

# Plan B

WEALTH MANAGEMENT

# In focus

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SUMMER 08

## Plan B and the financial market turmoil

By Bryan Taylor, Chairman

**In this newsletter, I will try to address some of the questions clients have been asking. Please feel free to address any further questions to me or your Adviser.**

In the winter of 1987, when I was just a young financial planner, I sat down with a couple nearing retirement. They planned to retire after many years in senior positions with an iconic Western Australian company.

They were sent to me by the Company Secretary, a close friend of mine, for advice. At first glance, their situation looked fine and there was going to be enough money for a comfortable retirement. But when I delved deeper, alarm bells started ringing.

Their superannuation was re-invested back into the company for which they worked. Now I had a problem.

The good friend who sent them to me actually ran this fund and the company was one of the most high profile entrepreneurial companies in WA. The client was in a senior respected position in the company and adored the company and the charismatic boss.

However, I'd been studying investment history – and one thing stood out.

Diversification, which means having as many different investments as possible across all viable asset classes, with the asset class allocation defining the risk level you're taking, offered the only protection for investors.

This was not common thinking back then. In fact, Harry Markowitz, whose work proved that diversification works, only won the Nobel Prize in 1990.

I resisted the temptation to tell them everything was OK. Instead, I urged them to talk to my friend, then exit the fund immediately and diversify their investments – or see if the fund would invest more broadly.

They heard me out, but after contemplating my advice for a week or so, they decided that loyalty to their company was more important.

Later that year, there was a crash and the company was a casualty. It no longer exists. And if my memory serves me correctly, within weeks of this couple planning to go into retirement, every cent of their benefit disappeared.

This couple wasn't alone in their experience. In fact, it felt like our clients were always getting the rough end of the stick. So, Craig Lubich and I started a new company, which is now known as Plan B Wealth Management.

Our friend Paul Clitheroe and his partners at IPAC Securities talked to us about new scientific discoveries in the field of investment markets. Together we designed a new company based on:

- Fee based advice;
- Evidence based investment structures; and
- Broad diversification.

That was almost 21 years ago, but we still see people who have lost their entire savings due to one bad investment.

Plan B was built to protect you from bad investments, and since Plan B was established, not one of our clients has been put into an investment fund, product or asset class that has folded, been frozen or disappeared.

I realise that at the moment, this might not make you feel much better. The Australian Share Market has dropped by over 50% in the past 12 months. Five years of excellent growth has been wiped out, most of it in the past few scary weeks.

It has been a challenging year, but I trust that when the holidays come around, you may enjoy the true Christmas spirit.

**Please turn the page for Bryan Taylor's answers to client questions.**

# Q&A

## How safe is Plan B?

Plan B remains an extremely solid company. All client investments are kept completely separate from the Plan B company and its operations, and are held for safekeeping within a custodial structure. This means even in an unlikely event from which Plan B cannot recover; your money is NOT affected. It's not even frozen, because Plan B only invests in liquid investments on behalf of clients.

Your investments are also broadly diversified across whole asset classes, so they are as safe as can possibly be. Your investments will fluctuate in value with the market, but diversification protects you from disasters that may affect individual companies.

From a corporate perspective, Plan B is well capitalised, even though we're a small company. The company has no debts and has a large amount of cash in the bank. Even with the market having steeply declined, the company is still profitable.

We have built the type of company that you can rely on in any situation to help you achieve your life objectives.

## How does Plan B add value during a downturn?

Plan B adds value through our advisory teams and our investment and administration functions.

During a market downturn such as this one, our advisory teams review your objectives to establish if any changes to your strategy are required.

Downturns like this can be a very good time to alter portfolios and change tax structures without incurring heavy taxes. As a result, we are working to ensure you are well positioned to receive maximum benefit as the markets rebound.

Our advisory team has also been working hard to keep you informed as best as possible by communicating with you in person, by telephone and via our eBulletins.

