovery for the period 1 July 2015 to 30 June 2016.

These arrangements appear to be on the same lines as the arrangements for previous years, with the overall amount sought to be recovered in the coming 12 month period being slightly less than in 2014-15, but with increases planned for subsequent years.

The Stockbrokers Association has been pressing for some time for a change to the Cost Recovery model so that the burden of costs, which has fallen predominantly on the shoulders of the stockbroking industry, is shared more evenly across other users of the market. Deferring a review of the model for another year delays the chance for a fairer outcome to be obtained, although the reasons why the Government would want to deal with the whole of the ASIC budget in a holistic way are understood.

The Market Supervision Cost Recovery Panel is scheduled to meet to discuss this CRIS on 1 June 2015. The Stockbrokers Association is represented on the Panel. Any feedback or comment about the CRIS from members to assist us in presenting a view is welcome. ■

SUBMISSIONS
Members can view submissions at www.stockbrokers.org.au

POLICY ENQUIRIES
Doug Clark MSAA, Policy Executive
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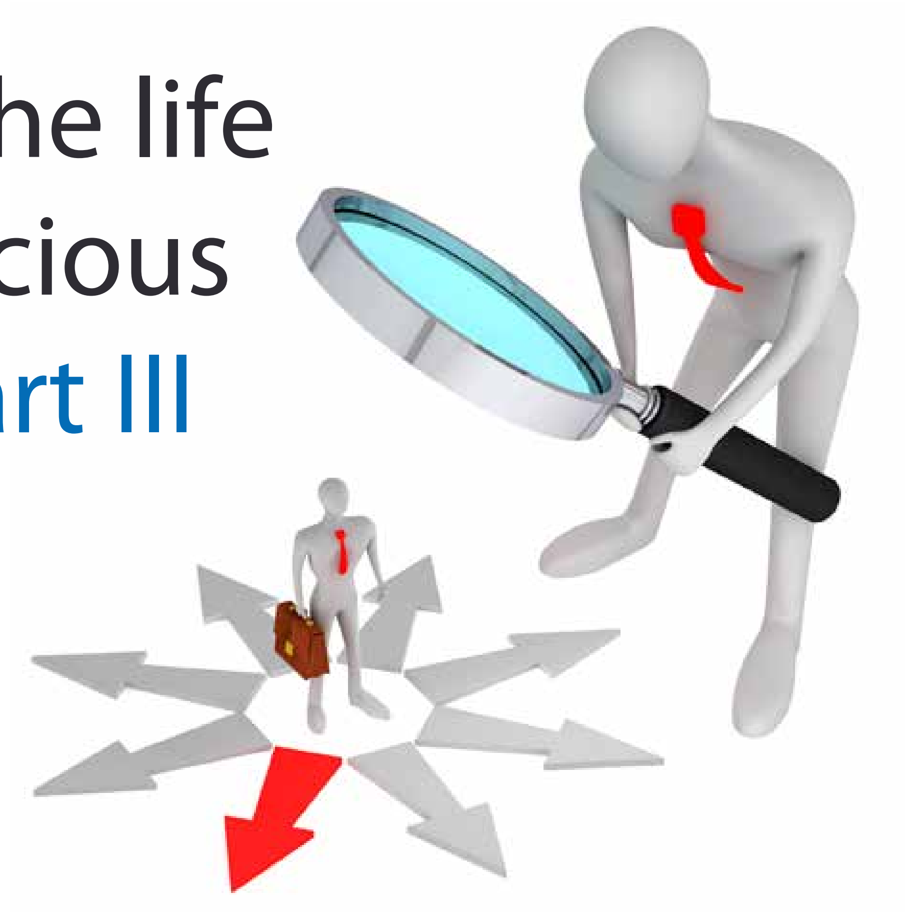
Peter Stepek MESAA, Policy Executive
pstepek@stockbrokers.org.au

A day in the life of a suspicious trade – Part III



Australian Securities & Investments Commission

*Parts I and II of this article described ASIC's identification of and investigation into suspicious trading activity in the securities of Acme Biotech Corporation (ABC).**

ASIC enquiries revealed that Mr Brian Long made significant purchases of ABC shares prior to the issue of a price sensitive announcement by the company, resulting in a realised profit of $375,000. Evidence was subsequently uncovered showing that Mr Long received advance notice of the announcement from Dr Bruce Short, the Chief Medical Officer of ABC and a business acquaintance of Mr Long, who also profited financially from trading in ABC.

