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This Week's Top Articles

- **Howard Marks risk update: forward with caution** Graham Hand
- **Understanding and managing foreign exchange risk** Warren Bird
- **Risk aversion is costing women in their retirement** Belinda Allen
- **Estimating a share's intrinsic value 101** Roger Montgomery
- **Slowing productivity and its impact on investors** Don Stammer
- **The importance of your personal credit report** Damian Paull

Howard Marks risk update: move forward with caution

Graham Hand

Howard Marks established Oaktree Capital in 1995, and is responsible for the firm's adherence to its core investment philosophy. Oaktree manages over US\$90 billion and its mission is to provide highly professional management with a primary emphasis on risk control in a limited number of sophisticated investment specialties. In 2011, he published the book *The Most Important Thing: Uncommon Sense for the Thoughtful Investor*.

Marks is best known in the global investment community for his '[Oaktree Memos](#)' to clients which detail investment strategies and insights into the economy. His latest memo, [Risk Revisited Again](#), is an update on his views on risk management, but it's a weighty 21 pages. This note extracts some highlights.

Risk is not volatility

Marks has long argued that volatility is a poor measure of risk, and that investors fear a permanent loss rather than volatility. He expands this idea:

"Permanent loss is very different from volatility or fluctuation. A downward fluctuation – which by definition is temporary – doesn't present a big problem if the investor is able to hold on and come out the other side. A permanent loss – from which there won't be a rebound – can occur for either of two reasons: (a) an otherwise-temporary dip is locked in when the investor sells during a downswing – whether because of a loss of conviction; requirements stemming from his timeframe; financial exigency; or emotional pressures, or (b) the investment itself is unable to recover for fundamental reasons. We can ride out volatility, but we never get a chance to undo a permanent loss."

Quoting Peter Bernstein on taking more risk

Marks takes inspiration from Peter Bernstein's writings, and quotes him at length, including:

"Can we sustain the low-risk character of the environment when it leads many investors to take high risks and to overvalue risky assets in search for higher returns? ... The more risk we take because we believe the environment is low-risk in character, the less the environment continues to be low-risk in character."

Marks argues that the future is not knowable, although most people who forecast markets seem to think it is. The key role played by human behaviour creates a great deal of randomness and weak linkages. He quotes Bernstein again:

"If you accept that the underlying processes affecting economics, business and market psychology are less than 100% dependable, as seems obvious, then it follows that the future isn't knowable ... We like to rely on history to justify our forecasts of the long run, but history tells us over and over again that the unexpected and the unthinkable are the norm, not an anomaly. That is the real lesson of history."

What makes a good investor if the future is unknowable?

"Only investors with unusual insight can regularly divine the probability distribution that governs future events and sense when the potential returns compensate for the risks that lurk in the distribution's negative left-hand tail. In other words, in order to achieve superior results, an investor must be able – with some regularity – to find asymmetries: instances when the upside potential exceeds the downside risk. That's what successful investing is all about ... Even though many things can happen, only one will."

What does a conservative investor do in the current low rate market?

Marks says most people focus on the risk of losing money, but the risk of missing opportunities is just as important.

"Some investors with needs – particularly those who live on their income, and especially in today's low-return environment – face a serious conundrum. If they put their money into safe investments, their returns may be inadequate. But if they take on incremental risk in pursuit of a higher return, they face the possibility of a still-lower return, and perhaps of permanent diminution of their capital, rendering their subsequent income lower still. There is no easy way to resolve this conundrum ... investors face not one but two major risks: the risk of losing money and the risk of missing opportunities. Either can be eliminated but not both."

His solution lies in taking more credit risk, illiquidity risk, concentration risk and leverage risk, based on the hope that investor skill will produce success. However, such investing exposes the portfolio to a broader range of outcomes, including bad ones. If an investor does not have the skills to manage these risks, they must introduce another – manager risk.

