



PRESCOTT FOCUS

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A LETTER FROM JOHN NANTES' DESK

I have known intimately the Prescott Securities business for some time and see my recent appointment as its Chief Executive Officer the highlight of my career.



Excitingly it also allows a return to Adelaide for my family and with a four week old daughter the timing is ideal. In fact we had just finished an obstetrician's appointment when the role was offered to me and we began our planning straight away. My wife Hayley, three year old Daughter Aria, and new addition Olive are already enjoying the best Adelaide has to offer. Spending time with our family and friends is important to us and we are certainly making the most of it.

As you know, Prescott Securities prides itself on leading the market in advice and capability, which further extends to providing the best service to our clients in meeting their needs in any changing environment. We set very high standards for our advisory staff and are relentless in developing our knowledge and translating it to enhancing your financial well being as you either grow, protect or draw upon your financial wealth. As Adelaide's pre-eminent advisory and stockbroking firm we will continue to be thought leading, strategic and provide you with access to opportunities and solutions ahead of others in the field.

Certainly you will see in the media at the moment many of our competitor's down-sizing, reducing staff capability and capacity. In fact as I write to you, in today's Australian Financial Review, many stockbroking and Advisory firms are announcing specific retrenchments and reductions in client accessible staff. Because we understand the current market challenges, both nationally and internationally, and because we take very seriously the value of service and having conversations to better understand your situation and make good decisions, we are currently investing in our offering to you, not decreasing it. We are enhancing both our product offering and research capability. And most importantly, we are increasing our advisory distribution through internal promotion and recruitment to ensure that during these times we put your needs first.

Most importantly, thank-you for being a Prescott Securities client. We value your trust in us and will ensure we prioritise this at every point along the way. I look forward to hearing from you or meeting you when the opportunity presents. Until then be well and I hope you, your family and friends have a great Christmas and happy New Year.

STRATEGIC ASSET ALLOCATION THE KEY TO WEALTH ACCUMULATION

Buy and hold strategies remain vital to long-term wealth accumulation.



"Current market conditions have spurred a lively debate on the preferred method for portfolio construction", says Private Client Advisor at Prescott Securities, Mr Ben Prisk.

"A GFC-induced short-term mindset seems to have some investors seeking more immediate gains in the market and willing to take on the associated higher risk," Mr Prisk said.

"It's this so-called short-termism that is leading some to question the tried and trusted benefits of longer-term wealth strategies.

"In doing so, it has generated quite a lot of talk in the investment community around the pros and cons of strategic asset allocation versus tactical asset allocation methods for portfolio construction.

"Investment strategies should be designed around immediate and future cashflow needs, first and foremost.

Strategic allocation sets clear parameters for the weighting of asset classes within a portfolio. More aligned to a Buy and Hold mentality and favoured by long-term investors, the portfolio under this method is re-balanced regularly as investment returns skew the original asset allocation percentages.

Tactical allocation allows for a range of percentages for each asset class within the portfolio. It usually involves more active trading to take advantage of market price anomalies and therefore has more of a focus on market timing.

"As we have seen over the past couple of months, markets move quickly. Recoveries in markets tend to be swift so market timing and aggressive trading in and out could leave you worse off if you get it wrong.

"It's important to note that with strategic asset allocation, investors still have room to move within their minimum and maximum asset weightings within the portfolio's parameters.

"The simple and proven strategy of buying a quality asset and eventually selling it over the longer term may not be exciting, but it works."

"Investors need to consider the income generated from their investments, such as dividends from shares, rent from property and interest from cash instead of focussing entirely on capital movement which only makes up a portion of your total return.

"Ultimately it will still come down to the quality of the underlying asset in your portfolio.

"By investing in high quality Australian companies, shareholders can receive a steady stream of dividends and maintain the long term purchasing power of their capital.

"The bottom line is that you need to be comfortable with what you are investing in, and understand your assets and the strategy that you are employing.

"Different assets perform well at different times, so by sticking to the basics and buying good quality at reasonable prices, investors will not have to take a big bet on complete unknowns."

5 Great Investment Strategies for 2012

Clients will have received a copy of our report, 5 Great Investment Strategies for 2012 included with this newsletter. Please read this report and make sure you speak to your Adviser if you have any questions about it.

CLIENTS are also invited to attend our special seminar:

Tuesday 7 February 2012
2.00–3.30pm and 6.00–7.30pm
Crowne Plaza
Hindmarsh Square, Adelaide

THE PUBLIC are invited to attend our additional seminar:

Monday 13 February 2012
2.00–3.30pm and 6.00–7.30pm
Crowne Plaza
Hindmarsh Square, Adelaide

You can register via the following methods:
Online www.prescottsecurities.com.au
email seminar@prescottsecurities.com.au
or contact our office on 08 8372 1300

LEARNING LESSONS FROM LOSSES

While major financial disasters have cost investors billions of dollars, the lessons learnt provide valuable free advice on how to invest wisely.



The dot.com collapse, rogue bank traders at Barings and more recently UBS, Madoff's Ponzi Scheme and Queensland's Storm Financial rattled the confidence of investors and caused financial hardship for many.

However, each provides valuable lessons for all Australian investors seeking to maximise returns and minimise risk.