From an investment and administration perspective, we've been continually rebalancing our portfolios as our exposure to equities has been diminishing in value over the past year. This equates to a 'buy low – sell high' approach, which has required total liquidity in our fixed interest portfolios.

After allowing for daily 'money in – money out' transactions, we've kept all of our market pools appropriately balanced. We haven't had to sell any shares to keep our pools balanced, nor have we needed to 'freeze' our funds, as we've had liquidity when we needed it.

It may appear to be a "set and forget" strategy – but it's nothing of the sort. During these times, our staff and management must ensure that money is moved cheaply and swiftly to and from the asset classes as required.

Balancing funds also requires us to understand the potential inflow and outflow of all client funds. This is where we work closely with our Advisers.

The balancing of funds has become the most problematic issue for many fund managers in light of the extraordinary declines in the Australian dollar and the world markets.

As Plan B integrates our advisory, administration and investment functions, we've been able to keep the level of transactions low, and save on taxes and costs.

Plan B also adds benefit during downturns when a company's characteristics change due to a sudden decline in price. Most fund and advisory structures would have to sell such a share from one allocation, and then repurchase under another.

For example, a company that's been paying a good dividend from a high level of free cash flow, may have had a very high share price earlier in the year that has since dropped. Many funds or advisers would have to sell that share from their 'growth' fund

allocation, and then re-purchase it in their 'value' fund.

The Plan B model has been structured to allow us to keep the share, even though it has changed category. Without making any transactions, we can still keep the overall fund in balance. This structure, which is largely unseen by investors, adds significant value to your portfolio.

## Why isn't Plan B doing anything?

We continue to work very hard in every department of the company for no other reason than to ensure that your investment structures are robust and capable of achieving your objectives.

The reason why Plan B is not panicking and advising wholesale shifts in client portfolios is because the leg-work was done before the market downturn happened. Other than the increase in workload I described above, there's no new wonderful solution.

Instead, we're here to help you withstand the pressure to take action, keep you focused on the long-term (despite the short-term pain), and to ensure you achieve your lifestyle objectives.

However, behavioural scientists tell us that humans love action – if there's a problem; the person who promotes action will get the votes over the one who promotes sitting tight.

You can see that in the panic selling that's dominated the market since October. It feeds on itself because as investors panic and sell, the price goes down even further. As the price goes down, more investors panic. Then they sell and drive the price down further.

Behavioural economists tell us in times like this, "don't just do something, stand there." But there's no industry in the world that depends on this human frailty more than the financial services industry, supported by the investment commentators.

*"When others are greedy, be worried. When others are worried, be greedy." Warren Buffett*

# Is this going to be like the Great Depression?

It feels difficult to be optimistic during these times, but we still believe long-term optimism is appropriate. We believe world economies will contract, but the massive coordinated response to this crisis, which didn't exist in the 1930s, will limit our downside.

	Depression	Today
Government reaction	Slow to acknowledge	European, US, Chinese and Australian rescue plans already passed. We've seen an unprecedented mobilisation of central banks and governments.
Reserve Bank and Federal Reserve	Failed to lower rates quickly	Interest rates lowered in a range of developed and emerging markets, with injected liquidity.
Bank guarantees	Did not exist	Australian banks and other deposit taking institutions have guaranteed deposits up to \$1,000,000. Above \$1,000,000 is guaranteed, if the depositor pays a fee.
Corporate earnings	Broad-based decline	US corporate profits still reasonable at present, except for financial, housing and autos.
Lending	Banking over-leveraged to invest in stocks	US banks over-leveraged to invest in mortgages which are backed by houses.
US mortgages	44% of all first mortgages in default	6.4% of all mortgages at least one payment behind.

Source: Blumenthal, Karen. "As Dire as Times may Seem, History Isn't About to Repeat Itself," *Wall Street Journal*, October 8, 2008

The best course of action throughout the last century has been to ride out the difficult periods. This guarantees you're properly positioned for the subsequent recovery.

