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In this issue:

How to stay focussed in volatile markets

Investing in markets means volatility. When done well, you are getting paid for taking on risk. So why is it that sharp drops in the market have such a visceral impact on us? We only have to go back to early February, when markets dropped 4.6% in a few days to recall such a time of alarming headlines and concerned conversations.

The first thing to say about February is that it was far from unusual. Since 1979, there have been 182 five day periods worse than the February decline. It happens, on average, every three months. It's about as frequent as a 29 degree day in Sydney. Warm, yes, but barely worth a comment. So why do we all feel this way when the markets fall?

The second thing to say, is that it was not unusual and moments of this ilk will happen again. With central banks commencing or stepping up their interest rate hiking cycles and unwinding quantitative easing (QE) stimulus, together with a divergence in monetary and fiscal policies, the result should be greater volatility.

Preparing for the inevitable

So the market just fell. You're reading headlines claiming billions of dollars of value have been wiped off the stock market in a matter of hours, days. You check into your account and see that your investments have also been affected. What will you do?

What most people do is act. They sell in fear. This is entirely natural, however, it is likely to be the wrong strategy. So what should you do?

For now, the best advice it to do nothing and to seek expert advice. That will feel all wrong. So let's unpack why that is and what to do to manage those feelings. To paraphrase a recent Wall Street Journal headline, 'The Share Market Isn't Being Tested, You Are'.

We need to feel in control

Nothing undermines a sense of control over your investments like a sharp and unexpected stock market fall. The immediate priority for many is to re-establish that sense of control. One of the most tempting means is by doing something, anything. This is linked to a deep-seated part of human nature and manifests in a desire to maintain the illusion of control.

In our daily lives, in order to act, we need to be confident in our ability to make an impact. In most cases this confidence can be classified as overconfidence, but without it we might not act at all. Being paralysed by indecision can be as bad as acting with overconfidence.

Search for meaning

You will probably have a very strong need to know why the market movement happened. It is more than mere interest. Needing to know is linked to the desire to act. Because jumping blind into a strategy feels wrong, we need an insight to give us enough confidence to act. Hence, the pressing need to find out why.

Welcome

Welcome to our latest edition of the Informed Investor newsletter.

As always, should you have any questions or would like some further information, please get in touch and we'll be happy to help.

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Actions have consequences

Adjusting your market exposure to suit evolving risk and return opportunities can be valuable. However, selling in fear is a powerful behavioural bias that costs investors dearly. If you were to sell in fear in each bear market (20% down) for Australian Equities since the early 1980s, and only return to the market some months later or once a recovery has started, then instead of a compound annual growth rate of 10%pa, you'd have achieved 8%pa. This is a costly bias.

One of many costly biases

There is a panoply of behavioural biases which help us get through the day. They are valuable mental shortcuts that help us act fast, handle information overload and find meaning. Occasionally these mental shortcuts do not serve us well. Investing is one such domain. If everyone is running out of a building, our instinct is to join them, no questions asked. This is a good example of the 'herding' bias - after all, the building could be on fire. However, this same bias in the investing context can be costly. Study after study has measured the costs of these biases and estimates range from 1% pa to as much as 6% pa.

What to do

- Recognise that markets are complex.
- Seek advice and consider the impact. Ask yourself - why am I making this decision? Is this investment part of an overall plan? What might go wrong? What does the evidence say?
- Record your decision and why you made it – by tracking your decisions, you can reflect on the evidence and adjust or confirm your approach.

Keep your eyes on the prize

Keep your eyes on the prize, whether that prize is growth, income, capital preservation or a mix. Bouts of short term volatility don't mean allocations have to change. Remember, this has happened before and will happen again. Selling in fear costs real returns in the long term. Financial advice is the best insulation from these and other biases waiting to erode our returns.

Source: Macquarie.

SMSFs and your retirement horizon

Self-Managed Super Fund (SMSF) trustees often ask themselves, "What is the right mix of investments for my SMSF?" It's a very common question, and one that will need to consider individual preference and the time until retirement.

The answer will not be the same for everyone, even for members within the same SMSF.

The 'right' mix will be based on things like tolerance to investment risk and various other factors such as the cash flow needs of the SMSF and the investment mix of assets held by members outside of the SMSF. First and foremost the mix of the investments within the SMSF must be in line with the SMSF's investment strategy. This is developed and reviewed by the trustees of the SMSF, and stipulates what types of assets the SMSF is allowed to invest in and over what timeframe.

Here we look at what to consider when deciding on the right mix of investments for your SMSF as you countdown the years to retirement.

