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Not all agribusiness managed investments are rotten to the core, Helen Cronin reports.

As surely as peaches herald summer's onset, May and June see olives, almonds, blue gums and grapes and come into season. It must be the end of the financial year.

But in spite of increasing regulation and a recent shake up of the industry, financial planning groups are reluctant to put agribusiness managed investments on their menu of recommended products. Agribusiness promoters and financial advisers are just not speaking the same language it seems.

One of the challenges facing promoters is that they don't fully understand how a financial planner builds an investment portfolio for a client says Graham Rich, a principal of investment publishing and marketing services company Brilliant and an independent funds analyst.

They don't understand the concept of risk profiling, of needs analysis, and of drawing from a range of investments to blend securities that will achieve the best possible outcome for the individual investor.

Consequently, the pitch that the agribusiness hawkers make tends to assume that they are a more relevant part of an investor's portfolio than they prospectively are, Rich says.

On the other hand, many financial planning groups don't understand agriculture and forestry, according to Shane Kelly, managing director of Agribusiness Research, which does full reviews of about 70% of projects offered.

"When people don't know about something, they're less likely to want to embrace it," he says. "Part of our role is educating advisers as to what is an acceptable investment in terms of returns and in terms of risk that they're taking on."

The sort of dodgy promotion giving the sector a bad name is unlikely to be offered in the future because of increased regulation and scrutiny, Kelly says. "The research houses are going to hammer it. ASIC is going to hammer it. The Tax Office is likely not to give it a product ruling. So it just won't get to market."

Even so, it will be the independent researchers that largely determine which projects make it onto recommended lists.

FMD Financial managing director Greg Fagan is also reluctant to use the products. They don't suit the investment needs of his clients who are mostly nearing retirement. And even though his dealer group, Hillross, includes some products on its recommended list, he is wary. "I'm pretty cautious in embracing some of these new areas because history tells you a lot of them fall over."

Fagan wants to see the agribusiness managed investments promoters change their emphasis.

"It's not that I've written them off," he says. "I'd like to see it as a genuine area of investment for people, with some tax breaks attached, but the tax breaks being a secondary aspect."

Some financial planners make use of the products largely because of their tax effectiveness. John Cockle of Financial Foundations is an enthusiastic user of Timbercorp managed investment products. He has sold them so well that Timbercorp bought the business systems he'd developed to coach around 120 accountants and financial planners all over Australia in strategy development and compliance.

"Up until '97, '98 I thought all tax-effectives were absolute rubbish. I wouldn't touch them with a forty foot pole," Cockle says. "What turned me around to have a good look at them was the introduction of the superannuation surcharge."

The tax deductions offered a way to reduce the impact of the surcharge on his high earning clients. But he's still looking for a good return and is also wary of many of the projects on offer.

There are good and bad products, he says, just as there are in any industry.

Cockle's focus, though, is on wealth creation. This sort of investment only makes up about 5 per cent of a client's portfolio.

"The tax-effective becomes the door opener to allow people to put more money into super and encourages savings discipline," he says. "I don't care what you say. Tax-effectives are fine, but superannuation is number one."

This is why Rich maintains that the biggest challenge facing agribusiness managed investment promoters is targeting the products.

"A quality offer has mostly a marketing and positioning challenge as distinct from any other challenge because it's got a valid role within a certain type of investor's portfolio," he says.

"That role is very, very small in one sense, but it (the industry) has still got a prospect of attracting a substantial funds inflow if it positions itself well."

Agribusiness managed investments will only account for about 5 per cent of the total inflow of fund into managed funds, Rich says. But if the industry is going to try to appeal to mainstream financial advisers, it needs to offer what they expect from a mainstream investment product. That will mean changes in the fee structures and a better risk/return ratio.

Two or three big players that can consistently offer quality projects and that develop good relationships with dealer groups will eventually dominate the sector, he predicts. The balance of funds will go to rats and mice with one-off projects.

Shane Kelly suggests a combination of the industry's tarnished image and the concern of big dealer groups to protect their brand name poses another hurdle. "They'd almost rather have no projects (on their recommended list) than potentially have a project that might go bad that could damage their brand name," he says.

It still appears that advisers are much more comfortable this year than they were last year, but there's still concern that that level of comfort is not going to be translated into improvements in sales.

Greg Fagan might dispute the comfort level. "When I've spoken to people in the industry who know a lot more about tree plantations, vineyards, (they) nearly always say to me that the cost structures are extravagant. Too much of the possible gains are embedded in the cost structures of the organisations that run them.

"As long as feedback like that comes back to me, I'm going to be quite reluctant to become involved."

Counting the cashflow cost of a deduction

It was the tax deductions that sold Richard on the two geared agribusiness investment schemes he's now involved in.

He wasn't looking for an investment as such.

“Frankly, I’ve got my doubts as to whether I’ll see anything out of it at the end of the day,” he says.

“At the time I was just pretty much in need of a decent-sized tax deduction and I didn’t have a lot of other options.

“What hurts now are the repayments on the loans. I wonder at times whether I should have just paid the tax and forgotten about it.

“In fact that’s what I’ve done the last couple of years. Even though I hate paying the tax, I’m also hating the repayments on this loan.”

His advice is to think beyond the initial tax deduction to what the repayments will do to your cash flow over the next three or four years.

And try to get an independent analysis - don’t rely on the glossy brochures, he recommends.

Certainly don’t rely on the people who are selling it to you, whether that be your financial adviser or your accountant, without knowing what’s in it for them.