# Grow @ Marinis Group

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| **From:** | Alex Wiedenmann \| Marinis Group |
| **Sent:** | Friday, 8 December 2017 1:22 PM |
| **To:** | Grow \| Marinis Group |
| **Subject:** | So...This Is Christmas! |
| **Attachments:** | 2017 09 09 _ New York Post Article _ Warren Buffett wins _1M bet made with hedgie a decade ago.pdf; 2017 11 24 _ Eureka Article _ How a farmer turned his finances around.pdf |

December eGrow

## So… This Is Christmas!

Dear Friends,

With the festive season in full swing and as many of us plan our summer holidays, I'd like to suggest that as part of that plan, you include a chat with the family (and by that, I mean those closest and dearest to you) about money matters.

The topics might include:

- How will we fund our retirement? Or, have we got enough to continue funding our retirement?
- Do we have a will in place that accurately reflects our intentions? And what about an enduring power of attorney?
- Are our insurances sufficient? Or do we need to increase (or reduce) them?
- Are we contributing everything we can to our super? Or, are we spending too much?
- What do we need to start doing financially? Or, what do we need to stop?

Perhaps the biggest discussion which tends to be avoided (and which should be tackled head on) is the discussion around retirement dates – and what a surviving partner of a couple could, or should do, when one of them expires, or loses the ability to make decisions.

There are a lot of very sensitive issues here, resulting in some confronting conversations. Nevertheless, I am firmly of the view that they need to be had – respectfully (and peacefully).

Out of those conversations may come some areas of obvious need. This is where my team and I can really add value. As you know, our services are provided via a flat fee, so there is no extra cost in raising additional issues, or changing arrangements, if necessary. That is all part of why Marinis Financial Group exists.

Enjoy planning for and the impending break, but also please take the time to plan for your best possible future!

**Two more things:**

Most of you will recall my admiration for 87-year-old Warren Buffett, one of the very wealthiest living people (who interestingly plans to leave the vast majority of his $80 billion fortune to charity). The reason I respect Buffett so much is he uses - and advocates - common sense in wealth creation.

A decade ago my hero made a $1million bet with his friend Ted Seides, a very successful hedge fund manager, that a low cost index fund would perform better than a group of hedge funds. In October Seides paid up – early. And Buffett donated the money to charity.

Over the course of the decade, after costs, the hedge fund notionally grew the size of a million dollar investment by $220,000 – while a low-cost index fund notionally increased it by $885,000.

I think this case study very clearly demonstrates why I advocate low cost index funds (and continue to be a huge fan of Mr Buffett)!

Secondly, please find attached my latest Eureka Invest Smart Case Study 'How a farmer turned his finances around', summarising 'Smithy's story'.

As always, if I or any of my team can help in any way, and I hope we can after you have the discussions outlined above, please don't hesitate to get in touch with us.

**Attachments**

1. Source: Eureka Article 24/11/2017 - PDF attachment
2. Source: NY Post Article 09/09/2017 – PDF attachment

Kind Regards,

**Theo Marinis B.A., B.Ec., CPA., FPA®**
**Financial Strategist**
**Authorised Representative**

**GROW @ Marinis**

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# Warren Buffett wins $1M bet made with hedgie a decade ago

By Gregory Bresiger September 9, 2017 | 9:06pm

The Oracle of Omaha once again has proven that Wall Street's pricey investments are often a lousy deal.

Warren Buffett made a $1 million bet at end of 2007 with hedge fund manager Ted Seides of Protégé Partners. Buffett wagered that a low-cost S&P 500 index fund would perform better than a group of Protégé's hedge funds.

Buffett's index investment bet is so far ahead that Seides concedes the match, although it doesn't officially end until Dec. 31.

The problem for Seides is his five funds through the middle of this year have been only able to gain 2.2 percent a year since 2008, compared with more than 7 percent a year for the S&P 500 — a huge difference.

That means Seides' $1 million hedge fund investments have only earned $220,000 in the same period that Buffett's low-fee investment gained $854,000.

# Warren Buffett wins $1M bet made with hedgie a decade ago

"For all intents and purposes, the game is over. I lost," Seides wrote. The $1 million will go to a Buffett charity, Girls Inc. of Omaha.

A sports gaming firm says it makes sense for Seides to pay up now. "Our oddsmakers believe there is a 96.8 percent chance that Buffett will win.

In turn, they are giving Protégé Partners about a 3 percent chance to win at this point," according to Jacob Crossman, a spokesman for Diamond Sportsbook International, which has tracked the bet.

In conceding defeat, Seides said the high investor fees charged by hedge funds was a critical factor.

Hedge funds tend to be a good deal for the people who run the funds, who pass on big bills to the investors.

"Is running a hedge fund profitable? Yes. Hedge fund managers typically demand management fees of 2 percent of assets under management," according to Capital Management Services Group (CMSG), which tracks the hedge fund industry. "Performance fees for managers can be 20 percent to 50 percent of trading profits," CMSG adds.

By contrast, the costs of an average index fund are minimal. A fund that tracks the S&P 500 fund might have an expense ratio of as little as 0.02 percent.

Indeed, Seides, in a sentiment that sounds as though he is now using the Buffett playbook, wrote that "the higher the price an investor pays for an asset, the less he should expect to earn."

http://nypost.com/2017/09/09/warren-buffett-wins-1m-bet-made-with-hedgie-a-decade-ago/

# *How a farmer turned his finances around*

**Simplifying structures and streamlining accounts can reap substantial rewards in retirement phase.**

**Summary:** Changing investment styles can make a huge difference, even if you do it later in life. The below case study of a Victorian sheep farmer sheds light on the importance of superannuation in the broader scheme of personal finances.