Some months have passed between the initial trading alert and the bringing of charges against Mr Long and Dr Short. During that time, several teams within ASIC's Market Integrity Group worked together to gather evidence and assist the Commonwealth Director of Public Prosecutions (CDPP) prepare the case for trial.

*This fictionalised account of events takes up the story at the end of the court proceedings.***

Supreme Court decision

Mr Long and Dr Short were each charged with insider trading offences (under section 1043A of the Corporations Act). Dr Short was also charged with improperly using his position as an officer of ABC (under section 184 of the Corporations Act). The matter was prosecuted by the CDPP.

A short committal hearing was held in the Melbourne Magistrates' Court, at which the brief of evidence was tendered by the CDPP. The Defendants entered pleas of 'not guilty' to all charges and the Magistrate committed them to stand trial in the Supreme Court of Victoria.

At their arraignment a few months later, the Defendants changed their earlier plea to 'guilty'. This avoided the need for a trial and a date was set for sentencing in two months' time.

Sentencing hearing

Prior to the sentencing hearing, the CDPP and lawyers for the Defendants agreed a Statement of Facts. The Statement of Facts was tendered at the sentencing hearing. The CDPP also submitted a document called the 'Crown Submission on Sentence', setting out the applicable sentencing principles, relevant facts, and examples of sentencing decisions in similar cases. Corresponding documents were submitted by the Defendants' lawyers. Oral submissions from the Prosecutor and the Defendant's lawyers were also made.

At the sentencing hearing, Justice Little sentenced Mr Long and Dr Short to jail terms of 3 years and 7 months and 4 years and 5 months, respectively. In her reasons for sentencing, Justice Little commented that there was overwhelming evidence that the trades were made, and that at the time they were made, Mr Long and Dr Short were in possession of inside information. In relation to Dr Short, Justice Little also commented that his actions were a gross breach of trust by a true insider.

> "Insider trading is a serious criminal offence. Notwithstanding that the Defendants pleaded guilty, it is necessary for the sentence to reflect the severity of the offence. Financial crimes such as this have the capacity to damage market integrity and do a great deal of harm to other investors." JUSTICE LITTLE

In sentencing Mr Long and Dr Short to imprisonment, Justice Little remarked that "Insider trading is a serious criminal offence. Notwithstanding that the Defendants pleaded guilty, it is necessary for the sentence to reflect the severity of the offence. Financial crimes such as this have the capacity to damage market integrity and do a great deal of harm to other investors."

Postscript

In a candid interview published in a national financial newspaper nearly a year into his prison term, Dr Short revealed the impact the case had had on his life. He called his descent from a life of comfort and luxury to prison overalls and laundry duties a short but highly destructive path paved with greed: "At the time it looked like such an easy way to make money. We thought it was foolproof. We didn't realise how sophisticated ASIC's surveillance technology is – they had us from the get-go."

Dr Short revealed that since his conviction, he had been terminated from his $430,000 a year job with ABC and asked to resign from the Board of the Pharmaceutical Research Council of Australia. He wept as he described how his children had suffered for his 'sins' – his school age daughter and a son at university both regularly the recipients of taunts from other students. Having been a medical practitioner all his life, he is now undergoing treatment for anxiety and depression. ■

* 'A day in the life of a suspicious trade' Parts I and II were published in the October and September 2014 editions of the Stockbrokers Monthly.

** Any similarity or reference to an actual individual or entity is purely coincidental.

#ASIC on Twitter

ASIC
Australian Securities & Investments Commission

Did you know that ASIC is active on Twitter?

ASIC uses Twitter to communicate short topical messages about regulatory issues to our stakeholders. On occasion, we tweet developing stories through a series of real time Twitter updates.

We also tweet live from forums when ASIC staff are presenting. For example, ASIC will be using Twitter to communicate key messages from Chairman Greg Medcraft's speech to the Stockbrokers Association of Australia Annual Conference on the 29th of May.

ASIC has three Twitter accounts:

– @ASICMedia (for regulatory developments and outcomes)
– @ASICConnect (for licensing and registry content)
– @MoneySmartTeam (for financial literacy content)

Follow us today to receive updates on ASIC regulatory activities.

