Cuffelinks
Connecting investors with ideas

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Is there an Uber or Amazon of wealth, part 2

Graham Hand

"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10. Don't let yourself be lulled into inaction." Bill Gates

Part 1 was a focus on short term disruption and the potential for a new entrant to gain a significant slice of the wealth market, and concluded:

I don't see how any company can make wealth management sufficiently exciting for enough people to grow a market share of 5 to 10% in the next few years. To use Google's test, what problem will the disruptor solve in such a novel way that hundreds of billions will divert from incumbents? I hope I'm wrong because it would be fun to watch.

Part 2 takes a longer time frame of the next decade to 2025, and predicts the likely winners and losers, especially for superannuation.

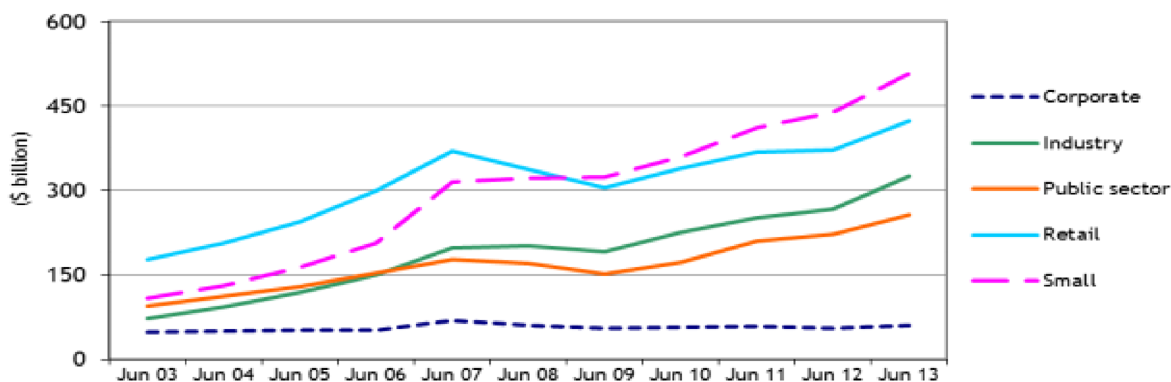
The power of incumbents

The three main (but not only) parts of the wealth management value chain are financial planning, administration services and asset management.

While each is a distinct service, the market is dominated by businesses that perform all three roles, although clients may not realise their adviser is aligned with one of the big players. The four major banks plus AMP 'control' about 70% of financial planner business. Many clients of the Commonwealth Bank who meet a planner in their local bank branch will be set up on a Colonial First State administration platform invested in a fund managed by a group subsidiary. Such 'vertical integration' is the subject of much angst from consumers, regulators and governments but it received relatively little attention from the recent Financial System Inquiry. A recommendation to review Stronger Super in 2020 is at least two Federal elections away.

However, despite their vast distribution networks, these retail fund businesses are far from winning the superannuation race they dominated until around the GFC. Between 2007 and 2008, retail super funds, heavily invested in equities, fell significantly, while SMSFs (labelled 'Small' in Chart 1 below) attracted new members and held a more conservative asset mix with 30% in cash and term deposits. SMSFs overtook retail funds in 2009 and now hold about one-third of the $2 trillion in super. And whereas a decade ago, the industry funds were less than half retail funds, they are now around three quarters and catching up fast.

Chart 1: $ billion held by various superannuation industry sectors



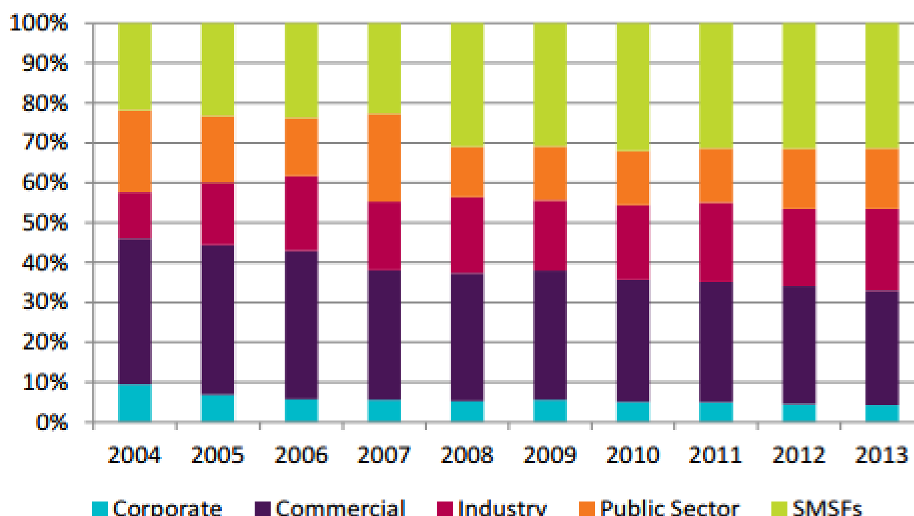
Source: [APRA Annual Superannuation Bulletin, revised February 2014]

Of course, other providers specialise in only one part of the wealth value chain. There are thousands of non-aligned financial advisers who argue they are more independent and better able to act in a client's best interests. Similarly, there are dozens of sophisticated administration platforms, especially (but not only) for assisting in the management of SMSFs, which allow investors to hold almost anything. And there are hundreds of asset managers holding billions of dollars (super and non-super), all claiming special talents which shout 'choose me'.

