Diversify, go international

NOEL WHITTAKER

Global funds can make you some good money.

IT'S a challenging time to be an investor – the Australian dollar is plunging and stock markets are all over the place. But don't let the volatility faze you: this is a great time to look at your portfolio to see if you can improve it.

International shares should be a major part of most portfolios but, sadly, they are one of the most misunderstood. Consequently, many DIY investors have only a small exposure to international shares or, worse, none at all.

There are two major benefits in international investment. The first is a currency gain if the Australian dollar falls in relation to other currencies, as is happening right now. The second is that international investment enables you to increase your diversification.

The Australian stock market is a minute part of world financial markets. It is very volatile in relation to major international markets and has tended to have long high and low cycles. So an investor unlucky enough to get in at the start of a long downward spiral may have to wait several years for an improvement. But the manager of an international trust can move money at any time around the world into areas that show much more promise.

Of course, this raises the question of whether you should do it on your own or use equity trusts run by fund managers. My strong recommendation is to let the fund managers do the work and make the decisions. A few years ago I bought some shares in an American company after reading about them in a newsletter, and was stunned by the amount of red tape that was involved. It was a bit like buying a boat – the two best days are the day you buy and the day you sell.

Talk to your investment adviser when you are selecting equity trusts for investment. Fund managers have different philosophies, and it is important that the thinking of the fund manager matches your needs. Some managers will take considered risks to go for high returns. Others will happily admit to placing security ahead of very large returns.

Some funds cater for the investor who likes to have a say in where the money is invested and may offer a choice of sub-funds such as a Japanese fund or a European fund. My preference is to stay in more general types of funds and let the fund managers have the discretion to move the funds about to best attain the investment objectives. After all, that is what you are paying them for.

Watch the tax liability if you decide to invest in sub-funds, then move your money from one sub-fund to another. For tax purposes each switch is treated as a realisation and a new acquisition. You may have worked out the European fund has more potential than the Japanese fund right now, but if you switch you could be liable for capital gains tax if your investment has grown in value.

When thinking about investing in share-based managed funds it's helpful to look past the name of the fund and find out exactly where the fund manager is putting your hard-earned cash.

For example, the Magellan Global Fund, one of the funds in which I invest, looks for large multinational businesses characterised by wide economic moats, high returns on re-invested capital and sustainable competitive advantages. These include Google, Nestle, Visa, MasterCard, Intel Corp, Wells Fargo, Home Depot, Lowe's Co, Microsoft, Unilever and Yum! brands.

Their approach has paid off – the fund has returned +27.3 per cent per annum to Australian investors for the three years to August 31, 2015. Obviously, past performance is no guarantee of future performance, but those results do show the potential that good international funds have.

Noel Whittaker is the author of *Making Money Made Simple*, and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

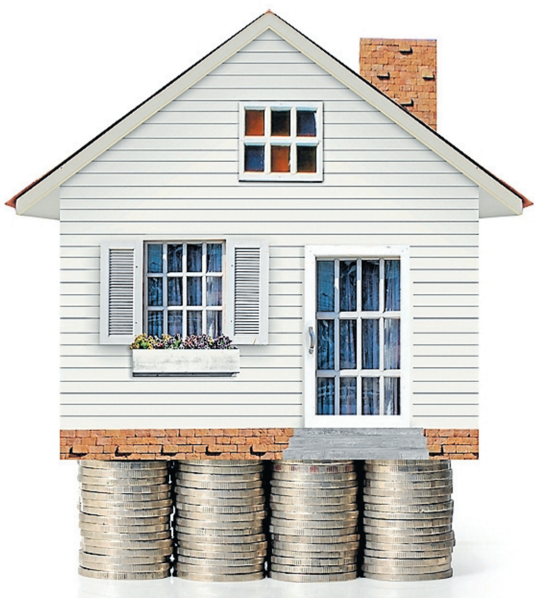
Send your investment money overseas.

Q I read in one of your recent columns that bulk withdrawals from super for over-60s are not assessed as income from a taxed super fund. Does that that mean that if I withdraw $200,000 from a pension in super phase to pay off my mortgage, it would affect my pension? I was under the impression that bulk withdrawals in pension phase do not affect your pension.

A If you withdrew $200,000 from your super fund and paid it off your home mortgage, it should have no adverse affect on your age pension.

Q My wife is 30, I am 37, and our combined income is $350,000 a year. We own outright a house worth $800,000, and have no other investments apart from combined super of $175,000 to which we salary sacrifice the maximum each year. We save $8000 each month. To diversify our investments and take advantage of negative gearing, we plan to borrow and start a share portfolio. We understand the risks of a downturn in the share market, and our adviser suggests we use an interest-only loan. Should we use this to reduce our investment loan, or look at low-risk investments like an education bond for our son. People say that investing in the share market outperforms all other avenues in the long term – do you agree?

A I do agree, but I suggest you go to my website and look at the stock exchange calculator. It enables you to enter a hypothetical sum at a date of your choosing, and find out what the amount would have grown to at a date you can nominate if performance had matched the All Ordinaries Accumulation Index, which includes income as well as growth. This will allow you to model any scenarios you choose.



Shopping around for a home loan could save you a stack of money.

Reviewing home loans pays off

LARISSA HAM

THE task of finding a better home-loan deal is not right up there in the excitement stakes.

Sometimes the easiest thing to do is to forget about it, and keep paying too much. Or – as most of us do when buying petrol, milk, or any number of smaller things – you could shop around, and save a bundle.

Refresh your memory. Check what your current interest rate is, and what the loan includes. Are you on a fixed or variable loan? If it's fixed, are there discharge fees?

"The key to finding the cheapest home loan is that it's not just about finding the cheapest interest rate – you also need to take into account the fees and charges associated with the loan," says Shelley Marsh, a former stock market analyst who writes personal finance blog Money Mummy.

"This is why you should look at the comparison rate as well as the interest rate."

She says the comparison rate reflects the actual cost of the loan as it takes into account fees and charges, plus the interest payment you'll have to make over the entire life of the loan.

If you want to pay your home loan off quickly (who doesn't?), Marsh suggests looking for three top features: unlimited extra repayments without fees, a redraw facility and a 100 per cent offset account.

Do your research before tackling your bank. Comparison websites such as Finder, Mozo, Canstar or RateCity can link you directly to lenders.

New website HashChing, "Australia's first online marketplace for home loans", advertises special deals, and puts you in touch with a local mortgage broker who can help you get that deal.

Chief executive Mandeep Sodhi says mortgage brokers have access to better rates, and can do the heavy lifting for you.

Negotiate hard. Sodhi says if you're dealing directly with a bank, dig your heels in, and don't take the first offer. Threatening to jump ship remains a smart tactic. "Do you want to stick with the bank that's not looking after you?" Sodhi says.