The risk and return of SMSFs

By Robin Bowerman

Risk and return are the inseparable twins of investing.

For any given level of return there is a companion level of risk and generally the higher the potential level of return the higher the risk factor.

The growth in the self-managed super fund segment to the point where it is now the largest component of our superannuation system has been both welcomed as a sign of more Australians being actively engaged with their retirement savings and fretted over by those who would rather people stay within the more paternalistic prudentially regulated institutional funds.

There has been considerable discussion about the potential investment risk embedded within more than 500,000 individual fund portfolios but because of its highly fragmented and individual nature it has been difficult to assess risk across the broad SMSF sector.

However, what we do know from both tax office data and trustee surveys by research groups like Investment Trends is the breakdown by asset allocation of where SMSFs are investing.

The Investment Trends SMSF report in 2013 surveyed 1305 SMSF investors and resulted in a typical asset allocation that was unsurprising in the sense that 45 per cent of the portfolio was in Australian shares, 26 per cent was in cash, 12 per cent in property (both business and residential), 7 per cent was in managed funds while 4 per cent was in listed hybrids and 6 per cent was a range of other.

For SMSF trustees it is probably interesting to overlay your fund's portfolio against this peer group to see where differences lie.

What is clear from the Investment Trends data is the stark difference between the typical SMSF portfolio when compared against mainstream institutional super funds and the way they build their portfolios.

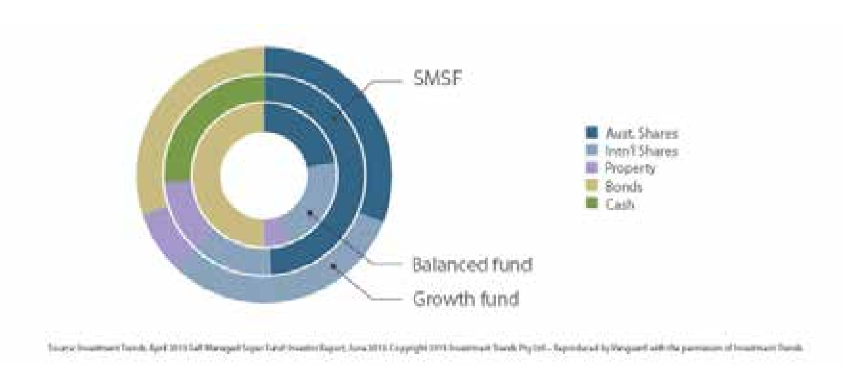
You could pick any of the major super funds and the portfolios will follow similar risk/return and portfolio construction principles. Certainly there is variation within portfolios in the institutional super fund world but not to the extent of the contrast with SMSFs.

When you compare SMSFs with institutional portfolios the big differences are the concentration on Australian shares and the large allocation to cash or term deposits.

What is clear is that two such different portfolio approaches will have very different outcomes in terms of return and risk.

Vanguard's Investment Strategy Group is responsible for the asset allocation and investment approach of Vanguard's internally managed funds and they were asked to develop the risk and return profile for the average SMSF portfolio in contrast to balanced and growth funds as a proxy for the broader institutional market.

Typical asset allocation of SMSF portfolios



> A strong majority of SMSF trustees – more than 80 per cent (according to Vanguard-Rice Warner research in 2012/13) – say they are well-satisfied with the performance of their fund, which is not surprising given they are controlling the investment decisions.

The Investment Trends research data found that the average SMSF holds 18 Australian shares. The portfolio analysis challenge is obvious when you overlay more than 500,000 portfolios on top of the average holding of 18 shares. With such a wide spread of portfolios it is well akin to a random walk across the Australian share market.

So the approach taken was to randomly select 18 shares from the broad Australian S&P/ASX300 index and build 1000 simulated portfolios using historical returns from July 2001 to June 2014.

The other components of the asset allocation were conservatively modelled using a range of market indices such as the UBS Australian bank bill index for the cash component and the S&P/ASX 300 REIT index for property.

We then added two variations to reflect typical SMSF portfolio approaches – one set of portfolios were selected mainly from large-cap stocks and the other selected from high-yielding stocks.

What emerges from the simulated portfolios is that while there is a wide spread of potential return paths the median SMSF return has been strong – particularly in the run up to 2008 – but quite volatile since then and at the end of the period in June 2014 portfolios sourced from the broader market were slightly down on total returns when compared to the two diversified funds. The high yield portfolio's median return was slightly ahead while the large cap portfolio was between the growth and balanced funds in total return terms.