Industry funds in the context of market disruption

Two of the major competitive forces, SMSFs and industry funds, are almost unique in the world in their structure, making the likely future outcome for wealth management in Australia different from other countries. Chart 2 shows market shares of superannuation assets and these two segments are the big winners in the last decade. According to Rice Warner, while corporate funds, retail ('Commercial' in the chart) funds and public sector funds have all fallen significantly, industry funds have doubled their share of the large superannuation fund market (excluding SMSFs) from 15% to 30% since 2004.

Chart 2: Market share of the superannuation industry, 2004-2013.



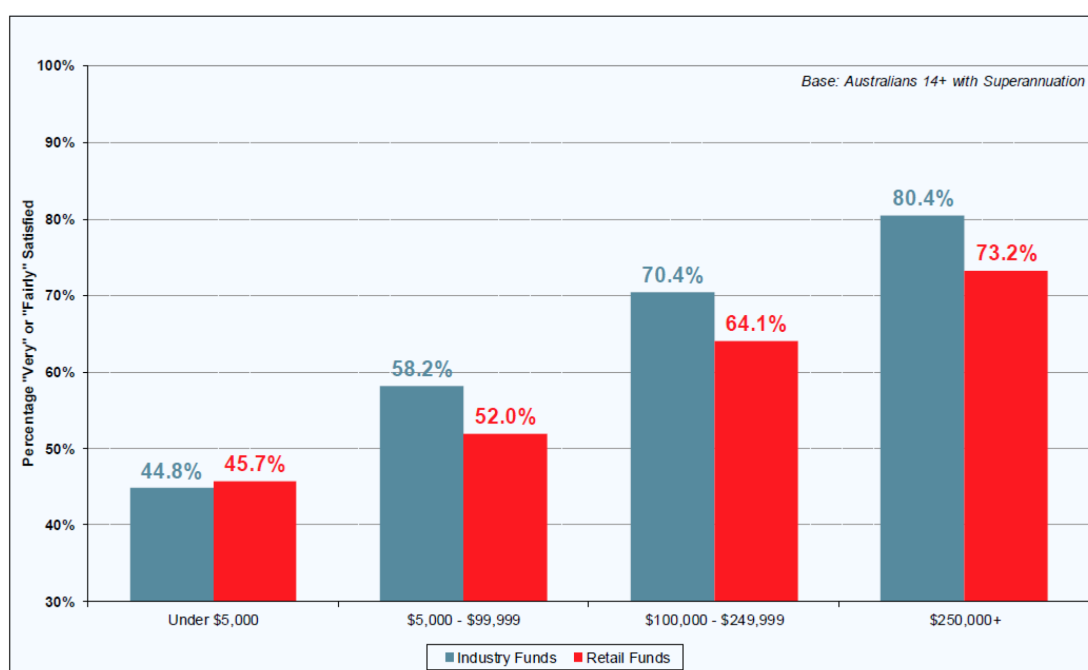
Source: [Rice Warner submission to the Financial System Inquiry], page 14.

What are the strengths and competitive advantages of industry funds that will enable them to thrive in the face of new sources of competition?

1. Client acquisition. Most people who start their first job on the checkout at a supermarket at the age of 15 are given a 'starter pack', and it includes an application form for the Retail Employees Superannuation Trust (REST). It's not only low income earners, as Unisuper's position in universities shows. The largest, AustralianSuper, manages almost $90 billion. While industry funds have experienced some leakage to SMSFs, the majority of clients stay for life.

2. Higher satisfaction ratings. Without entering the debate about whether it is perception or reality, industry funds are considered to deliver performance at least as good as retail funds at a lower price. Industry funds have led retail funds in overall satisfaction ratings for over a decade. As shown in Chart 3, what is most surprising is the satisfaction gap is much greater with larger balances, where investors are likely to be better informed and engaged. Satisfaction is similar for under $5,000 but wide for over $250,000, which accounts for only 10% of customers but a whopping 43% of balances. It's not an encouraging sign for retail funds gaining large clients from industry funds.

Chart 3: Satisfaction with financial performance of superannuation by balance held



Source: *Roy Morgan Research, six months to December 2014, sample n=15,932*.

3. Not for profit structure. Industry funds have only one type of stakeholder, their members. This clarifies decision-making and should lead to singularity of purpose, of improving member returns and services at the least cost. Retail funds must satisfy shareholders demanding an economic return on capital, requiring a profit margin built into fees.

