



10 ways to make money

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Michael Laurence



The best strategies for the 12 months ahead are straightforward: take full advantage of the rising sharemarket while simultaneously giving more attention to controlling your investment risks and costs.

Do not borrow heavily to invest, ensure your overall investment portfolio is adequately diversified, and take every opportunity to cut investment costs and tax – even in the smallest ways.

One of the smartest investment strategies for making money in 2010 is to avoid losing it.

Sounds boring? Well, don't overlook that 2009 was the year of the great escape.

We escaped from the depths of the global financial crisis and from the severe bear market that reached its nadir in March.

The S&P/ASX200 began the calendar year at 3722 points, slid to its low of 3145 on March 6 and then charged up by almost 50% to close at 4762 on Friday, December 4.

The rollercoaster ride on the sharemarket and the stunning failure of high-risk tactics should hopefully have taught investors valuable lessons that will be hard to forget.

Here are some of our best money-making strategies for 2010 that combine opportunism with caution – along with special strategies for SME owners.

1. Take advantage of rising sharemarkets: Investors have powerful reasons for being optimistic for further solid rises in share prices in 2010 given the improving economic outlook, leading to higher company profits, together with low inflation and still low interest rates.

Review your investment portfolio's strategic asset allocation – meaning its intended long-term exposure to at least the main asset sectors – and seriously consider increasing becoming fully invested in shares (within this asset allocation).

It could be a costly misjudgment to be over-weight in cash as the market rises.

David Cassidy, chief equity strategist at UBS, describes equities as "on the cheap side of fair value". Cassidy believes investors are tending to make the mistake of focusing on near-term price-earning ratios rather than looking at the recovering corporate earnings in Australia particularly, and globally.

UBS has forecast capital gains of 12% in 2010 for the Australian and US equity markets – and dividends, of course, are on top.

However, Cassidy emphasises that there is "still plenty to worry about" in equity markets including with the economic recovery in the US likely to remain tenuous over the next six to 12 months.

2. Don't over-gear to invest: This is one of the clearest lessons learnt from the bear market and should not be overlooked despite the renewed enthusiasm for shares that is likely to gather pace in 2010.

Some of the horrific stories emerging from the bear market involve investors near or in retirement who took advice from now-failed Queensland financial planner Storm Financial and double-gearred into the sharemarket.

First, these unfortunate investors borrowed against their houses – many with their mortgages paid off up until that point. And then they used this borrowed money to take margin loans to finance their entry into the sharemarket. This double-jeopardy approach to borrowing led to the loss, in many cases of not only their share portfolios but also their homes.

Sadly, the strong performance of the sharemarket since early March may induce many investors to borrow too much once again. Watch out.

3. Minimise your investment costs: When investment returns turned negative in the bear market, many investors came to realise the importance of keep investment management costs and tax to a minimum. A basic money-making or money-saving strategy for 2010 is to maintain this concentration on cost reduction.

One way to cut investment costs is to invest in index funds that track market indices. These usually have much-lower investment management fees than actively managed funds and their tax costs are kept down because there is not a high turnover of assets.

With directly-held shares, consider adopting a buy-and-hold policy – if appropriate in your circumstances and for the particular shares involved – as one of the ways to minimise Capital Gains Tax (CGT) and transaction costs.

4. Buy quality, inner-ring apartments or terraces: Intending buyers should watch out for the short-term effect of rising interest rates on the residential property market – and focus on resilient inner-ring, quality properties.

Matthew Bell, economist for Australian Property Monitors (APM), warns there will be a "tipping point" when rate rises turn buyers away. "Perhaps that won't happen until the [official] cash rate gets to 4.5% [equating to an average variable rate of about 7.3%]. I think investors will remain interested to this point and then pull back," he says. Currently, the official rate is 3.75%.

If you are thinking about buying an investment or owner-occupier property in 2010, favour a quality apartment or terrace within three to 12kms of an eastern states capital, suggests Sydney buyer's agent Patrick Bright. And ideally, such properties should have excellent outlooks – with water views being the best.

Bright, chief executive of EPS Property Search, believes that such properties do well in rising markets yet tend to be least affected during tough markets.

Although Bright is optimistic about the outlook for property prices in 2010, he says quality, inner-ring properties should be best insulated against any slowdown caused by rising interest rates.

Positives for the residential property market include the shortage of housing and rising rents

5. Maximise your salary-sacrificed or personally-deductible super contributions: With the halving of the annual cap on concessional super contributions cap from 2009-10, fund members should consider contributing the maximum amount, if possible.

The concessional contributions cap has been halved to \$25,000 for most members.

The tax-savings alone from making these contributions – which include salary-sacrificed by employees and personally tax-deductible contributions by the self-employed – are substantial.

These contributions are only taxed at 15% upon entering the funds (much lower than most marginal tax rates), fund earnings are taxed at a maximum of 15%, fund assets supporting the payment of a member's pension are not taxed, and lump sums and pensions are not taxable to members over 60.

6. Employ your spouse part-time and pump money into their super: Business operators can employ their spouses on a very part-time basis yet the spouses can make SG and salary-sacrificed contributions up to the annual caps on concessional contributions.

The tax commissioner has agreed not to use his anti-avoidance powers where a business – including a personal services business – run through a company or trust makes salary-sacrificed super contributions to associates such as spouses that are in excess of their value of their services.

This is perhaps the smartest and quickest way for business owners to make up for the halving of the annual caps on concessional contributions.

7. Split investment income: The shock halving of the annual caps on concessional super has triggered a search for extra investment tax breaks. And one strategy for high earners in particular is to split investment income with a spouse with little or no other income, suggests Sydney tax lawyer Robert Richards.

The splitting of investment income generally involves holding investments in partnership with a lower-earning spouse or through a discretionary trust that includes low-earning adult beneficiaries. Beneficiaries of a discretionary trust are taxed at their marginal rates on distributions, and are eligible for discount CGT and franking credits.

8. Build investments outside your business: If your business is beginning to produce higher returns as the threat of the GFC eases, this may be an excellent opportunity to begin building assets outside your business.

"It's all about diversification," says Sue Prestney, Mellbourne-based director of MGI chartered accountants. "The GFC highlighted how risky it is to have all of your eggs in one basket."

"Trying to extract assets from your business to somewhere safe like a super fund is more important than ever," she adds. "It is really tempting, no doubt, to keep reinvesting in a business because it is hard to get alternative sources of finance."

Prestney says that another GFC, recession or any sort of financial setback could leave business owners particularly exposed if all of their wealth is in the business.

Another point is that family businesses are often passed to younger generations for no charge or at a discount rather than sold to finance the retirement of the current owners. This is another reason why it is crucial for business owners to have their own investment portfolios.

Prestney says that before agreeing to pass a family business down to the next generation, business owners should calculate how much they need to finance their retirements. "Make sure you can afford to give your business away or to discount it."

9. Don't hold all of your investments in your own name: When you are building up assets outside your business as one of your strategies for 2010, consider whether you are vulnerable to being held responsible for the debts of your business or sued in relation to your business.

If you are vulnerable in this way, Prestney agrees that it is a fundamental asset-protection strategy is not to hold all of your assets in your own name.

Many lenders and trade creditors, for instance, require personal guarantees from business owners and directors. Prestney says personal guarantees often "come back to bite" business owners.

10. Don't forget bear market lessons: Most have been covered already in this feature. In short, ensure in 2010 that your investment portfolio is adequately diversified, keep your investment and tax costs low, do not take risks outside your personal risk tolerance – and be ready to seize investment opportunities such as the rising sharemarket.