The recovery happens every time because corporations are determined to be profitable, and will do everything in their power to increase revenue and reduce expenses. This is the driving force for the persistent upward moving graph of stock market performance over the past two centuries.

And someone is buying the stocks the panic sellers are selling. So as long as there are buyers, the market is working. These buyers clearly believe this is a good time to buy.

## See what others have to say about the market turmoil...

If you'd like to find out more on the financial crisis, we've compiled several outside resources you may find interesting. Please visit [www.planbonline.com/go/useful-links](http://www.planbonline.com/go/useful-links) where you'll find recent articles and videos from Australian and US advisory firms.

## Do you need to adjust your plan?

Given current market conditions, it is important to review your overall financial plan - you may find that you need to make adjustments. Make sure you have a review meeting scheduled with your Adviser to run through your lifestyle objectives.

Your adviser is also here to answer any of your questions as they arise, so don't hesitate to pick up the phone.

## Things to consider...

### Value

Does it make sense that the collective value of all the publicly held companies in the world is 40% less today than it was at the end of September 2008? Many companies are selling for the same or less than their book value.

### Global diversification

Your portfolio is well diversified - by the number of stocks, by the asset classes (small, value, large, emerging) and by the countries. So whenever and wherever the market recovery occurs, you will participate. In the meantime, there will be companies that fail, but you will be impacted less as a result of this diversification.

### Trillions on the sideline

There are trillions of dollars sitting on the sidelines, out of the market. These investors are watching and waiting for a sign that the market has hit bottom. When things become optimistic again, they will rush back into the market and push prices up swiftly.

## What you *can* control in volatile markets

As an investor, you can control how you respond to a market decline. Now's the time to sit tight, save more and spend less.

- Maintain a disciplined budget and stick to it.
- Put off capital expenditures such as house renovations or car upgrades.
- Don't take on more non-deductible debt.
- Pay off credit cards, store cards and personal loans.
- Consolidate debts into a single, lower interest loan.
- Keep some emergency cash.



## Plan B supports Western Australian cycling

Plan B is a proud supporter of Cycling WA's new Plan B Racing Team.

The team includes Western Australian road and track cyclists competing at national and international levels, and aims to provide a clear goal for junior athletes and raise the profile and awareness of cycling in WA.

Closely linked to the Western Australian Institute of Sport (WAIS) cycling program, the Plan B Racing Team is part of Cycling WA's High Performance Program and completes their High Performance Development Pathway.

Our congratulations go to the team for their tremendous successes to date. Make sure you visit [www.planbracing.com.au](http://www.planbracing.com.au) to track the team's progress!



## Festive season office closure

Plan B's offices will close for the Christmas and New Year period commencing Monday 22 December 2008. Our offices will reopen on Monday 12 January 2009. If you'd like to talk to us during this time, please call **1300 362 082** and a member of our Client Services Team will be happy to assist.

## Plan B staff give back to the community



Plan B staff now have the opportunity to give back to the community through the 'Plan B Give' philanthropic initiative.

Run by employee representatives, the program's current charities include the Scott Kirkbride Melanoma Research Centre, Youth Focus, the Fauna Rehabilitation Centre and ERIGO.

Staff can contribute one day of their time or make donations to the nominated causes.

For more information on your own philanthropic giving or to set up a charitable foundation, please contact your Adviser.

## Technical Adviser awarded National Dux

Plan B Technical Adviser, Yves Schoof, has been awarded the National and State Dux from the Financial Services Institute of Australia after graduating with a Diploma in Financial Planning.

Yves, who also received four State subject prizes and two National prizes, made a speech at the awards night about his achievements and his career to date.

Originally from Belgium, Yves migrated to Australia three years ago after working in the funds management industry in Belgium and Ireland. Congratulations to Yves, who looks set to achieve his goal of becoming a successful Financial Adviser.



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