40 years to go

Someone with a 40-year investment timeframe is likely to be at the accumulation stage of their SMSF. This person may generally have a higher appetite for investment risk (when compared to someone with a 10-year investment timeframe). This means they may invest larger parts of their SMSF in growth orientated assets such as shares and property. These assets generally have a higher rate of return over the long-term compared to defensive assets such as cash and term deposits.

It is always important to be mindful of the "sleep at night factor."Just because the funds are locked into super for 40 years in the SMSF with plenty of time to recover from market downturns, it does not mean that when we do have a significant market downturn (and especially if for an extended period of time) that everyone will have the solid nerves to "ride the waves" of the investment market.

However, for those that are prepared to take more short-medium term risk in exchange for the potential for greater long-term return, the 40-year horizon might afford the opportunity (especially if there are multiple members in the SMSF). When the SMSF has amassed a decent sized balance, this could potentially be used as a deposit to purchase a commercial or residential property while borrowing within the SMSF can fund the rest of the purchase.

30 years to go

Someone with a 30-year investment timeframe (typically 50 years+) is likely to be at the wealth preservation phase. They generally have more working years behind them than ahead of them. They still need growth in their SMSF as they may potentially be retired for 30+ years and need an asset base to sustain them. At the same time, they do not have the same timeframes as they did previously to recoup large investment losses if there is a significant market downturn and they plan on retiring in the next few years. This is a stage where there needs to be a delicate balance between growth assets to address longevity risk (the risk of outliving your retirement savings) while having enough defensive and liquid assets (such as cash and bonds) to mitigate any potential capital losses from a market downturn and provide a regular income in retirement.

20 years to go

Someone with a 20-year investment time frame (typically 60 years of age+) is generally in the pension phase of their SMSF. They are looking for the asset base within their SMSF to provide them with regular and reliable income. Other issues may present themselves during this age. A member of an SMSF may become incapacitated and may need to liquidate assets of the SMSF to pay for large lump sum medical expenses or fund a bond to enter an aged care facility. Or it could be that it is the member's goal to utilise the SMSF to maintain lifestyle in retirement whilst leaving behind a legacy for loved ones.

At this stage it's really important to have liquidity, especially if instant and unexpected access to funds is required to fund large outlays such as a bond for aged care. Furthermore, given that

members are expected to draw down income in regular intervals, this can become problematic when it comes to holding direct real estate.

All in all there is no one 'right' mix of assets when it comes to investing at different life stages for members of an SMSF. The right mix for you will not necessarily be the right mix for someone in similar circumstances. The right mix for you will be based on your unique circumstances, financial goals, investment timeframes, and your psychology towards investing and money.

Source: BT.

Retire on your own terms: understanding the various forms of retirement income

As the novelist C. S. Lewis once observed, "You are never too old to set another goal or to dream a new dream."

Retirement should be the start of a new chapter in your life – perhaps the most exciting of all. The big question, of course, is how you pay for it without a regular pay cheque. A simple way to think about retirement income is by splitting your needs into two parts:

Regular income – the money you will need each month to pay regular living expenses, like your housing, food and health care costs.

Discretionary income – your pocket money to spend on the good things in life, like travel, restaurants and trips to the theatre. These funds also cover life's nasty surprises, like car repairs, blocked pipes and leaking roofs (hopefully not at the same time).

Let's use this framework to look at the retirement income options you have.

Regular income requirements

These are the sorts of expenses you are already paying every month – unfortunately most of them will continue when you retire. Council rates, utility bills, groceries, health care and phone bills all fit into this category. When you're working you cover these sorts of expenses with your employment income, but what happens when you retire? The answer lies in generating a regular retirement income stream. Here are some options to consider:

Account-based Pensions

Once eligible, you can transfer all or part of your super to an account-based pension and choose how much you receive as regular income payments. There are compelling tax benefits because investment earnings on your assets supporting this income stay within the super system. This means they are tax free, and for most people aged 60 or above, the income payments you receive are also free of tax.

Annuities

An annuity is a product you can buy from an insurance company using your super or other savings. Annuities give you a set income for a defined period or for the rest of your life, depending on the product you choose. If you use your super to buy an annuity, income payments receive the same tax treatment as an account-based pension. Another advantage is reliability – you receive a guaranteed payment regardless of market performance or interest rate changes. On the downside, you have less control because you cannot choose where your money is invested, and you don't have the flexibility to withdraw if you need extra cash.

Part-time work

Many of our clients love their work and choose to reduce their hours, or work part-time, in the early stages of retirement. Continuing work helps you to stay active mentally and continue to socialise with colleagues – but there are also financial advantages. You will receive income payments every month – money you can rely on for regular expenses. When you are still earning a salary you can continue to contribute to your super, rather than having to draw down on the balance. This could make a big difference to the value of your nest egg when you eventually retire.