"I want to point out that whereas risk control is indispensable, risk avoidance isn't an appropriate goal. The reason is simple: risk avoidance usually goes hand-in-hand with return avoidance. While you shouldn't expect to make money just for bearing risk, you also shouldn't expect to make money without bearing risk."

On preserving wealth in the current market

Marks worries money has flooded into riskier investments because interest rates are so low, with some investors dropping their caution and reducing standards. He concludes:

*"It's the job of investors to strike a proper balance between offense and defense, and between worrying about losing money and worrying about missing opportunity. Today I feel it's important to pay more attention to loss prevention than to the pursuit of gain. For the last four years Oaktree's mantra has been "move forward, but with caution". At this time, in reiterating that mantra, I would increase the emphasis on those last three words ... **Although I have no idea what could make the day of reckoning come sooner rather than later, I don't think it's too early to take today's carefree market conditions into consideration. What I do know is that those conditions are creating a degree of risk for which there is no commensurate risk premium.** We have to behave accordingly."*

Graham Hand is Editor of Cuffelinks. This article is for educational purposes only and does not consider the personal financial circumstances of any investor. The above extracts should be read in the context of the entire paper, which is the copyright of Oaktree Capital Management L.P.

Understanding and managing foreign exchange risk

Warren Bird

Investing overseas, whatever the asset, brings with it the reality of foreign currency exposure. Your return as an Australian investor comes from the performance of the asset in its local market and currency plus changes in the exchange rate versus the Australian dollar. Those changes can work against you or for you.

While some investors are happy to accept exchange rate fluctuations, for some it is an unwelcome source of volatility and uncertainty. That's where currency hedging comes in. Most global bond funds are currency hedged, and many global share funds are also offered with hedged as well as unhedged options. This article explains how fund managers go about hedging exchange rate risk and the impact it has on how a portfolio performs.

There are two main ways of hedging foreign currency exposure in a managed fund: long term currency swaps or more commonly, foreign exchange forwards. This article focusses on the latter.

Hedging exchange rate risk using forward contracts

Let's say a fund has A\$100 to invest in a US\$ asset. To do this it sells A\$ and buys US\$ to pay for the asset. At the time of writing the US\$/A\$ exchange rate was 77.5 cents, so the fund would buy US\$77.50.

At the same time, the fund enters a contract to sell US\$77.50 and buy back A\$ at a date in the future, usually 3 to 12 months ahead. The exchange rate that is locked in will not be the same as today's rate, but the difference is easy to calculate.

At present, the 3 month interest rate in the US is 0.2% pa, while in Australia it's 2.2% pa. That's an interest differential of 2.0% pa. So for a 3 month forward contract, the forward exchange rate is 0.5% lower (a quarter of 2.0%), which is 77.1 cents (I'll explain why later).

Therefore, in addition to the US\$ asset our fund also has a second asset, the forward currency contract. The combination means it doesn't matter what the Australian dollar does over the next 3 months, the fund has locked in an exchange rate in 3 months' time that differs from today's rate by only 0.4 cents.

If over the next 3 months the A\$ appreciates, say to 80 cents, then the value of the US asset to the fund will fall by 3.1% to A\$96.88 (US\$77.5 divided by 0.8). The US\$ asset is worth less because the \$A has appreciated. However, the forward contract will appreciate in value. In effect, the forward contract means that the fund could sell the US asset for cash and use the US dollars to buy A\$ at the pre-agreed rate of 77.1 cents. For simplicity assume that the asset has not changed in value in US\$ terms. Converting US\$77.50 back to A\$ at 77.1 cents means that the fund now has A\$100.52 in it ($77.5/77.1=1.005188$).

The hedge has worked. Despite the rise in the A\$ (fall in the US\$), which would cause a 3.1% loss for an unhedged investment in US\$, the hedged fund has experienced a return of +0.5%.

That figure is the interest differential between Australia and the US over the quarter. Some people are under the misconception that hedging costs you, but that's not necessarily the case. Because the forward points are based on interest differentials, when you are hedging from a low rate country like the US to a higher yielding country like Australia, the hedged investor earns the positive interest differential.