This final point is the most important for long term expectations. As industry funds grow, the largest bring more of their funds management in-house. The economics of paying competitive salaries for top fund managers are compelling for a fund with say $50 billion in total and $20 billion in equities, paying 0.40% to an external manager. That's $80 million in fees, which covers a lot of salaries and bonuses. Even if asset management is not brought in-house, an ever-expanding range of sector index funds plus smart beta funds are available at a fraction of the fees of active managers. With the guaranteed SG inflow from a largely disengaged client base choosing default funds, they have the potential to lower fees significantly over time.

Within 10 years, as funds grow with a largely fixed cost base spread over more assets, industry funds will commonly deliver their main default balanced fund options for 50bp or less all in. That will cover asset management, administration and even some financial advice. All the large funds will further develop their advice capability at subsidised costs with salary-based staff, removing many of the arguments about

conflicts that come from commissions. While advice will not be free, it will be attractively priced, again with no profit margin driving the fees.

The main risk facing industry funds is that the government may remove the privileged position as the nominated funds under employee awards. This may be matched by increasing the number of independent directors, a change which may assist public perception. Either way, industry funds will remain a major force in the market, probably stronger than their current market share of super. Retail funds have their MySuper products around 1%, but they will not deliver better fund performance to make up for the higher fees. Even where industry funds outsource their asset management, they use the same managers as retail funds and can negotiate rates which are at least as competitive.

The rise and rise of SMSFs

The improvement in technology and developments in 'fintech' and 'roboadvice' make it easier than ever to manage an SMSF. An administrator can sign up a new SMSF, including opening a bank account, broker links, access to a term deposit aggregator, full trustee identification and comprehensive reporting, all online in less than 30 minutes. Without entering the debate about the minimum amount required for an SMSF, it is certainly cost competitive at amounts above say $500,000 (and many argue much less), where even a low 0.5% is $2,500. This will cover tax returns, audit and reporting for a simple fund, which can then choose inexpensive investment options such as ETFs or direct ASX investments to keep management costs down.

Retail funds have obviously done well in the rising stockmarket of the last few years, and they are far from struggling. Staff have still received their handsome bonuses. But there's little sign of a drop off in the establishment of SMSFs, now well over half a million.

Chart 4: Membership and number of SMSFs

	Establishments	Windups	Net establishments	Total number of SMSFs	Total members of SMSFs
Jun-09	32,604	8,843	23,761	399,386	758,589
Jun-10	29,940	15,088	14,852	414,238	787,602
Jun-11	33,215	7,057	26,158	440,396	837,171
Jun-12	41,066	7,304	33,762	474,158	900,714
Jun-13	39,559	9,676	29,883	504,041	953,722
Jun-14	32,484	2,349	30,135	534,176	1,011,686

Source: Australian Taxation Office, SMSF Statistical Report, June 2014

With around 30,000 new SMSFs established each year, that's about 100 a day, with an average of two trustees. Over one million Australians have signed a 90 page Trust Deed taking legal responsibility for their own superannuation.

A recent report entitled '*The 2015 Automated Investment Advisers Global Market Review'* by FinDigital and Ignition Wealth reviewed 45 roboadvice offers, and found they were often targeting self-directed investors including SMSFs. Technology is not only for younger generations as the roboadvice offers appeal to older investors due to the better customer experience and lower fees. These developments are likely to encourage more SMSFs, as the simple advice models suggest planning decisions relating to risk assessment and asset allocation can be done without an adviser.

Where does that leave the retail funds?

Retail funds will continue to grow in absolute terms, even while they lose market share to industry funds and SMSFs. Their distribution networks and provision of most of the 'face to face' financial advice will ensure they remain strong businesses. They have billions invested in technology, and they have the marketing resources to attract corporate super, where 80% of people do not actively select their own fund but default to that selected by the employer.

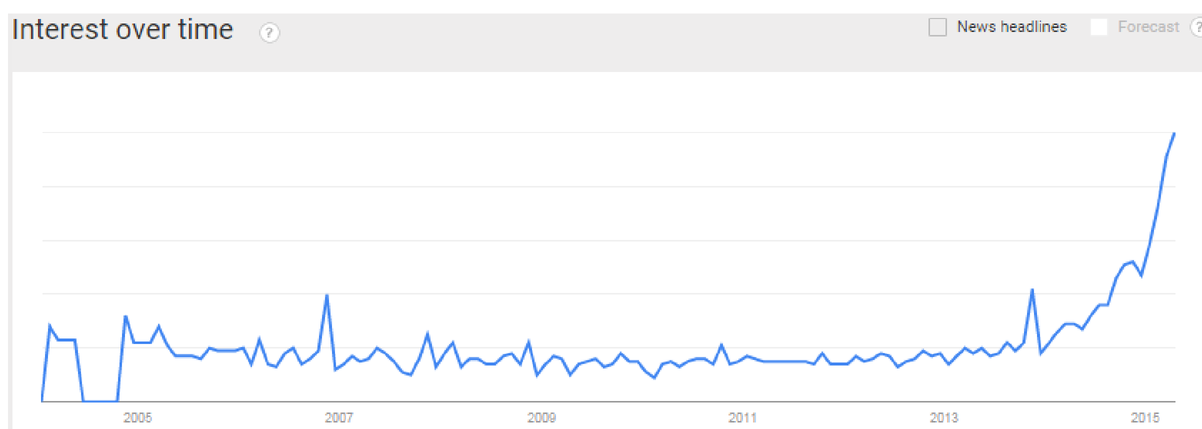
On the platform side, it's an industry truism that managed funds are sold and not bought. Financial planners have their favourite platforms or funds around which they build their administration and model portfolios, and it's not easy to change. The retail providers will continue to service their networks well.

