



# Merrill Lynch BlueChip20

**When Merrill Lynch decided to partner with Blackrock and Praemium to design a scalable geared direct equities savings plan, tailor-made for previously ignored Generation X and Y investors, they may have invented a whole new product class. DEREK BENNETT, vice president of Merrill Lynch Equities explains.**

When Merrill Lynch, one of Australia's biggest margin lending and brokerage houses, realised that generations X and Y were missing out on investment opportunities because no one seemed quite able to service them, they decided to do something about it.

In filling this need however, they have laid down a big challenge to the rest of the market. Not only has Merrill Lynch launched a new online equities savings plan that automatically gears, the group has redefined the levels of investment features and technological functionality that planners will now be able to offer customers who they previously may not have been able to service, and do so cost-effectively.

#### How it works

The secret to the Merrill Lynch BlueChip20 is how it leverages off the Blackrock and Praemium separately managed account (SMA) technology platform.

With an initial investment starting at just \$5000, and thereafter minimum monthly investments of \$500, investors are invested into a direct blue chip share portfolio of Australia's top 20 companies, companies that pay regular high dividends, which can then be used to help pay for the margin facility and so make the investment almost self-sustaining. As direct investors they are the beneficial owners and they own all the dividends and imputations.

Being automatically geared this \$5000 turns into \$10,000 and the monthly minimum investments turn into \$1000 and so through dollar-cost-averaging investors are quickly on their way to accumulating wealth using the resources of an investment machine they normally wouldn't be able to access unless they had much more capital.

But it gets even better as by calling on the brokerage clout of Merrill Lynch that is implemented through the SMA, the brokerage to make this happen costs only an initial \$5 upfront and 50 cents per month for investors following the product minimums electing the automatic index rebalancing options.

Because of how it's implemented with a market leading SMA, the good news for the stock brokers, tax accountants and financial planners that Merrill Lynch is partnering with to distribute the product, is investors can access their account online

**We provide the Merrill Lynch margin lending platform behind the scenes and this interacts seamlessly with the Blackrock SMA platform.**

any time and view their portfolio, obtain instantaneous tax reporting, review their loan positions and check out the loan to valuation ratios.

#### Where it came from

"About 18 months ago, even though the markets have been strong, we could see trends emerging in how the average age of our clients was creeping up. But we were not seeing as many younger investors as we thought we should, especially as margin lending is intuitively suited to clients with longer term time horizons, moving into their prime income years," said Bennett.

This made us realise that most investment products were tailored for baby boomers but not many were designed with younger people in mind, he said. "So we started looking at the younger generation X and Y segment who make up 44 per cent of the adult population."

But another trend that caught their attention was how younger people are more self-directed than older generations.

"Younger people today are more self directed, but not because they always want to be but because they can find it very difficult to get advice," said Bennett explaining how many financial planners, because of compliance overheads, often can't afford to service these people.

Even people with \$20-30,000 to invest may not justify a planner's time, said Bennett. However this created the tremendous opportunity to design an 'off-the-shelf' scalable product for planners who wanted to work with this client group.

Bennett said the key was first examining the web-based and set-and-forget functionality available in a range of online bank accounts and savings plans that had quickly become extremely popular with younger people.

"But we wondered if rather than people buying cash with their savings plans they could buy equities". Making it all fall into place was of course the association with Blackrock and Praemium, especially as building the product this way meant they could dramatically lower the fees.

Bennett admits the idea of using installment gearing is of course nothing new especially for planners used to managed funds, but what is new is being able to do it into a direct share portfolio so cheaply for first-time investors. "What's always made it hard was the brokerage costs" but by harnessing SMA technology this is no longer a problem, he said.

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#### Reactions so far

"What advisers like about this product," explained Bennett, "is that the next time a 38 year old client walks in the door who has \$20,000 to invest and supported by a high income, they can say 'wouldn't it be great to take that client on?' The client is not going to be high maintenance and I can help them build their wealth."

But the quality of the product is also a major advantage, which is why the product is built on the top 20 blue chip companies and their strong record of dividend performance that can average 4 per cent. With the 50 per cent gearing ratio it means the portfolio almost pays for itself.

"We think the 50 per cent gearing is sensible and we want clients to get a really good after-tax result by reducing

turnover within the portfolio," said Bennett.

This might also be why the Merrill Lynch BlueChip20 is already included on selected approved product lists with signs that even more appearances are soon to follow. Indeed if the reaction of competitors since the product was soft launched in May this year is anything to go by, this product could be the start of a whole new paradigm for investors. ■

**Table 2.  
The Portfolio**

AMP	CSL
ANZ	RIO
BHP	SGB
BXB	SUN
CBA	TLS & TLSCA
CGJ	WBC
FGL	WDC
MBL	WES
NAB	WOW
QBE	WPL



**Table 1.  
Fees, charges and planner remuneration**

Min initial investment	\$5,000
Min monthly savings amount	\$500
Brokerage	\$5 per \$10,000 invested
Gearing	50%
Establishment fee	Nil
Administration fee	0.60%
MER to maintain index weighting	Nil
Margin loan facility	9.24% pa 8.74% pa, if interest pre-paid
Adviser remuneration	Up to 1.1%, plus 0.5% loan trail