professional PLANNER

On the piste and far from broke

Written by Mark Story

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When Melbourne-based couple Sandy and Allan Cronin (not their real names) unexpectedly came into money back in 2007, the only thing they really knew was that they didn't want to end up the wealthiest couple in Mount Waverley cemetery. Providing for their twin daughters remained their number one priority. But after years of struggling to get ahead, they wanted to enjoy the fruits of this windfall straight away, while also putting it to work for the longer haul. Not knowing exactly what to do with the $470,000 that Allan - a sales manager with a confectionary firm - had inherited led them to financial adviser Alex Wong of Sage Private Clients.

Wong, a former colleague of Sandy's at National Australia Bank (NAB), had been the family's financial and taxation adviser for some time. But like many 40-somethings with kids, the Cronins never had too much left to invest, after bills and sizable mortgage repayments. In addition to providing ad hoc advice on certain issues, Wong was charged with doing the family's annual tax returns. "Having done it tough for quite a while, we instinctively thought these funds could help accelerate a lifestyle we wouldn't otherwise have been able to afford for another 20 years," Sandy says. "But we had no idea how to literally have our cake and eat it." Given that the inheritance was in euros, Wong suggested that the funds be brought into Australia progressively over six months to average out any currency exposure. It was also agreed that money would remain in a holding account until the entire proceeds were brought in from offshore.

Striking balance

Wong recalls that coming up with the right investment solution meant balancing the Cronins' "bi-polar" investment philosophy. While Sandy had no tolerance for risk, Allan had a much more gung-ho approach to investing. Having listened to the Cronins' expectations for the future, three key objectives were to significantly fashion Wong’s recommended strategy: providing for their nine-year-old twins’ future; capital preservation; and being able to stop working when they wanted to. Wong constructed a 12-year plan that meant, come age 55, the Cronins could contemplate a sea change, and spend more time indulging their passion for skiing, rather than worrying about their income into retirement.

“Integral to the plan was the very real option of not having to work beyond age 60, unless they really wanted to,” Wong says. With around $200,000 invested in super funds between them, Wong didn’t feel that tipping additional funds in here was the best move, especially given their preference for cash. “Given that Sandy and Allan were still only in their early 40s, I wanted to build an investment portfolio that gave them more control than super would provide,” says Wong. With Sandy no longer working full-time, Wong initially recommended a “cash buffer” fund. This would effectively tide the family over for at least six months, should there be an unexpected loss of family income. In addition to placing $36,000 into an at-call account of their choice (ING), a further $20,000 was used to renovate the kitchen and pool at the family home.

“When a family like the Cronins has been so used to living within a certain means, it’s often hard for them to spend without guilt,” says Wong. “I wanted to encourage them that living for today is as important as investing for tomorrow.” With Sandy becoming increasingly unstimulated as a stay-at-home mum, it was also agreed that she would use a parcel of cash to establish a small business. At Wong’s encouragement, $30,000 was invested in a vending machine business she could operate from home, via a family trust structure. While it was never going to make a fortune, it provided a business interest that she could operate in her own time. Sandy’s conservative approach to debt meant it made sense to buy this business with their own money. “I also felt that servicing a loan to buy this business would have put unnecessary pressure on what was first and foremost a creative outlet for Sandy,” Wong says. “In addition to the business, the investments would generate imputation credits to offset any tax obligations going forward.”

Leveraging

The prospect of buying an investment property was always attractive to the Cronins, but they weren’t sure this made more sense than paying off the remaining $201,000 mortgage on the family home. Instead of clearing their mortgage now, Wong wanted them to consider paying it off at age 60, once they’d used the inheritance to grow a pool of assets. “From an investment viewpoint, they really needed to do a bit of everything, otherwise they'd end up working longer and harder than they really wanted to," Wong says. Once Wong had convinced them that buying an investment property did stack up, the Cronins went in search of a property that provided rental income.

Portfolio Snapshot:
SANDY AND ALAN CRONIN

Managed funds (superannuation):
Global equities: $48,000
Platinum Asia Fund $32,000
AMP China Growth Fund $16,000

Australian equities: $96,000
Ausbil Dexia $32,000
Eley Griffiths Small Company Fund
$32,000; Australian Foundation Investment Company $32,000

Direct equities: $32,000
Global Mining Investments Ltd

Personal Super: $200,000
Sandy: Australian Eligible Rollover Fund $100,000
Allan: Australian Super $100,000

Cash at call: $144,000
ING $72,000
NAB $72,000

Additional cash at call: $36,000

Small business investment
Vending machine business $30,000

Property
Rental property, Footscray. One-bedroom unit, $270,000 (mortgage $200,000).