**Key take-out:** There's a lot other members could learn from this farmer, who only upped his ante in retirement, to cut annual fees by almost one-third and dramatically lift income without working any harder.

A farmer is thought to be the ultimate all-rounder, but they don't teach investing at agricultural college.

At 55 years of age, Victorian sheep farmer Damien 'Smithy' Smith put out the feelers, had a few conversations, read more than a couple of books... and a decade later, decided to sort out his finances. He's a thoughtful man, used to waiting for things to come to fruition, and certainly not one to rush.

Smithy inherited the property where he was born as well as his father's accounting and banking practices. These businesses were very successful in the 1950s, but not quite in the new millennium when we first met in 2012. At the time, Smithy had four bank accounts, one small super account, two private loans to family members, $230,000 in the bank, a handful of shares, and three parcels of land worth about $1 million.

Sounds like a lot. But Smithy was reaping very little financial reward. All of this amounted to about $1.3 million. And, inclusive of the Low-Income Tax Offset (LITO), his earnings were below the tax-free threshold of $20,542.

In October 2012, Smithy's superannuation was still in accumulation phase and the balance stood at $61,000. It was being taxed by stealth within the fund. Side note: It's a common misconception that super is tax-free after age 60. Withdrawals from super are tax-free, but the earnings within the fund do not get tax-free status until the accumulated super benefit is transferred to pension phase.

It was all too much. Smithy was also paying 1.51 per cent per annum in super fund administration and investment fees, over and above the tax on his super balance.

## Using super to fertilise the finances

Financially, Smithy needed to start reaping more than he was sowing. For him, this meant transferring a significant portion of his assets to the superannuation environment to meet his retirement income needs.

Over the last five years, Smithy's cash and term deposits have gradually been reinvested in cost-effective investments and account-based pensions, with the added benefits of diversification to match his moderate 50 per cent growth / 50 per cent defensive asset allocation.

Receiving reasonable offers from neighbouring farms, Smithy has been selling off parcels of his family's land. The sales have taken place in stages to mitigate capital gains tax. Smithy now retains two blocks, worth around $300,000 altogether.

## Never too late

Smithy was a hard-working farmer dusty on the financial front. After spending a few years scrubbing up, and weeding out his finances, he's now living more comfortably than ever before as a self-funded retiree.

It's testament to the fact it's never too late to turn things around.

Smithy now has $50,000 invested in cash and term deposits, and $410,000 invested in a non-super investment account using index funds. He also has $90,000 on private loan to a family member, and $541,000 in an account-based pension, which is now 100 per cent tax-free.

His invested assets now total approximately $1.4 million net of all taxes (including CGT to date) and net of all investment fees. These assets do not include his personal assets.

Smithy is generating a far better return across all his investments than a miserly term deposit rate of 2.3 per cent per annum, and it's still in keeping with his moderate risk profile.

His non-super investment is also achieving good growth as he does not draw any income from this. Right now, in fact, Smithy's account-based pension minimum income drawdown – approximately $27,000 per annum – is covering all his living costs.

## Breaking it down

The following earnings were achieved for the 12 months to October 2017:

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| **Account-based pension** | 5.90 per cent (net of investment and administration fees, tax-free) |
| **Investment account (non-super)** | 5.84 per cent (net of investment and administration fees) |

If measured from March 2016, when the account-based pension was reset with a further non-concessional super contribution of $180,000, the account-based pension rate of return is 7.22 per cent per annum. There's a similar longer-term per annum rate of return on the non-super investment account (since reinvested from cash and TD's in March 2016).

And there's nothing stopping this farmer from adding further non-concessional super contributions to his account-based pension, possibly over the next five years, using proceeds from sales of his remaining land. This provision is contingent on being able to satisfy the work test, which effectively allows people over 65 but under 75 to make super contributions, subject to being gainfully employed for at least 40 hours in a 30-day period per financial year.

## The outcome

Remaining invested in the previous super fund with fees of 1.51 per cent per annum would have cost Smithy an annual fee of $14,360. While a necessary evil, fees are the weeds of the financial world.

By changing to a lower cost provider, Smithy's combined account-based pension and non-super investment account fees are now less than half, at 0.60 per cent per annum. That amounts to just $5,706 per annum – a big saving of $8,654 per annum.

Further, the income earned from his account-based pension is tax-free, so he essentially has no further requirement to lodge tax returns. That's based on the Senior Australians and Pensioners Tax Offset (SAPTO) cutting in at $32,279 and Non-Assessable Non-Exempt (NANE) account-based pension income. He has transferred a significant portion of his estate into the 100 per cent tax-free income and CGT-exempt account-based pension environment.

Smithy has a tax-free net income of $55,060 per annum from an account-based pension, non-super investments, and small amounts of bank interest and modest casual wages.

Evidently, he has dramatically improved his financial situation – and removed administrative burdens in the process.

As it should be for all, simplifying and streamlining accounts has been a critical step in his retirement planning. Now he has one bank account, one term deposit, one private loan, one account-based pension, and one non-super investment account.

It's an easier life, where he also outright owns his personal effects and vehicle.

Once we get our own ducks in order, then we can start to see the big picture, which is important for those at or nearing retirement. The simplified estate will also allow tax-free funds to pass to his beneficiaries without a farm assets fire sale, particularly if over the next five years, Smithy is able to sell his remaining farm land and add the proceeds to his account-based pension.

*Theo Marinis*

24 Nov 2017

er Eureka Report

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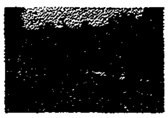

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