

Tycoons tell how to crack the investing riddle



Owning your own business is all very well but don't put all your eggs in one basket in case times get tough and your main income source goes belly-up, writes **Alex Tilbury**

YOU really don't know what hard work is until you work for yourself. There are no paid holidays, no days off, no sickies and often no pay cheque until your business starts to take off and there's something left over once all the bills are paid. After a while, you might employ some staff, start to earn a regular profit and be faced with the dilemma of where to invest your hard-earned dollars. In its infancy, most business owners will reinvest all their cash back into their own enterprise to maintain control of their own destiny. But diversification is the key to any great entrepreneur and it is important to avoid putting all your eggs in the one basket in case it goes belly-up.

Meet Andrew Northcott, the 25-year dynamo behind Brisbane-based business Labour Solutions Australia. Northcott started the blue-collar labour hire business in 2004 with just \$800 while he was still at university and has grown it into an industry leader, with a turnover of almost \$38 million a year.

He made *BRW's* fast starters list in 2007 – as the fifth-fastest growing business in Australia – and again appeared in the list in 2008 and 2009.

"A large percentage of my profits are reinvested back into the business," Northcott says.

"I see this business as the best investment I can make, given that this fiscal year we are on target to achieve 800 per cent growth.

"That's a return I would have a great deal of difficulty achieving through other investment streams.

"I use my private investment vehicle, which holds and manages my equities portfolio, businesses and property investments. In relation to equities, my focus is to achieve

FIVE AREAS TO FOCUS ON

1 REPAY DEBT

HLB Mann Judd Adelaide managing partner Steven Toth says this is an investment in both the long and short-term for any business.

The repayment of debt reduces the interest expense and also reduces business risk," he says.



2 NEW EQUIPMENT

For businesses with sales of less than \$2 million they can claim an additional tax deduction of 50 per cent on business equipment, including motor vehicles, Toth says.

"New equipment should always be purchased to contribute to the efficiency of a business that will result in increased profits."

3 INVESTMENT ASSETS

Hood Sweeney director of financial planning services Matthew Rowe says profits generated by the business can

be used to build an investment portfolio. "By establishing an investment portfolio outside of the superannuation environment they will retain access to the assets prior to retirement should their business require a capital injection or they require funds for personal expenses," he says.

4 CONTRIBUTIONS TO SUPER

Rowe says small business owners can make concessional superannuation contributions (contributions made with pre-tax dollars), which generally attract a tax deduction up to certain limits. "This allows the small business owner to save for their retirement

as well as reduce the tax payable on the income generated by their business," he says.

5 WATCH THE TAX

Rowe says people should consider marginal tax rates when deciding how investments are owned. "By holding investments in a spouse's or another entity's name, the income generated and eventual capital gains realised may be assessable at lower marginal tax rates," he says. "An additional benefit for a small business owner is asset protection, which could be achieved when investments are held away from the business."

medium-term capital growth to supplement the cash flow that the businesses provide.

"Flinders Mines is leading my portfolio at present and has some significant iron ore holdings in the Pilbara."

Northcott started his business by hiring himself out, along with his mates from university, to clients.

"I have built a good business with a revenue of close to \$38 million but I have a lot of exciting opportunities on the drawing board to roll out in the coming months," he says.

PricewaterhouseCoopers partner Jason Daniels advises his clients on what to do with their cash as well as how to maximise their returns.

"It really depends on where you are in your business cycle," Daniels says.

"A lot of business owners believe they can get a better return by reinvesting back in to their own business, whether that be training, stock or plant and equipment.

"When clients get to the stage where they want to invest outside their business, they tend to buy the building they are in.

"For many business owners, investing tends to be a fairly emotional decision, so their building is close to their hearts.

"They can see it, it's bricks and mortar and they say: 'Why pay rent when I can be paying off the building?'"

Daniels says deciding on how to fund a purchase can open up various options.