The Planner: Alex Wong
Sage Private Clients Pty Ltd Melbourne, Victoria

In addition to being a registered tax agent with degrees in both law and commerce, Wong is a Certified Financial Planner (CFP), an associate of the Securities Institute of Australia, and a member of the Institute of Chartered Accountants of Australia. A financial planner since 1985, Wong was a former head of tax for National Australia Financial Management. He established Sage Private Clients Pty Ltd early in 2008, having merged his former business, Alex Wong & Associates, with another accounting firm some years earlier.

Comprising six accountants and five financial planners, the firm provides 400 groups and 100 SMSF (self-managed super fund) clients with a range of services from tax and traditional compliance work, through to full investment advice and implementation.

Advice structure Having become more interested in personal finance issues than the traditional compliance-based work, Wong was keen to complement the company's core accounting business with strategic financial planning and investment advice. Instead of charging a percentage of funds under advice, Sage client advice fees are based on the amount and complexity of the work required. All commissions and trails are wound back to nil. The benefit of having its own dealer's licence, advises Wong, is that the financial planners operating under the Sage Private Clients banner aren't required to favour certain products.

History Wong's association with Sandy Cronin dates back to the early 1990s when, as a fellow colleague at NAB, she used his services to prepare the family's annual tax returns. That changed in May 2007 when a large offshore inheritance by husband Allan prompted them to seek financial advice.

Strategy Wong's key recommendations revolved around establishing a defensive yet diversified investment strategy that would balance Sandy's low tolerance for risk with her husband's more bullish approach to investing. That meant educating them as to how a balanced portfolio would ensure capital protection while providing some exposure to growth within their stated 12- year time horizon

Sandy says: "We wanted something that would not only provide rental income, but was also in an upcoming area with capital growth potential that our daughters may wish to live in down the track." While $140,000 was initially earmarked as a deposit, only half this amount was used to acquire a $270,000 one-bedroom flat in Melbourne's inner west suburb of Footscray. "The notion of using debt to create long-term wealth was quite a revelation for me," admits Sandy. "I'd been brought up to believe that if you had a loan, you did your best to pay it off as fast as possible." Allan was on the highest marginal tax rate, so a negative gearing strategy on the Footscray property made the most sense. By applying for a variation in his PAYG (pay-as-you-go) tax, Allan's after-tax salary increased just when the family needed it most. "My view is to receive the income when you need it rather than at the end of the financial year," Wong says. "The net effect of the 40 per cent loss on the rental property will come back to Allan as additional income."

Diversification

With $320,000 still parked in cash in July 2007, Wong recommended a diversified portfolio comprising Australian equities (40 per cent), international equities (35 per cent), property (10 per cent), fixed interest (10 per cent) and cash (5 per cent). But whether it was due to intuition or sheer procrastination, the Cronins sat on their hands for another 12 months before doing anything with these funds. Unsurprisingly, a major portfolio reallocation in June 2008 following the sub-prime fallout saw about 40 per cent reinvested in cash and fixed interest, with Australian and global shares comprising about 40 and 15 per cent respectively, mostly via managed funds.

The net effect of the credit squeeze made the Cronins wary of banks. It was finally decided to divide the $144,000 in cash allocation between ING and their existing bank, NAB. "At 6.2 per cent, the Cronins weren't receiving the top-end rates from the NAB, but they were happy knowing their capital was preserved with financially solid financial institutions," says Wong. But in fairness to Allan, Wong also felt it was important there be some "punt money" to satisfy his greater appetite for risk. So one of the couple's four Australian share investments is a direct exposure to ASX-listed Global Mining Investments Ltd, which invests in natural resource companies globally.

Looking forward

Subject to market conditions, Wong says the Cronins may build their direct equity exposure over the next six months. They particularly like the look of strongly-branded, first-tier banks and finance stocks offering income and capital growth. Ironically, Wong says the last three years have bootstrapped both Sandy and Allan Cronin as investors. "Allan has gone off punting on stocks, especially while the risk of buying falling stocks is so high," he says. "Sandy's growing understanding of how to structure investments has given her the confidence to take on more debt." Sandy says much of that confidence has come from Wong's insistence that both she and Allan make the final investment decisions from the range of investment options presented.

In addition to having a cash facility for the unexpected, Sandy says there's ready cash to capitalise on the next property opportunity when it arises. "Alex has made us more aware that within the current environment, it's more about financial planning than what we buy and sell," she says. Sandy says the best advice Wong ever gave them was the power of making informed decisions, based on the information available at any given moment in time. She says the real value of fee-for service advice is being able to ask questions at any time, no matter how naive or ridiculous they may sound. "I'd be cautious of someone who doesn't want to go into detail," she says. "It's all about trust, and Alex understood that maintaining our lifestyle was always more important than chasing big returns."