Of course, if the A\$ were to depreciate over the next 3 months – say to 70 cents – the hedge means the fund would not enjoy the rise in the A\$ value of the US asset it has purchased. The unhedged value of the asset goes up to A\$110.71, but the forward contract requires revaluation of the asset at 77.1 cents.

Therefore, the fund value at the end of the period is once again A\$100.52. Hedging means that you not only are protected against the downside that results from A\$ appreciation, but you also miss out on the upside from currency depreciation. Your return is simply the change in foreign currency value of the asset (in this simple example that's zero) and the forward points you locked in under your hedging contract.

Why the connection with interest rate differentials?

The way to hedge any risk is to have an offsetting liability against the asset that gives rise to the risk. An asset in US\$ needs a liability in US\$ to ensure no net exposure to changes in the value of the US\$.

You could do this by borrowing money in US\$, keeping your A\$ in cash at home. You would pay the overseas interest rate on that debt, and earn the Australian interest rate on your cash.

A forward currency contract has the same economic impact. It creates a short term debt in US\$ (you are obliged to make a payment when the contract expires) on which you pay the US short term interest rate; it also creates a short term asset in A\$ (the currency you will be paid at expiry) on which you earn the Australian interest rate.

Rolling the hedging contract

In practice you don't want to sell your foreign assets after only 3 months. Instead, the contract is closed out and settled based on the difference between the forward rate and the new spot rate after the initial 3 month period. In the example above where the A\$ rises to 80 cents, the contract to sell US\$77.50 at an exchange rate of 77.1 cents is closed out at a profit of A\$3.64. The fund now holds the foreign asset revalued to A\$96.88 and A\$3.64 in cash – ie a portfolio value of \$100.52.

In the situation of a fall in the A\$, the end result is once again a portfolio valued in A\$ at A\$100.52. However, the fund needs to cover a loss on the forward contract, which at a 70 cent exchange rate amounts to A\$10.20. In this case the fund would need to sell some of the US asset to get the cash to make this payment.

In reality, managed funds will keep a domestic bank account to have funds available to settle forward contracts. They also have a portfolio of foreign assets, which are paying income or have maturing assets that provide liquidity when needed.

Hedging through the use of forwards thus requires liquidity management, to ensure that the fund has cash available when needed to settle on forward contracts that go 'out of the money'.

Final comment

A real world example may help to demonstrate how forward hedging plays out. Over the past 12 months the global government bond market has returned 4.1% measured in the local currency of each market. Unhedged, that is in A\$ terms, global bonds delivered 12.2%, because the depreciating A\$ has added 8.1% over the 4.1%. The same portfolio hedged into A\$ has not enjoyed that currency appreciation, but has still returned 6.7%, well above the foreign currency outcome. The difference reflects the average +2.6% interest differential between Australia and global markets over the past year which is picked up via the hedging process.

Far from costing you, currency hedging for an Australian investor is a value-enhancing process.

Warren Bird is Executive Director of Uniting Financial Services, a division of the Uniting Church (NSW & ACT). He has 30 years' experience in fixed income investing, including 16 years as Head of Fixed Interest at Colonial First State. He also serves as an Independent Member of the GESB Investment Committee. This article is general education and does not consider any investor's personal circumstances.

Risk aversion is costing women in their retirement

Belinda Allen

Longevity risk is well known. Australians are getting older and living longer. Recent data released by the Australian Bureau of Statistics confirms that Australia is the latest member of the so-called 'Longevity 4' club of countries where the average life expectancy for both men and women is 80 years and over. The other countries are Switzerland, Japan and Iceland and they face similar challenges to Australia – how to cater for longevity risk?

This is a good problem to have with the average life expectancy for an Australian male now 80 years and 84 years for an Australian woman. However, this also brings with it the question of how to provide for an adequate retirement.