"There's investing through super or a trust – some clients love super and others hate it, so, as an adviser, I can show them all the asset-protection and tax benefits that come with super," he says.

"But, if a client is not convinced by the concept, you'll never get them to invest in it, not even the minimum 9 per cent," he says.

Daniels finds the biggest resistance to superannuation is from business owners with 20 or more years to go until

retirement: "As people get closer to retirement age, people tend to get more aggressive about super.

"It'll be interesting to see if people get more interested in super as they get older."

Many of his clients love property because "they can see it and feel it – but it is not a liquid security".

If looking at shares, Daniels suggests investing in what you know.

"I am a typical accountant, and fairly risk-averse, so I look at the top 50 because I cannot monitor the market every day and I don't look at all the announcements as they come out," he says.

"I have a number of clients who do the same, as opposed to investing in emerging mining companies or some of the more speculative end of the market.

"Invest in similar stocks to what you do, that way you know and understand it."

AMP financial planner Phil Pilgram from Bravien Financial

says business owners need to think in terms of return, risk and diversification when weighing up investments.

"Ask yourself, if I invest \$100,000 by way of employing staff or buying equipment, does this raise my revenue or reduce my costs in a way that has a positive effect? Do I get a positive return on this investment?" he asks.

"Every business owner should understand what return they are getting from their business. Know what amount of money you have got tied up at any point and how much is it paying you.

"If this return (on the investment) is, say, 5 per cent, then – arguably – you are better off investing your money in the share market or property which will have greater returns."

If the risk is high, then the return should be high to compensate for the risk.

"Generally it's considered a small business has a fair degree of risk, especially given many

are dependant on the owner or a key employee being there to perform," Pilgram says.

"Also under risk is the need to protect yourself.

"Things such as key-man insurance and business overheads insurance are vital to reduce the risk to the business of under-performance.

"One should never invest in their own business without fully protecting it first."

Many small business people have a tendency to rely on their business as a retirement plan.

"My business is my super. Business owners should diversify and ensure they have a plan B," Pilgram says.

"That is, have a retirement plan in place that builds their wealth outside of the business so that, if it all goes pear-shaped with the business five minutes before retirement, they will still be OK.

"Don't have all your retirement plans in one basket.

"It's important to diversify and invest outside the business as well as in to your business if it pays a good return."

David Smith – who was the world's first master franchisee for Cartridge World and is now the group's Queensland master franchisee – says investing in his own business means he has more control over the outcome, rather than relying on the business decisions of others, as is the case with shares.

"I have invested both in shares and property over the years but I find, nowadays, it is much more profitable to invest in what I can control, and that is my business," Smith says.

"It is exciting – and an absolute joy – to watch what you have started from nothing build up to a multi-million dollar business.

"Cartridge World is the best investment I have ever made, but I have kept my investments diversified with both property and shares."



Labour Solutions Australia owner Andrew Northcott. Picture: Glenn Barnes



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YOUR ADVICE NOEL WHITTAKER



WHEN I turn 55, can I access my superannuation and use it to invest in a business that will generate an income for me?

To access your super as a lump sum once you reach 55, you need to sign a statement that you intend to retire permanently. Of course, retirement is a state of mind so you can retire, withdraw part of your super, then rejoin the workforce in a different role. Or you can start a transition to retirement pension without retiring which would give you an income stream.

We are using a line of credit to buy and renovate two

properties – our principal place of residence, and a rental property. The credit facility has two separate accounts attached to it, one for each property.

The line of credit differs from a straight mortgage because we use our redraw to finance the renovations on both properties. If the principal place of residence were to become a rental property, would the fact that we have drawn/paid down and then redrawn this property disqualify us from claiming interest on the balance of the account against the rental income?

It is important to keep the two accounts strictly separate. While you are living in a property, you cannot claim a tax deduction for the interest on money borrowed to do renovations to it but if you move out and rent it, you are then able to claim all outgoings including interest on the loan. Interest on money borrowed to renovate the rental property is deductible immediately.