1. The dot.com Bubble

The dot.com boom and subsequent bust occurred between 1995 and 2000. It was categorised by the proliferation of new internet-based companies that sought to rapidly build market share and brand awareness. They relied on venture capital and initial public offerings to pay for their expenses while having low or no source of income.

Rising interest rates and declining levels of people willing to invest caused significant numbers of these dot.com companies to run out of money and collapse, many having never made a profit.

Prescott Securities Lesson

Invest in companies with an established history and a consistent earnings stream. Find businesses which operate in a market that is not highly competitive, or offer a product where consumer demand is known and will always be consistent.

2. Rogue Traders

Traders at major banks who make unauthorized high risk or complex trading transactions can cost their bank millions or billions of dollars. Recent high profile examples occurred at Barings Bank in 1995 and at Swiss Bank UBS in 2011.

Prescott Securities Lesson

Buying and selling shares can be a simple and rewarding process, but there are many high risk variations available to investors such as exchange traded options, warrants, contracts for difference, futures and short selling, buy and write options strategies and stop loss orders.

If experts can get it wrong, then those playing the share-market part time should steer well away from exotic or complicated investment strategies. Investors who speculate on short term gains rather than invest for the long term do so to their financial detriment.

3. Madoff's Ponzi Scheme

In 2009 American Bernie Madoff was exposed for a Ponzi Scheme that he had been running for over 20 years and caused estimated losses of \$18 billion.

A Ponzi Scheme is where investors are paid returns from their own money or the money paid by subsequent investors, rather than from any actual profit earned by the individual or organisation running the operation. New investors are enticed by offering higher and more consistent returns than other investments can guarantee.

Prescott Securities Lesson

When investing your money, it is important to know what you are investing in.

If you don't understand what the advisers are doing and where your money is going, then proceed with caution. If the promised returns sound too good to be true, then they probably are. In Madoff's scheme many investors relied on the word of non professional investors. Always seek professional advice.

4. Storm Financial Services

Queensland-based Storm Financial Limited initially helped deliver impressive returns to investors during rising equity markets by advising them to borrow heavily to add to their investment portfolio. They also charged high initial fees. However, the financial crisis and poor management practices lead to the company being placed in receivership with millions of dollars worth of debt and thousands of investors facing significant losses.

Prescott Securities Lesson

Different assets invariably perform well at different times, and Storm's business model was flawed in that it relied on equity markets continuing to rise, together with inappropriately high gearing levels, excessive fees and lack of diversification of investments. The combination of these meant the business was unable to survive a full business cycle.

Also, investors should make sure they understand what they are paying in terms of fees, both upfront and on-going. A quality financial adviser should not be charging fees of more than 1% plus GST per annum, and all up fees for advice, platform administration and fund managers should be not much more than 2% plus GST per annum. In cases where direct shares are involved, fees should be less than that.

Prudent investors should look to invest in quality companies that demonstrate sound management, conservative debt levels, and increased recurring earnings from which a growing income stream of tax effective dividend payments are derived.

The bottom line is that you need to be comfortable with what you are investing in, and understand your assets and the strategy that you are employing.

However, before making any investment decisions, you should ideally meet with an experienced financial adviser who you can trust and form a long term relationship with. This will ensure your choices meet your needs for the future and avoid the types of losses mentioned.

PROVIDING LONG-TERM FINANCIAL BENEFITS TO STAFF

Becoming an employer of choice requires thinking outside the square.



Attracting and retaining quality staff has always been a challenge for businesses and innovative companies are now offering key employees external financial advice as a way to keep ahead of their competitors.

"Ideas such as flexi-time, family friendly practices and opportunities for training are now common place and almost expected by today's job seekers," said Pamela Lipert, Financial Adviser at Prescott Securities.

"One area that previously had been overlooked and is becoming increasingly popular is the provision of financial advice."

"We are now working with more companies that are offering financial advisory services to their staff as a way of retaining their position as an employer of choice."

"Employees have different motivations and what may appeal as a benefit or a bonus to a 19 year old male apprentice may be completely different to a mid 40's mother of three."

"However, we are finding that employees of all ages appear to gain benefits from this option and individual meetings with clients allow us to discuss specifics relating to their situation."

"Younger staff are generally seeking advice about saving money for their first home or

managing a budget, while older people are generally more focused on ensuring their financial security for retirement."

Helping staff with their financial security doesn't have to be an expensive exercise and there are many options available including:

- Providing employees with specialised financial information and making in-house training available
- Individual counselling and help to establish a long term financial plan
- Making ongoing financial advice available to key staff
- Provide cost effective group insurance solutions to staff.

"Using a financial adviser who is not aligned with a major financial institution provides employers with the security that their employees are getting the advice or products they actually need, not just what the planner has available", said Ms Lipert. "In a tight employment market, the employer who offers more benefits than just a great place to work will gain and retain staff."

"Having a suite of 'employer of choice' options providing targeted and meaningful benefits helps staff achieve their life goals."

ARE YOU GETTING ALL THE INFORMATION YOU NEED?

At Prescott Securities, we are often holding educational seminars or providing information on issues around investment and associated issues relevant to the financial futures of individuals and families.

Should you not be receiving email communications on these, then please email info@prescottsecurities.com.au and ask to be placed on our communication list. Or better still, call us and make a no obligation appointment with one of our highly experienced advisers to discuss your specific circumstances.

Alternately, check out our website, prescottsecurities.com.au on a regular basis to find out more about us and the services we offer.

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