professional PLANNER

Ready for take-off

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Like so many baby boomers on the cusp of retirement, Brisbane-based couple Bruce and Beryl Williams (not their real names) had no idea if they would have enough to live on once they stopped working. With few debts, no kids, two full-time incomes, the house paid off - and savings tucked away - their approach to finances was more "she'll be right" than strategic. Like most hardworking Aussies, the Williams were too busy earning a living to dwell on investment strategy. Besides, it's only been in recent years that they've had enough investable assets to warrant the time and effort.

Meanwhile, an exponential rise in the value of their investments – due to the bull-market run – has made it increasingly obvious that they need help to manage their finances successfully. The Williams first realised they needed some help when, in 2002, model aeroplane enthusiast and private pilot Bruce (then 59) was bombarded with an assortment of investment packages, provided by his employer, Donaldson's Dairy, in the lead-up to retirement. Bruce, more keen on flying his model replica Piper Cub out of the Loganholme model aeroplane club than poring over his investment strategy, decided it was high time he brought in the experts.

So he called his long-standing insurance agent, Gary Tupicoff, and asked him if he could recommend someone who did financial planning. Having just sold half his business to Certified Financial Planner (CFP) Neil Kendall, Tupicoff 's initial response was: "Mate, you need look no further." (Kendall's entry to the business completed Tupicoff 's plans to transition from a commission-based agency to a fee-for-service financial planning firm.) While the Williams had a good grasp of financial matters and took an active interest in the markets, they lacked the confidence and know-how required to develop a comprehensive retirement strategy.

Defining moments

Bruce’s retirement was fast approaching, but he’d never stopped to answer some vital questions: How should I be working towards retirement, what should I be doing and, most importantly, can I actually afford to retire? “The first job was to project Bruce and Beryl’s income needs once they’d moved to retirement or part-time work; how the income would be received and how long it would last,” says Kendall. Given that the Williams were far more interested in income and capital preservation than growth, Kendall’s primary goal was to implement some investment discipline around their existing super funds.

That meant consolidating a basket of Bruce’s existing super funds and term deposits into his Plum company super fund, where he was receiving employer contributions equal to 12 per cent of his salary. By doing this, Kendall managed to save Bruce an initial $7000, by maximising the tax benefits of the pre-June 1983 component. And by adding undeducted contributions, Kendall reduced tax by a further $7000. “Neither Bruce nor Beryl really understood what fund consolidation could bring to the table in terms of tax savings,” says Kendall. “

By consolidating funds, we managed to reduce Bruce’s overall tax liability on a fairly sizable super fund to $3633.” As a result of fund consolidation, Bruce ended up with a Plum fund worth $512,000 by late 2002. This was rolled over into an allocated pension two years later. Meanwhile, as Beryl was planning to remain in the workforce for some time yet, it was decided that her employer super fund would continue to tick over alongside a transition to retirement (TTR) Asgard pension, valued at around $300,000.

Cashing out

The Williams were far from aggressive investors, but their portfolio certainly enjoyed the updraft of the bull-market run. Kendall doesn’t claim to have timed the recent sharemarket correction, courtesy of the subprime credit crisis. But with the Williams well ahead of the game, and the smell of a market correction in the air, he decided it was time for them to lock in their gains and wait for things to cool off. “Due to strong markets, Bruce and Beryl were miles ahead. So the plan was to lower risk while still receiving good fixed interest returns locked in at 8 per cent for six months,” Kendall says.

“The plan is to carefully start buying back into the markets as opportunities present themselves.” By cashing out of their managed fund and direct equity exposure, the Williams managed to avoid the 16 per cent hit on portfolio value that many of their friends experienced. “Considering how far ahead we were at that point, we happily supported Neil's advice," says Bruce. "We were getting very nervous about our exposure to the market and this was keeping me awake at night."

Minimising risk

To minimise the risk of getting it wrong, Kendall proposes that the Williams re-enter the market via index funds, plus ASX-listed equities, offering both high (fully franked) dividends, and some exposure to growth upside. By moving them from actively managed funds to index funds he expects to save them around 60 per cent in costs. Kendall asks clients like the Williams to pay a fee every year, so part of his investment strategy is to place them in a "no failure" environment. So far, this strategy has been a huge winner for Kendall and his clients.

He says that while on the surface some clients are looking for sexy returns, putting the exposures on the table often dampens their appetite for risk. "It's often not what you do for clients, but what you don't do that makes the big difference," says Kendall. This explains why hedge funds, structured products and property syndications don't feature on his recommended lists, and why his clients haven't had to deal with product failures. He adds, once investors have got the asset class selection right, individual selections within those asset classes become less critical.

Value for money

Given that he now has the same income he had when working full-time - plus some capital appreciation - Bruce is more than happy with the fee-based service Kendall provides. Many of the Williams' model aeroplane club friends, who originally baulked at the idea of paying a fee for service, have since hired Kendall, based on the couple's recommendation. "Having commissions rebated also makes for cheaper fees," Kendall says. "But what often shocks them is what they've been missing out on in tax savings."

To Bruce, the key benefits of dealing with Kendall are knowing that he and Beryl are financially comfortable, and the peace of mind in knowing that Kendall is actively managing their investments. "Prior to Neil's involvement, I didn't really know if I had enough to retire on or not and this created a lot of anxiety," Bruce says. "My only regret is that we didn't knock on his door 10 years earlier." He believes the money that fee-for-service advisers like Kendall charge annually creates a deeper bond of trust with clients than that created by advisers operating in a purely commission-based environment.

"Some advisers I spoke with before hiring Neil gave me the impression they were doing me a favour making recommendations," recalls Bruce. By comparison, Bruce says that when Kendall suggests something, they have sufficient confidence in him to do it. Although, he hastens to add, they always want to understand why. "In a sense, Neil also granted us what we'd been denying ourselves - the confidence to enjoy the journey," Bruce says. "That means spending our money, knowing there's sufficient left for tomorrow."