Making better investment decisions

One way to help fight longevity risk is to make smart investment choices during working life and prior to retirement. This is vital to ensure the accumulation of sufficient funds in and outside of superannuation. However it also comes down to income, savings and behavioural biases. Our latest research into [Australian investors' equity preferences](#) in collaboration with the University of Western Australia Business School paints a picture of falling equity preferences amongst Australians, which is crucial for accumulating sufficient funds for retirement.

The research examined investors' overall moves in and out of equity-based managed funds and switches between asset classes. While there are some increases in SMSF balances amongst younger investors and a move to investment property and global equities, the research indicates that investors aged between 35 and 49 years of age have a low preference for equities. They are at risk of not meeting retirement objectives unless changes are made. It also highlights a large difference between men and women's overall equity preference which commenced during the GFC and has been maintained since.

Gender bias in taking equity risk

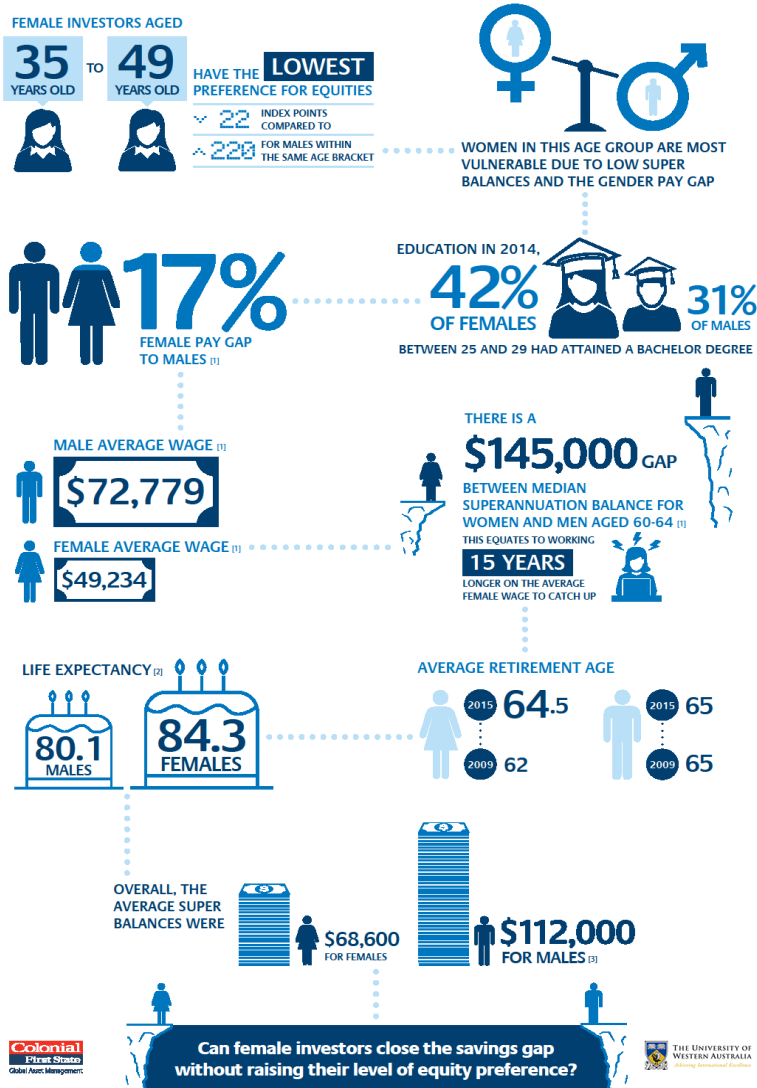
Given this lower bias to investing in growth assets, women in particular are more at risk of not meeting their retirement objectives and managing longevity risk than men. Looking at a range of facts, it is easy to see why women are more likely to outlive their retirement savings:

1. Women earn less, with the average wage for males \$72,779 compared with \$49,834 for women.
2. Women often have broken work patterns usually for family reasons
3. Women retire with an average super balance of \$68,600 compared to \$112,000 for Australian males
4. Women live far longer, on average, than men.