A strong majority of SMSF trustees – more than 80 per cent (according to Vanguard-Rice Warner research in 2012/13) – say they are well-satisfied with the performance of their fund, which is not surprising given they are controlling the investment decisions.

But looking at the other side of the return and risk equation when asked to describe how they invest their fund portfolios almost 60 per cent said "balanced" and 30 per cent opted for "growth".

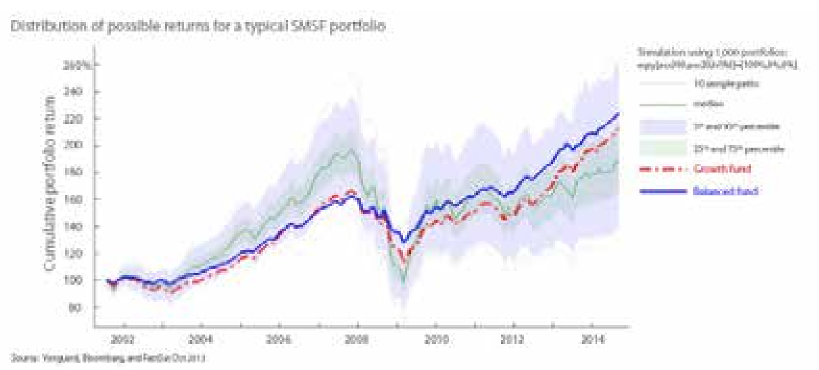
Yet when the same portfolios are analysed using a common risk measure – annualised standard deviation over rolling 24-month periods - the results show that these SMSF model portfolios have almost double the risk of a diversified growth fund.

About now a number of SMSF trustees may be shaking their head and thinking my fund got through the global financial crisis pretty well (thanks to the high level of cash) and my Australian shares have done pretty well - particularly when you take into account tax franking credits.

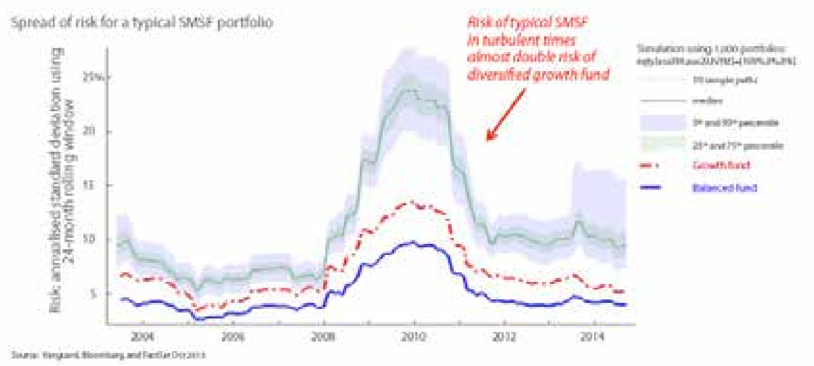
They may well also be thinking that one of the reasons they set up an SMSF was because the portfolios put together by the so-called professionals had lost money at different stages.

The issue here is less about the past performance and more about understanding future risks.

Broad-based equity portfolio: Return paths



Broad-based equity portfolio: Simuated risk



The great attraction of SMSFs is the flexibility trustees have – within the superannuation system framework – to invest as they choose. If people actively choose to take risk within their SMSF portfolio that is primarily their choice – just don't expect a lot of sympathy from regulators or politicians if you get it wrong.

The question this portfolio modelling raises is do SMSF trustees appreciate the risk that may be within their portfolios?

If it is a conscious decision to take this level of risk and people are comfortable with it – that is fine, the results will be on the trustee's head and no-one should be surprised.

But perhaps what is driving the risk factors to such high levels is not well understood and is therefore leading to unintended risks.

> Risk is an integral part of investing but for trustees the challenge may be to understand where unintended risks are hiding.

The big drivers of the risk within the SMSF simulated portfolios fall into two main categories:

- Equity concentration/home country bias within the Australian share market
- Large cash holdings generally are a drag on returns over the long-term

In many ways the challenge that comes from this analysis really lands at the feet of the advisers and accountants who work for SMSF trustees.

The challenge for those advisers is to explain the risk drivers that typically flow from the lack of diversification within a typical SMSF portfolio – and ways that can be offset.