We have just sold a block of land and have \$250,000 in the bank and no debt. We don't want to put money into super and bank interest is quite low. Are there other investment options that could provide us with more growth? We have been burnt before by investing in shares.

You really have only two options – interest-bearing investments or growth investments like property and shares. Your best strategy depends on your time frame because you should not place money in growth investments unless you are prepared to have a seven to 10-year time frame. If your term is shorter it would be sensible to stick with interest-bearing deposits – even if the return is low your money will be safe.

Noel Whittaker is a director of Whittaker Macnaught, a division of St Andrew's Australia. This advice is general and readers should seek expert opinion before making decisions. Email: noelwhit@gmail.com

YOUR MONEY DEPOSIT WATCH

Institution	90 days		1 year		2 years		3 years	
	\$2,000	\$10,000	\$2,000	\$10,000	\$2,000	\$10,000	\$2,000	\$10,000
ANZ	-	2.50	-	4.25	-	5.00	-	5.00
Arab Bank	0.55	3.75	0.30	4.55	0.30	5.00	0.30	5.20
Bank of Queensland	1.00	2.00	1.25	5.05	1.25	5.35	1.25	3.00
Bankwest	3.81	3.41	4.55	4.55	3.50	3.50	6.10	6.10
Bendigo Bank	0.50	4.30	1.25	4.65	1.50	5.65	-	-
Citibank	-	1.45	-	2.85	-	3.31	-	3.78
Commonwealth Bank	-	3.80	-	4.50	-	5.00	-	6.00
CUA	2.90	3.90	4.05	4.85	4.55	5.35	5.05	5.85
IMB	1.75	3.80	2.00	4.40	4.00	5.10	-	6.00
mecu	2.50	3.50	3.00	4.50	4.00	5.50	-	-
NAB	-	3.10	-	4.20	-	5.30	-	5.50
St. George Bank	1.00	1.00	4.10	4.40	4.50	5.00	5.50	6.00
Suncorp	4.25	4.25	5.05	5.05	2.50	4.00	4.00	6.50
Westpac	-	2.50	-	4.50	-	5.00	-	6.00

Online Savings Accounts (No promotional/introductory rates)

Institution	Rate	Product Name	Rate	Cheque	Cheque	Direct	Direct	Debit	BPAY
			\$2,000	\$5,000	Deposit	Withdrawal	Credit		
UBank	Usaver	5.11	5.11	Yes	No	Yes	Yes	Yes	No
Arab Bank	Online Saver Account	4.55	4.55	Yes	No	Yes	Yes	Yes	Yes
FCBS Credit Union	ANZ Online Saver Account	4.20	4.20	No	No	Yes	No	Yes	Yes
ANZ	ANZ SmartPIG Account	4.00	4.00	No	No	No	No	No	No
ME Bank	ME Online Savings Account	4.00	4.00	No	No	Yes	No	Yes	No
RaboPlus	RaboPlus Savings Account	4.00	4.00	No	No	Yes	No	Yes	No
Bank of Cyprus	Midas Account	3.75	3.75	Yes	No	Yes	Yes	Yes	Yes
NSW Teachers Credit Union	Online Savings Account	3.75	3.75	No	No	Yes	No	Yes	No
Queensland Professional Credit Union	netsaver	3.75	3.75	Yes	No	Yes	No	Yes	No
Rural Bank	RBonline Savings	3.75	3.75	Yes	No	Yes	Yes	Yes	Yes
Hume Building Society	isave	3.60	3.60	No	No	Yes	Yes	Yes	Yes
ANZ	ANZ Online Saver	3.50	3.50	No	No	Yes	No	Yes	Yes
BankSA	Express Saver Account	3.50	3.50	No	No	Yes	No	Yes	No
First Choice Credit Union	On-line Savings	3.50	3.50	No	No	Yes	No	Yes	No
ING DIRECT	Savings Maximiser	3.50	3.50	Yes	No	Yes	No	Yes	No