But it is increasingly easy to create the same asset allocation possibilities using the ASX and a collection of ETFs, LICs, listed bonds, alternatives and shares. There are dozens of simple administration platforms of varying sophistication which might cost as little as a few hundred dollars a year. A copy of the contract note for the trade on the ASX is automatically sent to the administrator for a portfolio to be updated real time. They may not have the tax sophistication of a full retail platform but the information automatically generated at the end of the year makes the financial return straightforward for a competent accountant. The ASX's mFund service delivers managed funds previously available only via a platform or long form PDS.

What about fintech, roboadvice and other new providers?

Fintech and roboadvice have made dramatic improvement in recent years in wealth services. The basic approach requires a client to answer a series of questions to assess their risk capacity, income, assets and long term goals, and an algorithm generates a suggested portfolio. There may be online or video conversations with an adviser. It is clearly no substitute for a bespoke, personal consultation with a skilled financial planner, but a minority of people have a planner. And while most people nearing retirement are no doubt missing out on good planning ideas, such as making the most of superannuation, estate planning, insurance and portfolio construction (to name a few of the things a good financial planner will cover), for many the roboadvice is a major step forward in the diversity and sophistication of their retirement planning. Chart 5 shows how much the word 'fintech' has entered our search conversations (acknowledging 'fintech' has a much broader definition than only wealth management).

Chart 5: Google Trends based on search term 'fintech' with April 2015 the 'base' of 100



While many criticise the simplicity of roboadvice, it offers better opportunities than keeping money in the familiar places of cash, term deposits, bank shares and residential property (not that such a portfolio has done poorly in recent years, but it does lack the diversity that international equities and other asset classes bring).

Such online advice and implementation is usually cheap, based on ETFs with an all-in cost of say 0.25% per annum. Although Vanguard moved into online advice based on index funds, it recently added active funds for clients who want to complement indices with active stock and bond pickers. Active management remains a massive market and roboadvisers will not necessarily ignore it.

We are only at the beginning of an exciting new development: the market leader in the United States, Wealthfront, has only about USD2 billion under management, a tiny (read insignificant) share of the market despite its high profile and slick technology.

In Australia, some early movers are Decimal, Stockspot, SelfWealth, AdviceConnect and BigFuture. In the United States, more advanced are Betterment, Wealthfront and PersonalCapital, plus more established names like Charles Schwab and Vanguard.

As we discussed in Part 1, many of the new entrants in roboadvice will do well, as they have relatively low costs and capital needs, and a couple of billion under management can be an excellent business. But with $2 trillion in super, a 1% market share is $20 billion. While 1% is hardly market disruption on the scale of Amazon's effect on Borders, are there any trusted names which have the capacity to raise this much over say the next decade?

If the technology (ETFs, roboadvice, cheap administration) had been available 10 years ago, then a name like Virgin may have made a bigger splash. Its brand was moving into everything, but its impact has been largely confined to credit cards rather than superannuation. Virgin is one of the most recognised brands in the market, yet it struggles as a wealth management name.

The best technology companies and retail brands in the world, such as Google, Apple, Facebook, Twitter, Microsoft, Ebay and Amazon, clearly have the deep pockets and distribution to design solutions that can gain a big following. It's reasonable to expect them to see the opportunities in wealth and consider it an extension of their existing businesses.

And of course there are points of intersection where incumbents use new technology to improve their own offers. Regardless of developments, face to face advisers will always have a role in coaching and guiding their clients, especially where needs are complex such as estate planning, tax, aged care and retirement. These advisers can use roboadvice tools to help with risk assessment, portfolio selection and investment reporting. This will be complementary to moving the financial advice industry into the more professional status so keenly sought by the industry.

Conclusion on the future of wealth management

Technology can change industries almost overnight, and in hundreds of 'tech hubs' around the world, some of the smartest brains of any generation are working day and night to develop an online investing and advice solution that will change the world. The former executives from Kodak, Blockbuster and Borders know that even experts in a business do not see the freight train coming until it runs over them. The new generations of investors are far less loyal to existing relationships and open to innovative forms of technology.