Risk is an integral part of investing but for trustees the challenge may be to understand where unintended risks are hiding. ■

Stockbrokers Association forms an Education Partnership with Vanguard Investments Australia

The Stockbrokers Association of Australia continues to build and develop our education offerings for members and recently formalised an Education Partnership with Vanguard Investments Australia Ltd.

Andrew Green, CEO of the Stockbrokers Association of Australia says, "We are delighted to embark upon this Education Partnership with Vanguard. We feel there is room in the market for education around their exciting new Portfolio Modelling Tool."

Michael Lovett, Head of Distribution at Vanguard says, "As long term promoters of education for investors and intermediaries, Vanguard Australia is pleased to partner with the Stockbrokers Association of Australia to share our global insights and education resources, specifically in relation to the fast growing ETF market."

Our Senior Leaders Forums and ETF education offerings will be further enhanced through this partnership and we look forward to providing you the latest information from an industry thought leader.

End of Year Gear

By Julie McKay, Technical and Research, Leveraged

The recent Federal budget appears to take a mildly optimistic view of the Australian economy. In contrast, at its May meeting the Reserve Bank of Australia (RBA) dropped the cash rate target by 0.25 percentage points; giving historically low interest rates to pump prime flagging growth.

What can investors take from these seemingly mixed messages as the end of financial year approaches? In short, it may be time to consider borrowing to invest.

Low interest rates have a dual role in any decision to invest. Firstly, current notional interest rates barely scrape above inflation and for many sink below on an after tax basis. Rather than see savings eroded, investors seek investments with better return prospects.

Each investor will have different views about the asset classes and investments expected to perform well over the medium to long term. The broad trend for Australian equities since the Global Financial Crisis (GFC) has been positive although not without volatility. If the fiscal and monetary priming have the desired effect on the economy and given demand for riskier assets, the share market could be expected to continue its overall positive trend.

Secondly, historically low interest rates make borrowing to invest attractive for many investors. Consider an equity portfolio constructed to pay 4 percent per annum expected dividend (62 percent franked) and 6 percent per annum expected growth. Take an investor on a marginal tax rate (MTR) of 39% (including Medicare Levy) who borrows half of the amount invested in the portfolio.

The expected dividends offset interest costs on an after tax basis. The portfolio needs to grow by less than 1 percent per annum over 5 years to return more than an investor who invested only their own capital. Investors should keep in mind that there will be a timing mismatch between receipt of dividends and interest payments.

If over 5 years the portfolio performs as expected, the geared investor will earn more than 12 percent per annum (on an after tax basis) on their capital. Contrast that to the 8 percent per annum (on an after tax basis) earned by the ungeared investor. Of course the risks can't be ignored. If the portfolio falls by more than 1.3 percent per annum, the geared investor will lose capital and will lose more than the ungeared investor.

If the portfolio in this example has an average loan to value ratio of 75 percent (the maximum the bank will lend expressed as a percent of the portfolio's value) and a buffer of 10%, it would have to fall in value by more that 40 percent for the investor to receive a margin call. A fall of this scale is possible, but for a prudently diversified investor, falls of this magnitude occur during significant market corrections such as the GFC or the October 1987 crash.

No one expects to see pre-GFC interest rates of 7 to 8 percent any time soon. However, the only certainty is that things will change. The RBA has hinted at increasing interest rates towards the end of the year. This would be expected if its loose monetary policy works to boost economic growth.

> For investors with a medium term strategy, it may be worth locking in these historically low interest rates and paying a year of interest in advance.

For investors with a medium term strategy, it may be worth locking in these historically low interest rates and paying a year of interest in advance. A typical Australian resident taxpayer can potentially claim that prepaid interest as an income tax deduction in the current financial year.

Low interest rates and governments prepared to run fiscal deficits may indicate doubts about Australia's economic prospects. It may also be an opportunity for investors who understand the risks, are prepared to manage those risks and who are looking to boost returns by borrowing to invest in equity markets as it responds to concerted government stimulus.