Combining these factors creates the perfect storm for female Australians and their ability to save and secure a good standard of living in retirement, despite younger women having higher education qualifications.

Investor Insights:

Is an aversion to risk costing women their retirement?



Gen-Y women catching up

According to the CFSGAM Investor Insights research, Australian Gen-X women (35-49 years old) remain most at risk of not meeting their retirement objectives. It appears that women's attitude to equities has been negatively affected by the GFC and hasn't recovered since despite the improved returns, low deposit rates and improved labour market conditions.

Not all is lost. Younger Australian females are showing similar risk appetites to Gen-Y males, which is a unique parallel in our research. Over the last couple of years their equity preference has risen, in line with Gen-X males.

Overall, older women do appear to be less confident in their ability to manage money, less comfortable with their financial situation and more conservative in their approaches to managing money. One approach doesn't fit all, but as an industry, there is still a lot of work to be done to help women improve their financial literacy and confidence to invest in growth assets to meet their retirement needs and cater for their longer life expectancy.

Belinda Allen is a Senior Analyst, Economic and Market Research at Colonial First State Global Asset Management (CFSGAM).

Estimating a share's intrinsic value 101

Roger Montgomery

In my previous [article](#) on thinking rationally about shares, I outlined the case for buying quality companies at a discount to intrinsic value. But what is that? The basic formula for estimating intrinsic value, using an approach called excess returns, is simple arithmetic. It compares the return generated by the business's equity (in this case, market capitalisation) to the return that an investor should reasonably expect from a share market investment and uses the result to determine what premium to pay for the equity. The formula is:

$$(Return\ on\ Equity / Required\ Return) \times Equity = Intrinsic\ Value\ Estimate$$

To obtain intrinsic value per share, divide the result by the number of shares on issue.

While the division and multiplication are simple, producing a straight line model with its own set of limitations and determining the inputs requires some thought. It's a case of garbage in, garbage out. When Berkshire's Charlie Munger was asked what made him such a successful investor, he responded by offering "My guesses are better than yours."

Applying the formula

By way of example, let's examine Wesfarmers' purchase of Coles many years ago. At the time, Coles' Equity was \$4.3 billion, Return on Equity was 25%, and for this example only, adopt a Required Return of 13% – half the Return on Equity being produced at the time. The valuation formula, assuming all earnings are taken out as dividends, would be:

$$(25\% / 13\%) \times \$4.3\ billion\ which\ equals\ \$8.3\ billion$$

A word of warning: don't apply this formula to a company that retains profits. If the company retains profits and generates a return on its equity that is lower than your required return, the above formula will overstate the value of the company. If the company you are examining retains profits and generates a return that is higher than your required return, the above formula will understate the value of the company.

In my book *Value.able*, I demonstrate a set of steps to follow to provide an estimated value for any company, anywhere in the world, not just those that pay out all the earnings as a dividend. You might also like to read Warren Buffett's 1981 letter to Berkshire Hathaway shareholders. You can [click here](#) to download it.

Quite simply, when the prices of shares trade below an estimate of their value, they become candidates for inclusion into your portfolio, investing no more than 3 to 7% of your portfolio in any one of these opportunities. And this is where the rubber hits the road. When investors forego the opportunity to buy shares in wonderful businesses because of short-term concerns about the economy or because of fears that falling prices mean risks have increased, a major opportunity may be missed.

This includes businesses which the market quickly marks down in response to negative news. Having bought shares in Sirtex recently below \$19 (\$29 at time of writing) after divergent expectations appeared following the release of trial results, and McMillan Shakespeare below \$7.50 (\$12.50 now), after proposals for damaging legislation, my view is that you should take advantage of other people's fears rather than listen to them. Volatility in shares prices, especially if you are a net buyer over the years, represents an opportunity rather than risk.

Buy now and receive more later

'Investing' is the laying out of money today to receive more in the future - nothing more, nothing less. The safest way to do that in the stock market is to buy shares in sound businesses when they are cheap.