Recognising the warnings by Bill Gates not to underestimate long term change, my expectations are (defined for simplicity in terms of superannuation): SMSFs to continue to increase market share but with some natural cap due to most people remaining disengaged with investing; industry funds to gradually lower fees and expand more into advice and to take over retail funds as the second largest segment; retail funds to remain strong based on broad distribution but to lose market share due to higher fees without better performance; and new entrants using elegant online solutions to have some great successes and great failures but no single new party will have greater than 10% of the market by 2025.

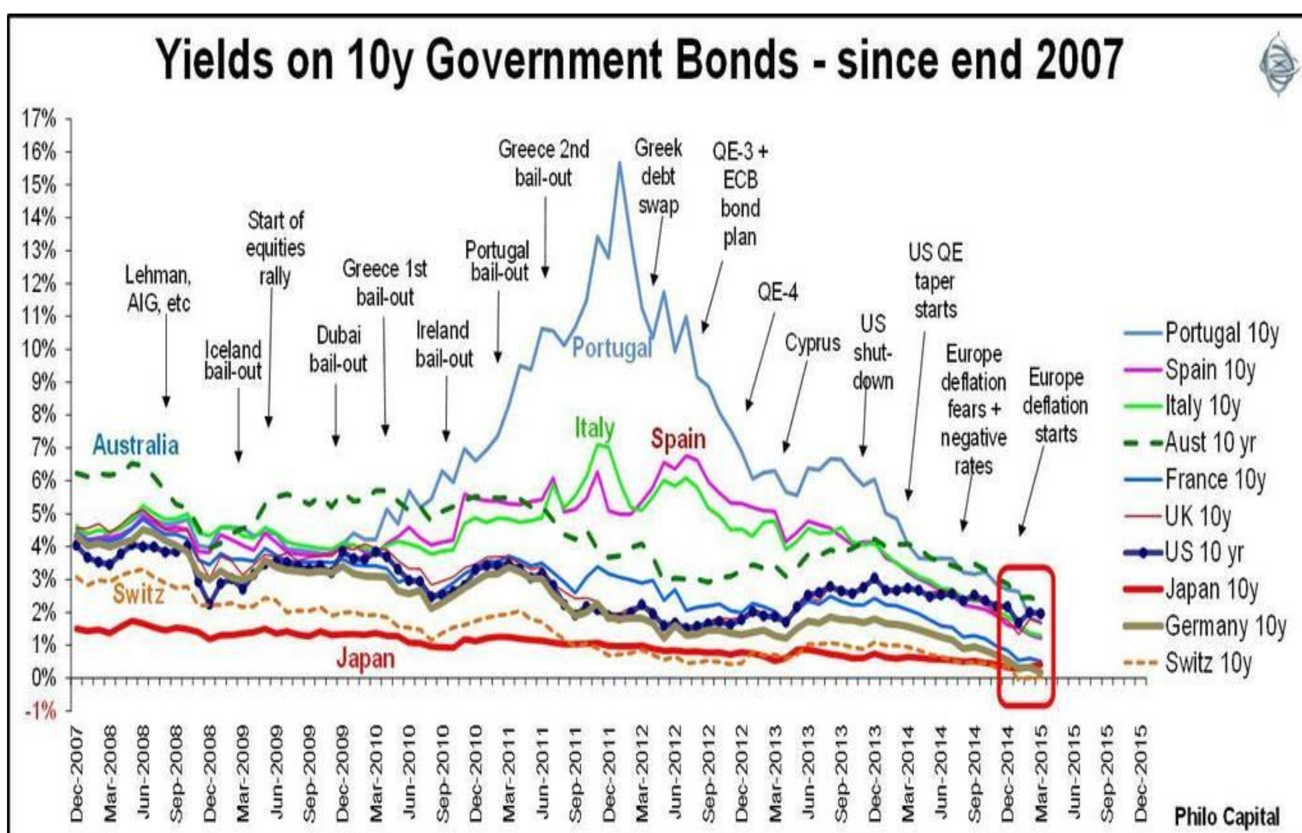
Graham Hand has worked in funds management, investment banking and retail banking since 1979 and is the Editor of Cuffelinks.

Why investors buy bonds at negative yields

Ashley Owen

Numerous European countries now have short, medium and even long term government bonds issued in local currencies (including Euros) offering investors negative yields, such as Germany, Switzerland, France, Denmark, Netherlands, Sweden, and even Ireland and Portugal! Why would anyone invest when they receive less back on maturity than the original investment? It's not for the interest payments – most offer interest coupons of only a fraction of a per cent.

The chart shows yields on 10 year government bonds rising during the 2010-12 'PIIGS' crisis and then declining as Europe slowed into deflation prompting the start of Eurozone 'quantitative easing'. The PIIGS countries of Spain, Italy and Portugal have experienced dramatic reductions in their borrowing costs. Bond yields fell again in March 2015 in most markets, with the main exceptions being Greece where yields rose as it lurches toward its third bailout or possible Euro exit, and Japan, where yields also rose a little with its money printing efforts and exit from recession.