YOUR MONEY BORROWING WATCH

Mortgage Rates

Institution	Basic Rate	Intro Rate	Variable Rate	Monthly Repay		Fixed rate			Home Equity Rate	Total Fees
				(variable)	1Yr	3Yr	5Yr			
ANZ	5.11	-	5.81	\$1581.84	5.45	6.44	6.99	7.74	5.96	\$600
Bank of Queensland	5.31	4.89v	5.89	\$1993.99	5.64	6.44	6.99	7.69	6.14	\$495-\$95
BMC Mortgage Corp	-	-	5.17	\$1488.36	6.05	6.95	7.45	8.20	5.65	\$640
Commonwealth Bank	5.23	4.71v	5.74	\$1571.26	5.69	6.54	7.14	7.79	5.84	\$600
CUA	5.09	4.99v	5.27	\$1501.07	5.49	5.99	6.79	7.77	5.82	\$295
Gateway Credit Union	-	4.74v	5.49	\$1532.73	5.49	5.99	6.59	7.59	5.64	\$685
Heritage Building Society	5.30	\$1505.50	5.49	5.99	6.45	7.29	5.97	\$0-\$00		
HomeLoans Ltd	-	-	5.24	\$1498.64	6.44	-	7.56	8.26	5.39	\$365-\$29
HomeSIDE Lending	-	5.39v	5.47	\$1530.74	5.67	6.39	6.89	7.09	5.95	\$600
meicu	-	-	5.03	\$1465.85	5.70	6.45	7.10	7.75	5.74	-
ING DIRECT	5.09	-	5.09	\$1474.61	5.89	6.44	7.09	7.74	5.69	\$220-\$719
ME Bank	-	-	5.09	\$1518.84	5.85	-	6.85	7.50	-	5.55
mecu	-	-	5.09	\$1474.61	5.29	6.29	6.49	-	-	5.55
MyLoan MyWay	-	-	5.06	\$1470.23	5.90	6.65	7.10	7.75	5.60	\$0-\$395
MyRate.com.au	-	-	5.03	\$1465.85	5.88	6.63	7.08	7.73	5.50	-
NAB	5.24	4.65v	5.74	\$1571.26	5.79	6.49	6.99	7.19	5.89	\$600
Nationwide Mortgage	-	4.57v	5.50	\$1535.22	5.86	6.43	6.98	7.68	5.60	\$710
one direct	-	-	5.04	\$1467.31	5.99	6.24	6.84	7.54	5.23	\$310
QuickDirect	-	-	5.10	\$1478.08	5.90	6.65	7.10	7.75	-	-
Suncorp	5.22	5.59v	5.80	\$1580.33	5.69	6.39	6.99	7.74	5.80	\$600
Victoria Teachers Credit Union	4.77	4.72v	5.47	\$1530.74	5.29	-	6.29	7.19	5.52	\$600
Westpac	5.11	-	5.81	\$1581.84	5.59	6.39	6.99	7.64	5.96	\$600

Low Rate Credit Cards (up to 12%)

Card Institution	Interest Product Name	Annual type	Free rate	fees	days
mecu	mecu Low Rate VISA	Visa	8.89	\$59	0
Bankwest	Bankwest Lite MasterCard	Mastercard	9.99	\$59	55
Community First Credit Union	McGrath Pink Visa Card	Visa	10.50	\$40	55
Sydney Credit Union	SCU Low Rate Visa Credit Card	Visa	10.64	\$30	55
BananaCoast Community Credit Union	BCU Classic Visa	Visa	10.80	\$45	55
BankSA	BankSA Vertigo MasterCard	Mastercard	10.99	\$55	55
Hunter United Credit Union	Hunter United Visa Credit Card	Visa	10.99	\$48	55
ME Bank	Members Equity MasterCard	Mastercard	10.99	\$39	44