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A GUIDE TO FIXED INTEREST INVESTMENTS

CASH

The most liquid of investments, cash provides the flexibility of being available for use at any time. Bank accounts provide instant access, however returns on cash accounts are generally lower than other investment classes. Cash has the comfort of capital stability, and with the current **Commonwealth Government Guarantee of Retail Deposits** under \$1 million, deposits with Australian institutions have additional security. The Guarantee scheme will be in-place until **October 2011**. It is likely that the government guarantee will be watered-down after October (to \$250,000 or \$100,000), although the final decision on this matter has not been made.

Cash Management Accounts (CMA) generally provide higher interest rates than standard bank deposit accounts, and are designed to be an efficient way to manage the cash requirements of investment portfolios. Although funds are not generally available to be withdrawn via ATMs, CMAs provide relative liquidity with funds being available for investment purposes quickly and easily.

JR Wealth Management recommends our clients establish a **Macquarie CMA** as the cash hub for their investment activities. We have found from experience that the service levels and functionality of this facility are high. The interest rate is competitive, and Macquarie has a commitment to match the RBA cash rate – currently 4.75%. As we do not accept commission rebates, our clients receive an additional 0.25% rebate credited as interest to their account. Hence, **the effective rate for JR Wealth Management clients is currently 5.0%**. There are no fees for the establishment or operation of this account; however some fees may be incurred for cheques, dishonoured payments, telegraphic transfers etc.

More details about the Macquarie CMA are contained in the Product Information Statement.

GOVERNMENT BONDS

Traditionally, Commonwealth Government Bonds provide investors with the safest form of investment, as the investment is **backed by the Commonwealth Government**. However, with the present Government Guarantee on retail deposits, cash and term deposits provide a similar security as bonds.

Government Bonds have a **longer maturity** than cash and term deposits. Bonds are issued in the primary market with 3,10 and 15 year maturities, although they are also able to be purchased in the secondary market with shorter maturities. Treasury Notes are also issued with shorter maturities than bonds. State Governments also issue bonds.

Current Commonwealth Government Bond yields range from approximately **4.79% for 12 months to 5.41% for 10 years**.

TERM DEPOSITS

With recent official interest rate increases, the Government Guarantee scheme, and banks seeking additional funding, term deposits have become a more attractive investment alternative. In the challenging times since the Global Financial Crisis, banks have been active to encourage term deposit investments to boost their capital positions. Customer deposits represent approximately 59% of Commonwealth Bank's total funding.

Term Deposits currently offer **attractive interest rates, relative liquidity** (assuming the maturities are actively managed) and **capital stability**. The guarantee is providing some of the smaller banks and credit unions the ability to compete on an equal footing with the four major banks.

JR Wealth Management receives rates from a range of banks and financial institutions on a daily basis. The best rates available at the time of writing are:

Term	Rate	Term	Rate
30 days	5.50%	1 year	6.20%
60 days	5.65%	2 years	6.03%
90 days	6.10%	3 years	6.27%
180 days	6.31%	5 years	6.66%

As we are an independent practice, we do not accept commissions or fees from the banks for placing client funds with them. We charge clients a time-cost fee for the administration involved in placing the funds.

New styles of accounts have recently become available in the Term Deposit market, such as the Investec Liberty 32 Day account, which pays a higher rate (currently 5.9%), with the funds being available with 32 days' notice.

CORPORATE BONDS

Traditionally an investment only available to institutional investors with \$500,000 or more to invest, Corporate Bonds have become more **accessible to individual investors and Self Managed Superannuation Funds**. Most corporate bonds are now available in parcels of \$50,000. Although these securities do not offer the capital security of a Government Bond, they are usually issued by large reputable industrial companies and banks.

As a reward for taking on the additional risk, Corporate Bonds generally a **significantly higher rate of interest than similar Government Bonds**.

Corporate Bond investments can also be accessed through specialist managed funds. These funds provide **regular monthly income** supplemented by quarterly bonuses, with **current rates at around 8.5%**. Such funds provide some potential for capital growth within the bond portfolio, and therefore are not capital secure.

Current rates for direct bonds range from **5.43 – 8.54% for Floating Rate Notes** and **6.0 – 8.9% for Fixed rates**.

LISTED FIXED INCOME AND HYBRID SECURITIES

Another form of fixed interest investment that have become popular – particularly for Self Managed Super Funds - are listed Fixed Income and Hybrid securities.

There are a wide range of Fixed Income and Hybrid securities listed on the ASX. These securities exhibit **characteristics of both debt and equity**. In most circumstances, these securities have a lower risk than equities, but offer a higher return than fixed interest.

Being listed, Hybrids provide a higher level of **liquidity** than term deposits and bonds, but do not have the capital guarantee. The capital price of these securities (usually issued at \$100) **may fluctuate due to market forces**. In most instances, the volatility is low. However, in times of uncertainty or concern for the viability of the underlying issuer, the capital price of hybrids may fluctuate. By selecting issuers that are stable and reputable, we hope to minimize the negative influence of capital price movements. Hybrids generally have **higher capital stability (and less capital growth) than an equity investment, but will usually pay a higher yield**.

Hybrid securities take many different forms, with slight variations to the characteristics. Some of the common forms of Hybrids are Convertible Preference Shares, Reset Preference Securities, Step-up Preference Shares, Income Notes, Perpetual Securities and ASX Listed Debt Securities. Each security has specific terms regarding the maturity – Convertible Preference Shares will generally convert into the ordinary shares of the underlying company based on a pre-set formula; whereas Step-up Preference Shares will increase the rate on offer if rolling over into a new security.

Some Hybrids have fixed coupons, while others offer floating rates that increase in accordance with the Bank Bill Swap Rates. Some securities provide the **added benefit of dividend imputation**, thereby enhancing the potential after-tax return. This feature is **beneficial for Self Managed Superannuation Funds – particularly those in Pension Phase**.

Some of the more attractive Hybrid securities at present are:

Code	Security	Rating	Yield	Franking	Grossed Up Yield
ANZPA	ANZ CPS II Converting Pref Share	A+	5.42%	100%	7.75%
SBKPB	Suncorp Converting Pref Share	A-	5.63%	100%	8.05%
WBCPB	Westpac SPS II Stapled Pref Share	A+	5.75%	100%	8.22%
MQCPA	Macquarie Fixed Converting Pref Share	BBB	10.62%	0%	10.62%
TAHHA	Tabcorp Bond	BBB-	8.62%	0%	8.62%

FURTHER INFORMATION

The above information is intended as a guide only, and does not constitute personal investment advice. The rates quoted are current as at the time of writing, and are subject to change due to market fluctuations.

If you would like any further information on the above securities, quotes of the current rates, or would like to discuss how listed fixed interest investments may form part of your investment strategy, please do not hesitate to contact David Lane at JR Wealth Management.

Regards



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