European investors are either predicting decades of price deflation ahead, so a buyer could make a positive real return (after negative inflation), as Europe entered deflation late last year. Or they are simply terrified of putting their money anywhere else. They prefer buying loss-making bonds instead of just hiding their money 'under the bed' or in a safe at home or in a deposit box at their local bank branch, where they would at least get their money back intact. They seem to prefer the certainty of losing money invested in government debt rather than the remote risk of theft if their homes, banks or countries are invaded and plundered. Switzerland makes sense as a safe haven for Europeans, but Germany? Germans tried to conquer Europe by military force three times in the past 150 years!

With yields so low, investors are accepting longer and longer terms in the search for yield, fuelling a boom in multi-decade sovereign and corporate debt. On 10 March 2015 the UK government issued 53 year bonds at an incredibly low 2.62% yield as the UK enters deflation.

It is correct that most government bonds in the world (including Australia) are trading at a premium to par so investors who buy them now are guaranteed to make a capital loss. And that's if the government

pays which it probably will, although Australia has defaulted in the past. And that's before inflation. If inflation rises from zero or negative at the moment back to rising a couple of percent, those long term bonds could drop by 20-30% in value.

There is a way out of losing money, of course. When a PIIGS country exits the Euro, its own currency is likely to plummet. If there is a 'Grexit', the Greek Drachma will probably drop 30-50%, so Greek investors in Euros will make handsome returns, even if they initially invest at negative yields. The low yields are a bet against the euro holding together.

That's if the Germans give them their Euros back at maturity. In the meantime, European bonds and shares are generating outstanding returns in the short term under 'QE Europe' as yields fall, the euro falls and share prices surge.

Ashley Owen is Joint CEO of Philo Capital Advisers and a director and adviser to the Third Link Growth Fund. This article is educational only. It is not personal financial advice and does not consider the circumstances of any individual.

Will insurance bonds become the new superannuation?

Andrew Bloore

The insurance bond is an almost forgotten investment product which is starting to emerge amongst better planners and wealth management groups. Money is slowly moving back in to this form of saving for higher income earners.

Insurance bonds have some great features:

- uncapped contributions
- flexibility of investment options and more under development
- access to money regardless of age
- generally low cost
- tax at 30% during the taxed period.

What is the 10 year rule for investment bonds?

If the investment bond is held for 10 years or more, no additional tax is payable on investment earnings.

The tax treatment of investment earnings from the bond depends upon the timing of the withdrawal:

- up to the 8th year all earnings are assessable (less offsets, see below)
- during the 9th year 2/3rd earnings are assessable (less offsets)
- during the 10th year 1/3rd earnings are assessable (less offsets)
- after the 10th year all earnings are not assessable (ie tax is already paid).

Additionally, the tax treatment is not only for the initial amount invested, but each year after the initial year you can contribute up to 125% of the ***previous year's*** amount and still stay within the 10 year rule. However, if you stop contributing for a year, the next time starts a new 10 year period for that new money and the balance that was previously there continues on the pre-existing 10 year period. Following the logic, if contributions for the last year were nil, then 125% of nil is nil.

If the bond is withdrawn before the expiry of the 10 year period, the profit (proceeds less total amounts invested) will be included in the investor's assessable income and be taxed at their marginal tax rate. However, any profit that is assessable receives a tax offset of 30%.

As superannuation becomes more controlled with more tax applied to it, especially for larger income earners, this vehicle provides a mechanism for people to tax efficiently invest and still have access.

Who is best suited to insurance bonds?

Insurance bonds are worth considering by anyone who has a marginal tax rate greater than 30% that directly affects their savings.

Insurance bonds are still not as efficient as super, under the current legislation, as a savings vehicle, although insurance bonds may provide greater access, depending on age. However, superannuation tax incentives may change and tilt the scales more towards insurance bonds.

The downside is that the structures are predominantly unchanged from 20 years ago and many only have managed fund options. Change is happening here though.

What about Self Managed Insurance Bonds?

The question I am hearing is when will we see a Self Managed Insurance Bond (SMIB) where investments can be directed more like an SMSF?

Technically that is possible now but expensive because each SMIB must be its own life company and hold a licence. As this develops however we may see the insurance companies offering investment options in directed investments for managed funds, direct shares and cash and even Separately Managed Accounts.

As a SMSF provider we are certainly looking at the merits of building this type of service in the future.

Who knows where the superannuation industry will end up in relation to tax. What we know is that the media is playing a part in focusing on superannuation as a tax issue and unfortunately are looking at it in isolation to all retirement assets. The Cooper Review tried to focus attention on retirement rather than superannuation but that seems to have been left to the halls of time. All good advice must have one eye to the future so perhaps the trickle we see may become a trend and SMIB may become a future buzz acronym.