Leveraged is currently offering discounted rates for investors looking to fix and prepay the interest on their loans. For more information visit www.leveraged.com.au/fixandprepay ■

Leveraged Equities Limited (ABN 26 051 629 282 AFSL 360118) as Lender and as a subsidiary of Bendigo and Adelaide Bank Limited (ABN 11 068 049 178 AFSL 237879). This information is correct as at 24 March 2015. This article contains general advice only and doesn't take into account your personal objectives, financial situation or needs. Please consider your personal circumstances, consult a professional investment provider and read the PDS and Product Guide, available to download from www.leveraged.com.au before making an investment decision. This is not intended as tax advice. Please seek advice from a professional tax agent.

How a job title can make a difference in attracting talent

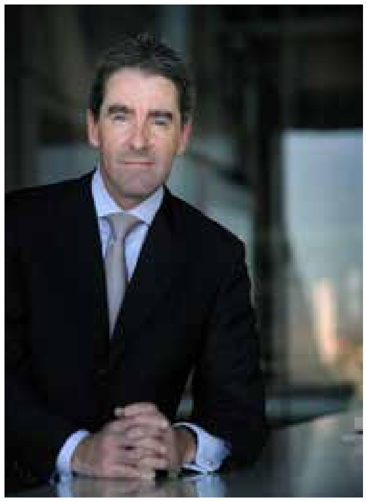
CommSec recently explored the impact of job titles to assess what influence they might have on recruitment outcomes. CommSec's entry level roles are titled "Equities Associate" and involve providing customer support over the phone and via web chat for customers' trading and general service enquiries. Generally, CommSec receives around 150 applicants for these entry level roles with around 25 successful candidates for each intake. The male to female ratio of applicants and successful candidates for these roles is consistently around two thirds male and one third female.

In the latest intake, CommSec ran two job advertisements – one titled "Equities Associate" and the other titled "Customer Service Associate". Apart from the difference in title the role descriptions were similar and the adverts were run concurrently in the same channels for the same length of time.

The results were interesting. In the traditional advert titled "Equities Associate", CommSec received 158 applicants with a male to female ratio of 62% to 38%. In the advert titled "Customer Service Associate", CommSec received 573 applicants with a male to female ratio of 44% to 56%. All candidates from both adverts were then subject to the same screening and rigorous assessment centre process which involves evaluating qualifications, capability and aptitude for the role. The statistics for the successful candidates were as follows:

- From the traditional "Equities Associates" role advert, there were 11 successful candidates with a male to female ratio of 64% to 36%.
- For the new "Customer Service Associates" role advert, there were 18 successful candidates with a male to female ratio of 39% to 61%.
- Overall there were more female successful candidates than males.

Commenting on the results, CommSec's Managing Director Paul Rayson said, "We were pleasantly surprised by the results. While there could be many factors at play, the point is to challenge your current processes to ensure you are not inadvertently deterring great talent. We are no longer positioning ourselves just as a stockbroker. We are also a customer service business, a digital business, a technology business and an investment advisory business. How you portray yourself is an important factor in the talent you attract to the business." ■



CommSec Managing Director, Paul Rayson

'How you portray yourself is an important factor in the talent you attract to the business'

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SUPER SNIPPETS

Is super a tax rort?

By Peter Grace

If you believe the media and some commentators high income individuals are ripping of the superannuation system for many thousands of dollars a year. What are the facts?

Case 1

Carlos is on a package of **$100,000** including the superannuation guarantee (SG) of 9.5%. He would pay tax and Medicare levy of **$23,242** and his SG contributions would have tax of **$1,425** deducted – that's a total of **$24,667**.

If he salary sacrificed up to the standard concessional contributions cap of **$30,000** the tax take would fall to **$20,197** – a saving of **$4,470**. If he was old enough to use the higher **$35,000** cap he would save **$5,445** in tax.

Case 2

Melanie is on a package of **$200,000** including SG. Her SG contributions would be based on the upper earning limit for SG of **$197,720**. Using the same basic position as Carlos she would incur taxes of **$61,561**. She cannot salary sacrifice as much as Carlos because the SG contributions have taken her closer to the concessional contributions cap. If she salary sacrificed up to the standard cap she would save tax of **$2,814** and **$4,014** if she was able to use the higher cap.

Case 3

Jason is on a package of **$300,000** including SG. Like Melanie his SG contributions would be based on the upper earning limit for SG of **$197,720**. Using the same basic position as the others he would incur taxes of **$110,561**. If he salary sacrificed up to the standard cap he would save tax of **$3,814** and **$5,514** if he was able to use the higher cap

Case 4

Carmela is on a package of **$400,000** including SG. Using the same basic position as the others she would incur taxes of **$224,473**. This includes the extra 15% tax on concessional contributions because she earns more than **$300,000**. If she salary sacrificed up to the standard cap she would save tax of **$2,131** and **$3,081** if she was able to use the higher cap

> This simple analysis illustrates the potential tax savings on different income levels by salary sacrificing.