Shares in extraordinary businesses are cheap when they are at a discount to the appropriate multiple of equity based on the profitability of that equity. High dividend yields or low price to earnings (PE) ratios may exist, but these are not a pre-requisite to a bargain. Indeed, the way I have demonstrated the calculation of intrinsic value, a company's shares could display a high PE ratio and a low dividend yield and still be a bargain. Indeed, we hold stocks with PE ratios ranging from 14 times to 29 times and they are still regarded as good value.

The rest of your time should be spent thinking about the competitive landscape a business is in to determine what pressure may be leveled against its future profitability. More than perhaps anything else, you need to understand the future return on equity.

Gradual portfolio construction is important

Finally, turn your mind to the mechanics of portfolio construction.

Wouldn't it be nice if the market knew you were going to be investing millions tomorrow, so fell by an appropriately substantial amount to accommodate your purchase, then returned to today's level? Unfortunately it never works out that way, yet some advisers might go ahead and invest all your money, all at once, as if it just did.

The reality is that you will likely take many months, if not years, to fill your portfolio with wonderful businesses, purchased at discounts to intrinsic value. But don't lose patience and don't think about stocks. If you think about stocks you'll be tempted to chase them higher and pay too much. Instead think of stocks as slices of businesses. Business performance changes slowly. So fill your portfolio with a selection of great businesses, like CSL, Challenger, CBA and REA, buying them only when they are below intrinsic values.

Put together a portfolio of great business, purchased at fair prices, whose earnings you are confident will be materially higher in 5 or 10 years, and you will do well over the very long run.

Roger Montgomery is the Chief Investment Officer of The Montgomery Fund. This article is for general education purposes and does not address the specific circumstances of any individual.

Slowing productivity and its impact on investors

Don Stammer

Paul Krugman, a professor of economics at Princeton University, famously pointed out a couple of decades ago, "*Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.*"

Alas, productivity growth has been slowing in most countries. In the US and Australia, at least, the slowing began before the global financial crisis hit in 2008. Investors need to be aware of what's happening to productivity and how this will affect future investment returns and the affordability of taxpayer funded pensions.

Productivity measures the ratio of the output of goods and services to the inputs of labour and capital that go into producing those goods and services.

There are two main measures of productivity. **Labour productivity** shows the output of goods and services per hour worked. Some part of the increases in the productivity of labour come about because of additions to the capital stock; when that's been allowed for, we have what's called **multi-factor productivity** or **total-factor productivity**. It shows the contribution to GDP growth from influences such as technical innovation, skills, competition, better management, increased scale, and the shift of labour and capital to more productive industries and firms.

The slowing in productivity growth

In Australia, productivity surged in the 1990s: labour productivity increased, on average, by 2.2% a year, and by 25% over the decade. That followed the big economic reforms of the Hawke-Keating government in the 1980s and our quick adoption of new information technologies (even though we were seen at the time as an 'old economy').

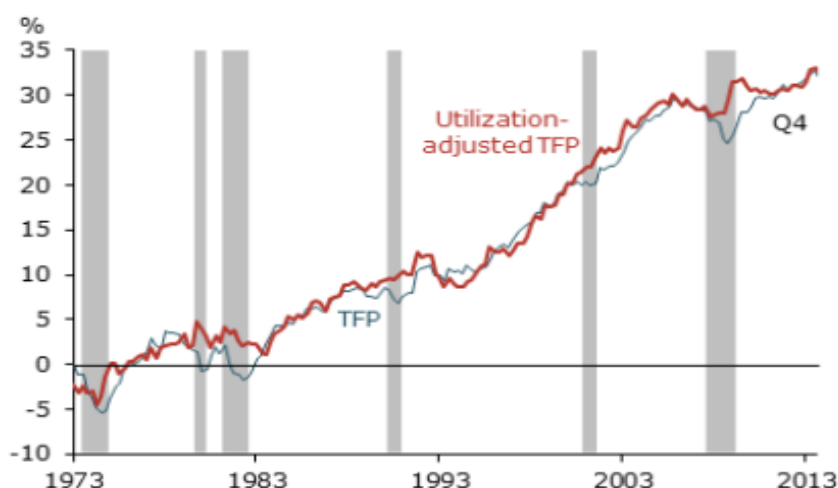
In the first decade of this century, labour productivity growth slowed to an annual average of 1.5%. In the financial year ending soon, growth in productivity looks likely to be about zero, even though there's a boost in productivity in the resources sector as new mines are completed, existing ones are upgraded and production ramps up.