Andrew Bloore is Chief Executive of SuperIQ, a leading administrator and provider of integrated services for SMSFs. This article is general information and does not address the personal circumstances of any individual.

Collectable and personal use assets in SMSFs

Monica Rule

Did your SMSF purchase fine wine, a vintage car, a jet ski, or artwork prior to 1 July 2011? It must have seemed like a dream come true to be able to invest in your passion through your SMSF and then enjoy your investment. Sadly, the dream is over. In less than 15 months, by 1 July 2016, your investment is something you can no longer enjoy.

“Why is this so?” you ask. The sole purpose of superannuation is to provide retirement and ancillary benefits to members. By investing in and enjoying a collectable or personal use asset, SMSF members gain a pre-retirement benefit that goes against the spirit of the sole purpose test. As a result, the superannuation law was tightened from 1 July 2011, so that any collectables and personal use assets acquired by an SMSF from this date onwards cannot be used by or leased to members of the SMSF.

Additionally, these assets cannot be stored in a private residence of any member, nor displayed at a member’s place of business as this would mean the assets are being used by the member. You can, however, use certain premises owned by a member such as a storage facility. The trustees of the SMSF must document their decision on where the assets are stored and keep their documented decision for ten years. On top of that, trustees have to take out insurance for these assets within seven days of their SMSF acquiring them.

The government provided a five year transitional period for SMSFs that acquired these assets prior to 1 July 2011. These SMSFs do not have to comply with the new restrictions until 1 July 2016. If you are currently enjoying these items, come 1 July 2016, you will have to comply with the new requirements. You can also no longer lease them from your SMSF.

What happens if you don't comply with the new restrictions? Non-compliance with the law is an offence that can result in a fine of $1,700 for each trustee of an SMSF. Not only that, the Tax Office can also take other compliance actions on you and your SMSF.

So don't leave things to the last minute. You need to think about whether you want to comply with the superannuation law requirements or sell these assets. If you decide to purchase these assets from your SMSF yourself, then you will need to do so at the market rate prior to 1 July 2016. If you purchase them from your SMSF on or after 1 July 2016, then you will need to have them independently valued prior to the purchase.

Monica Rule is an SMSF Specialist and author of The Self Managed Super Handbook*. See* *www.monicarule.com.au. This article is general information and does not address the circumstances of any individual.*

Don't do what everyone else is doing

Warren Ebert

Commercial property may be generally underrated as an investment class but not by those enjoying the dependable double-digit returns it can deliver.

It may not have the sizzle of an off-the-plan apartment purchase or a stock market play but commercial property investment, when done right, consistently outperforms its over-hyped competitors.

I hear misconceptions everyday about commercial property investment. Some people are worried about putting all their eggs in one basket. I reply, "You are only diversified when some of your investments perform worse than others." Others say they would prefer to fully own their investment, not be a part-owner. However, with residential units, for example, you must comply with body corporate, you only own the air inside the walls, you do not own your entry door as it is common property, and you do not own your car park as it operates under a license. And on it goes.

A lot of people also say to me that they do not know enough about commercial property to invest in it. But many of these same people have never run an international mining company, a telecommunications company or a bank, but they still buy shares in BHP, Telstra and Westpac. So there are a lot of inconsistencies in the arguments against commercial property investment, and they also ignore the strong underlying fundamentals of this asset class.

Opportunities in commercial property

After more than 20 years of experience in the commercial property industry, I wanted to create something that I could invest my own family's money in, a different model based on what I had learnt on property fundamentals, not financial engineering. My company, Sentinel, is an unlisted commercial property fund manager with a focus on opportunistic buying of non-core commercial property assets. Essentially, we buy what others do not want or do not see the inherent value in, and then work to maximise returns through hands-on management and value-adding. As they say in residential speak, buying 'the worst house in the best street'.

These unlisted property funds pool investors' money to buy large commercial property assets such as shopping centres, bulky goods and homemaker centres and industrial facilities. Distributions are paid monthly to investors from rental income, with the majority of tenants in the ASX200, and supplemented by special capital return payments on revaluations and capital growth returns on divestment. As a sign of the diversity of opportunities, we currently have 30 properties in our funds.

One of the key philosophies which I believe underpins successful commercial property investment is buying when others are not, because "if you do what everybody else does, you end up where everybody else is". Good timing of investments is critical. Money is made by being a 'first mover' out in front of the pack and getting the fresh grass, rather than following the herd and getting the leftovers.

Mistakes in timing investments

The graph below is an amusing, but also accurate, insight into how people's minds work when it comes to investing and specifically the timing of investment.

Source: www.stockcharts.com

The common mentality is that everyone likes to speak to someone else (a workmate, a relative or a neighbour) about investing to be sure that they are doing what everyone else is doing at the same time they are doing it. "Uncle Bob always gives quality advice at the Sunday BBQ!"

There is comfort in the herd but it doesn't mean it is right. In fact, the opposite is usually true. As Warren Buffett says: "Be fearful when others are greedy and greedy when others are fearful."