Summary

This simple analysis illustrates the potential tax savings on different income levels by salary sacrificing. It's not the vast thousands of dollars that is implied by media comments and is hardly a 'rort'. ■

Our RG146 Superannuation course is an elective in our Professional Stockbroker's Program. It provides the necessary qualifications for anyone who advises on securities in self managed or other superannuation funds. Each month we publish a short article covering a current superannuation topic written by Peter Grace the author of the course. Peter can be contacted at wordsandtraining@bigpond.com

ACCREDITATION & TRAINING June, July & August

Responsible Executive (RE) Series Workshops

RE REFRESHER – 4 CPD (COMPLIANCE)

This workshop provides a refresher on the requirements applicable to REs and reviews some of the main topics in The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive Examination. Intended as a refresher course for existing REs who have already passed the Exam(s), this workshop could also be of interest to potential REs. Topics include RE Management & Supervision Requirements (& ASIC RM comparisons); Capital Adequacy, Records, Trust; Dealing & Client relations rules; Disciplinary Processes; Corporations Act requirements.

SYD: Tues 23 Jun | 9am – 1pm
MELB: Tues 21 Jul | 9:30am – 1:30pm

RE EXAM PREPARATION COURSE – 10 CPD (COMPLIANCE)

This 2 x 3-hour intensive workshop (conducted over 2 days) covers the ASIC/ASX Markets & ASX Clear (Clearing & Settlement) RE exam syllabus in detail, ensuring that candidates are well prepared for the exam(s) and know what to expect on the day, with sample questions and a practice exam.

MELB: Wed 10 & Thurs 11 Jun | 9:30am – 12:30pm
SYD: Mon 27 & Tues 28 Jul | 9am – 12pm

RE EXAM PREPARATION 'SHORT COURSE' – 4 CPD (COMPLIANCE)

This 4-hour intensive workshop is a condensed version of the Stockbrokers Association 2-day RE Exam Preparation Workshop. It covers The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive exam syllabuses in detail, with 7 subject areas and 2 assessments during class time.

SYD: Mon 22 Jun | 9am – 1pm
MELB: Mon 20 Jul | 9:30am – 1:30pm

Professional Development Workshops

MARKET MANIPULATION AND OTHER PROHIBITED CONDUCT – 4 CPD (COMPLIANCE)

This workshop covers an in-depth examination of what constitutes market manipulation and other prohibited market conduct. Involving a mix of presentation and scenario-based discussion, it is designed to suit market professionals, both front and back office, including: Sales staff/client representatives; Proprietary Traders; DTRs; Investment banking; Settlement staff; and Compliance & Legal.

MELB: Wed 17 Jun | 1:30pm – 4:30pm
SYD: Thurs 6 Aug | 9am – 12pm

INSIDER TRADING – 4 CPD (COMPLIANCE)

This workshop provides a thorough analysis of Insider Trading. Topics include: elements of insider trading; statutory defences; insider trading and continuous disclosure; front running; dealing with rumours; management of confidential information; how to protect yourself, including Chinese walls, internal processes; and consequences of insider trading breaches. The Workshop is designed for sales staff/client representatives; proprietary traders; research analysts; investment banking; compliance and legal; and regulatory staff.

SYD: Wed 10 Jun | 9am – 12pm
MELB: Thurs 13 Aug | 1:30pm – 4:30pm

A DAY IN THE LIFE OF A TRADE – 2 CPD (COMPLIANCE)

This 2.5 hour short 'course in operations' focuses on the evolution of share and derivative trades from order placement through to execution to settlement (and later exercise/expiry where relevant) and reporting requirements. Designed for new or unfamiliar starters in the Industry or Markets, this workshop provides a comprehensive overview of the market and operational process. It provides an excellent foundation for retail desk assistants and would suit as a refresher for experienced staff as well as those staff in auxiliary and rotating roles: legal, IT, HR and other supporting roles associated with stockbroking. There is no assumed knowledge for participants of this workshop.