Australian governments have made few productivity-enhancing economic reforms in recent years, and the Rudd-Gillard changes to industrial relations reduced the flexibility of the labour market relative to the legacy of the Hawke-Keating years. And the easy-to-obtain gains for productivity from the revolution in information technology are now in place.

In other countries, too, productivity growth has slowed. John Fernald is a staffer in the US central bank and a guru on productivity. He points out that *"the exceptional boost to (US) productivity growth from information technology in the late 1990s and early 2000s has vanished during the past decade. Although there is considerable uncertainty, a relatively slow pace is the best guess for the future."*

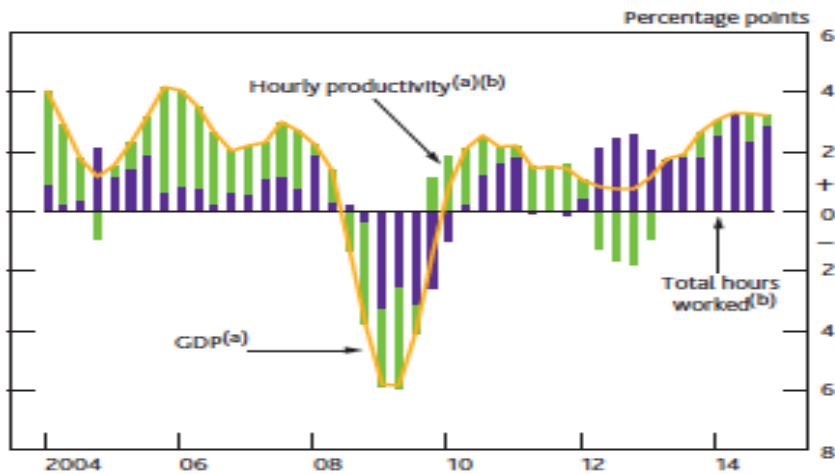
One of his graphs is reproduced below. The blue line shows the cumulative growth in total-factor productivity in the US since 1973 and the red line shows this adjusted for the capacity utilisation rate, to eliminate the effects on productivity from cyclical swings in the US economy including from the financial crisis. The US productivity slowdown began almost two years before the US went into recession.

Cumulative change in US total-factor productivity since 1973 Source: John Fernald



The Bank of England recently reported that, *"Despite robust output growth in the past few years, productivity growth has remained subdued with the increases in output having been met mainly through an increase in total hours worked"*.

UK GDP growth recently reflects more hours worked, not increased productivity



The impact of a slowdown in productivity growth

Below-par growth in productivity, if it continues, will be bad news for the economy and will hurt investors. The rates of increase in average real wages and in profits would be constrained. Governments would find it even harder to generate the tax receipts to pay for the future costs of ageing populations (the Intergenerational Report assumes, heroically in my view, that productivity growth will average 1.5% a year for the next 40 years).

Also, a slowing in productivity growth raises the risks of inflation. Perversely, slowing growth in productivity does help job creation in the short term. Currently, each of the US, UK and Australia is creating more jobs for every percentage point increase in GDP than if productivity growth were stronger.

The dissenters' views

There are respected economists and investment strategists (including Martin Feldstein who chaired the US Council of Economic Advisers under Ron Reagan, and Jan Hatzius of Goldman Sachs) who point to the difficulties of measuring productivity. They argue that the much-vaunted weakness in productivity growth is a statistical myth.

In their view, the usual measures of productivity growth prepared by government statisticians understate growth in GDP (and in productivity) and fail to incorporate the dramatic gains in the quality of products and services, particularly the use of software and digital content.