The dynamics of Australia's commercial property market are rapidly changing, with a large weight of money chasing limited opportunities and driving down yields. The buying window of opportunity is fast closing, and the right assets are becoming increasingly difficult to secure at the right prices.

Hands-on active management of existing assets is essential to continually add value, maximise performance and, in turn, deliver consistent returns to investors. There is also the potential for strategic expansion into new styles of investment and alternate asset classes that still fall under the broad category of commercial property.

While buying at the right time is important, it is equally important to sell at the right time and at the right price. This can only be achieved by relentlessly reviewing assets and identifying and capitalising on opportunities to test market value and get the best possible results for investors.

Warren Ebert is the Managing Director of commercial property investment firm Sentinel Property Group which has funds under management approaching $700 million. www.sentinelpg.com.au. This article is general information and does not consider the individual needs of any investor, and does not constitute formal advice.

The Ten Commandments of Transformation

Marcus Padley

If Heaven had been an investment bank, God the CEO and Moses the salesman, Moses might have come down from Mount Sinai bearing two entirely different stone tablets, the Ten Commandments of equity investment perhaps, a philosophy designed to sell investment products and keep them sold with as little hassle from their clients as possible. They might have read something like this:

1. The market always goes up
2. Buy and hold
3. Invest for the long term
4. Diversification
5. Rely on the miracle of compounding returns
6. Invest in businesses not stocks
7. You can't time the market
8. If you aren't willing to own a stock for ten years don't think about owning it for ten minutes
9. Our favourite holding period is forever
10. In the short term the market is a popularity contest. In the long term the market is a weighing machine.

And much like the real Ten Commandments most of us would have adopted these subliminal directives without really arguing them through or asking "Do they make us happy" because I'm not sure they do. Are we happy to ignore the short term and focus on the long term, to put our faith in the endless repetition of history? Are we happy that no-one is responsible for the performance of our investments in the short term? Are we happy with the position that the product seller knows best? Are we happy to accept a bunch of philosophies designed by product sellers to keep us invested and serve their purposes first and ours second?

Well I'm not. Buy into these and prepare to be bored and more than likely disappointed because quite honestly a well balanced portfolio isn't going to get you far, not after fees, tax, inflation and the odd crash.

If you, like me, don't want to settle for a managed fund's performance letter once a year, don't want to trust in the long term when the market collapses and want something a little more transformational then read on, because for your investing delight let me propose an alternative Ten Commandments, the Ten Commandments for any investor looking to do better than average, which is all of you. Here they are, the Ten Commandments of Transformation:

1. **Focus on just a few stocks.** You cannot transform yourself with 20 plus stocks let alone a balanced fund. If you want extraordinary returns find one to five stocks that you get to know very well. This is crucial because diversification undermines transformation.

2. **Do the work.** Spend one hour doing work on a stock and you will end up in the top 1% of people that know anything about it. Do ten hours work and you end up in the top 0.00001% of people that know anything about it. Someone who has followed and traded the same stock for a year has an even bigger edge. Get to know stocks. Not all stocks, just a few. Find some favourites.

3. **Be contrarian.** There is no transformation in playing with the herd. Learn to identify extremes. Armageddon is opportunity. I doubled my money in Elders last year. Could have tripled it. Doing the work and spotting the turn, this is where the money is, in what the market doesn't expect not what it knows.

4. **Develop a technical discipline.** I don't believe that technical analysis will make you rich alone but it is a tremendous risk management system. A share price is not a line on a chart, that line is the representation of thousands of people saying "You're right" or "You're wrong". That's a useful piece of information. So listen. And when they start telling you you're wrong, don't be smart.

5. **Network.** Ten ears are better than two. Expand your group of investing friends, even the dull and ignorant have their stories, you only need one or two ideas a year and so what if you waste a few hours over a bottle of wine and strike out.

6. **Use everything.** Use fundamental research and technical trading skills. It's all contributory information so use it all. Too many value investors and traders are blinkered. Why? Pride? There's no place for that.

7. **Don't make mistakes.** You cannot transform yourself with good stocks if bad stocks are constantly chopping you down. Controlling losses is easy because they are right there in front of you on your spreadsheet. Sort them out first.

8. **It's about stock prices not businesses.** It's an arrogant investor that thinks their money is invested in a business when the herd controls the share price. Share prices are half psychology, half value, not 100% of one or the other.

9. **No ego.** There is no-one that good at investing. No-one that cannot learn something new. You will change your methods many times before the end so be flexible, respectful, open-minded.

10. **Enjoy it.** No-one does anything well when they have to.

Come back in another 32 years for the updated edition of the Ten Commandments of Transformation, because there's a lot more to learn.

Marcus Padley is a stockbroker and the founder of the Marcus Today share market newsletter. He has been advising institutional clients and a private client base for over 32 years. www.sentinelpg.com.au.
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