SYD: Tues 11 Aug | 9am – 11:30am
MELB: Wed 19 Aug | 2pm – 4:30pm

GBST

DMA, ALGORITHMIC & HIGH FREQUENCY TRADING – 2 CPD (COMPLIANCE)

Are you confused by all the talk about Algorithmic Trading, High Frequency Trading and the 'May 6 Flash Crash'? Rapid technological advances and market changes overseas have radically changed the nature and appearance of on-market trading and these same changes are quickly unfolding in Australia as well. This two-hour workshop looks at the growing trend of electronic trading, including Automated Order Processing (or Direct Market Access), Algorithmic Trading and High Frequency Trading. The workshop will focus on: The regulatory obligations that apply to brokers who use AOP for clients or for proprietary trading; The types of algorithmic trading and High Frequency trading strategies that are being used overseas, and increasingly in Australia; and, Potential dangers, such as the "May 6 Flash Crash", market manipulation and disorderly markets.

SYD: Wed 29 Jul | 9am – 11am

Introductory Series Workshops

UNDERSTANDING DERIVATIVES: OPTIONS AND WARRANTS – 4 CPD

Derivatives are an established and essential component of global financial markets. Focusing on options and warrants, this workshop discusses how and why derivatives are used for leverage and/or manage risk. Key concepts are explained through worked examples, under the guidance of an experienced practitioner. This half day workshop is also ideal preparation for **Accredited Derivatives Adviser Level 1 - ADA1 candidates**.

MELB: Wed 17 Jun | 9am – 1:30pm
SYD: Tues 14 Jul | 9am – 1:30pm

THE BUSINESS OF STOCKBROKING IN AUSTRALIA – 2.5 CPD

This workshop provides an overview of Australia's financial markets and the critical role that stockbrokers play in both retail and institutional markets. A short history of broking in Australia sets the scene for explanation of the current market structure, operations and regulation.

SYD: Thurs 23 Jul | 9am – 12pm
MELB: Tues 25 Aug | 9:30am – 12:30pm

UNDERSTANDING OPTIONS: FEATURES, BENEFITS AND RISKS – 2 CPD

This workshop focuses on equity options traded on the Australian Securities Exchange (ASX). Equity options offer investors an efficient means of managing the risks of adverse price movements in the share market. In addition, they give traders a vehicle by which to gain leveraged exposure to individual shares and selected indices. This workshop covers options pricing, basic strategies and the mechanics of trading options on the ASX.

SYD: Fri 12 Jun | 9am – 11am
MELB: Wed 29 Jul | 9:30am – 11:30am
SYD: Tues 18 Aug | 9am – 11am

UNDERSTANDING WARRANTS: TYPES, DIFFERENCES AND RISKS – 2 CPD

This 2 hour workshop covers the main types of warrants traded on the ASX with a particular focus on equity trading warrants and instalments. Basic warrant pricing will be discussed, and the role of the warrant issuer will be explained. Ideal for those who wish to acquire fundamental knowledge about the Australian warrants market.

SYD: Thurs 11 Jun | 9am – 11am
MELB: Wed 15 Jul | 9am – 11am
SYD: Wed 26 Aug | 9am – 11am

INTRODUCTION TO CONTRACTS FOR DIFFERENCE (CFD) – 3 CPD

This workshop focuses on the class of derivatives known as Contracts for Difference (CFDs). This workshop covers the different types of CFDs, their uses, risks and potential rewards.

SYD: Thurs 18 Jun | 9am – 12pm
MELB: Thurs 23 Jul | 9am – 12pm

Professional Stockbrokers Program – Prepatory Workshops

CORE 1 (RG146) PREPARATORY WORKSHOP – 3 CPD (COMPLIANCE)

Are you undertaking the Professional Stockbrokers Program Core 1 (RG146) Securities & Managed Investments Accreditation Assessment? Then this half-day workshop is ideal for you. Learn the syllabus in detail and key areas to focus on for your studies. Industry expert presenters and small class size for personal tuition. The Professional Stockbrokers Program Core 1 (RG146) Securities & Managed Investments Accreditation meets ASIC RG146 requirements in generic and specialist knowledge and skills in Securities and Managed Investments.

MELB: Tues 14 Jul | 9:30am – 1pm
SYD: Wed 15 Jul | 9:30am – 1pm

For further information visit **www.stockbrokers.org.au**