Professor Feldstein writes: "...consider the higher price of a day of hospital care. How much of that higher price reflects improved diagnosis and more effective treatment? And what about valuing all the improved electronic forms of communication and entertainment that fill the daily lives of most people? In short, there is no way to know how much of each measured price increase reflects quality improvements and how much is pure price increase."

In Mr Hatzius' view, rapid technological change means that productivity growth is being underestimated by "a meaningful amount" – thus there's even less inflation than official figures show. He concludes that "if true inflation is even lower than measured inflation – and especially if this gap is bigger than it has been historically – the case for keeping (US) monetary policy accommodative strengthens further."

A balanced assessment

It's all very well to acknowledge the big effects on the quality and content of many of the products and services available to us that result from rapidly changing technology. But when it comes to what most people see as their real incomes, or to measuring inflation, or to considering the extent to which there's slack in the overall economy, we need to be cautious in how much additional 'value' is put on the never-ending developments in or from technology.

And in long-term projections, such as the 40 years ahead considered by the Intergenerational Report, an assumption of average growth of 1.5% a year seems far too optimistic.

An understanding of what's happening to productivity will be of special importance to central banks in coming years as they seek to set monetary policy accurately according to 'true' economic conditions.

Don Stammer chairs QV Equities, is a director of IPE and is an adviser to the Third Link Growth Fund and Altius Asset Management. The views expressed are his alone. An earlier version of this paper was published in The Australian.

The importance of your personal credit report

Damian Paul

In March 2014, changes were made to Australia's credit reporting system, paving the way towards the introduction of comprehensive credit reporting (CCR). It is important for everyone to understand what impact the information on their credit report may have on their financial situation.

Based on interactions with the negative reporting system, many financial professionals consider credit reporting of relevance to a niche market. Clients seen as more financially literate or well-off, and therefore unlikely to have damaging information on their credit report, are often overlooked when it comes to credit education.

Credit reporting is relevant to everyone

With the introduction of CCR, understanding the system will become more important than ever for all Australians. Credit reports will progressively include a wider range of information about a consumer's credit products and whether payments are being made on time, as well as the negative information which was previously available.

Traditionally, most consumers in Australia only became aware of their credit record when they were declined credit, perhaps because of a default on their credit report. Based on overseas experiences, such as in the US, UK and South America, we expect this to change. We anticipate that consumers will increasingly see the new credit reports, and potentially their credit scores, as evidence of good personal financial management. They may also be used as a tool to seek out better interest rates and terms with lenders.

Financial professionals, including planners and accountants, are in an ideal position to help consumers understand and take control of their credit reports, so that when they need credit, their creditworthiness is assessed accurately.

Key rights under Australian law include:

1. The right to a free copy of your credit report annually from each of the credit reporting bodies. If a credit application is rejected, you are entitled to request another free credit report.
2. The right to challenge and fix errors on your report, which credit providers and credit reporting bodies must investigate and correct free of charge.

3. The right to escalate a complaint to an external dispute resolution service such as the Credit and Insurance Ombudsman or the Financial Ombudsman Service if unsatisfied with the investigation.
4. The right to have a ban placed on your credit file to protect the credit file being accessed in cases of suspected identity theft.

Good reports can lead to better outcomes

Understanding what information is held on a consumer's credit report can provide a pathway for negotiating better payment or credit terms, or allow financial advisers to provide advice about what steps a client can take to improve their payment behaviour.

From a business productivity perspective, richer data may also result in higher approvals and easier loan take-up, due to more efficient and accurate matching of the right finance offer for each client. The reforms are designed to improve not only the credit reporting system and the availability of credit to rehabilitated borrowers, but also Australia's overall financial stability through prudent risk assessment.

Damian Paull is Chief Executive of ARCA, the peak body for retail credit providers and credit reporting bodies. For industry, ARCA hosts a number of events and seminars, and for consumers, there is an educational website at www.creditsmart.org.au.

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