The pocket money you deserve

So you've taken care of life's essential expenses with a retirement (or semi-retirement) income stream. What about extra money to treat yourself to the finer things in life? The secret to retirement pocket money is quick access to cash. The financial term for this is liquidity – cash is the most liquid asset while investments like real estate are considered illiquid, as it is very hard to sell just one room of a house.

Term deposits

With a term deposit, your money is invested for a fixed period and you receive an agreed rate of interest for the term of your investment. It's a popular way to earn money for life's pleasures – and emergencies – because the cash you receive is easy to access, it's liquid. Another benefit is the safety of a term deposit because your original investment is returned at the end of the term.

Dividend investing

When you buy shares in a company you are entitled to a share in the company's profits or earnings. Companies pay a dividend to shareholders as a way of sharing profits – usually twice a year. You can use these cash dividends as pocket money for discretionary spending in retirement. By holding the shares for a length of time, the value of your underlying investment is also likely to grow.

The potential for better returns through share investing comes with additional risk. It is important to spread risk by diversifying your investments – across industries and also beyond our borders to global markets.

Bringing it all together

There is no shortage of options for your retirement income – the secret is in combining the best of them in a tax effective way based on your individual circumstances. We strongly recommend you start thinking about your retirement income now and seek financial advice early. You've spent your life building your nest egg – don't let it fall from the tree.

Source: Perpetual

The pullback in shares – seven reasons not to be too concerned

The recent share pullback has seen much coverage and generated much concern. This is understandable given the rapid falls in share markets seen on some days.

Considerations for investors

Sharp market falls with talk of billions of dollars being wiped off shares are stressful for investors as no one likes to see the value of their investments decline. However, several things are worth bearing in mind.

First, periodic corrections in share markets of the order of 5-15% are healthy and normal. For example, during the tech com boom from 1995 to early 2000, the US share market had seven pull backs greater than 5% ranging from 6% up to 19% with an average decline of 10%. During the same period, the Australian share market had eight pullbacks ranging from 5% to 16% with an average of 8%. All against a backdrop of strong returns every year.

During the 2003 to 2007 bull market, the Australian share market had five 5% plus corrections ranging from 7% to 12%, again with strong positive returns every year. More recently, the Australian share market had a 10% pullback in 2012, an 11% fall in 2013 (remember the taper tantrum?), an 8% fall in 2014 and a 20% fall between April 2015 and February 2016, all in the context of a gradual rising trend. And it has been similar for global shares, but against a strongly rising trend. In fact, share market corrections are healthy because they help limit a build-up in complacency and excessive risk taking.

Second, the main driver of whether we see a correction (a fall 5% to 15%) or even a mild bear market (with say a 20% decline that turns around relatively quickly like we saw in 2015-2016) as opposed to a major bear market (like that seen in the global financial crisis (GFC) is whether we see a recession or not. Our assessment remains that recession is not imminent:

- The post-GFC hangover has only just faded, with high levels of business and consumer confidence globally only just starting to help drive stronger consumer spending and business investment.
- While US monetary conditions are tightening they are still easy, and they are still very easy globally and in Australia (with monetary tightening still a fair way off in Europe, Japan and Australia). We are a long way from the sort of monetary tightening that leads into recession.
- Tax cuts and their associated fiscal stimulus will boost US growth in part offsetting Fed rate hikes.
- We have not seen the excesses – in terms of debt growth, overinvestment, capacity constraints and inflation – that normally precede recessions in the US, globally or Australia.

Reflecting this, global earnings growth is likely to remain strong, providing strong underlying support for shares.

Third, selling shares or switching to a more conservative investment strategy or superannuation option after a major fall just locks in a loss. With all the talk of billions being wiped off the share market, it may be tempting to sell. But this just turns a paper loss into a real loss with no hope of recovering. The best way to guard against making a decision to sell on the basis of emotion after a sharp fall in markets is to adopt a well thought out, long-term investment strategy and stick to it.

Fourth, when shares and growth assets fall they are cheaper and offer higher long-term return prospects. So the key is to look for opportunities that the pullback provides – shares are cheaper. It's impossible to time the bottom, but one way to do it is to average in over time.

Fifth, while shares may have fallen in value the dividends from the market haven't. So the income flow you are receiving from a well-diversified portfolio of shares continues to remain attractive, particularly against bank deposits.

Sixth, shares and other related assets often bottom at the point of maximum bearishness, ie: just when you and everyone else feel most negative towards them. So the trick is to buck the crowd.

Finally, turn down the noise. At times like the present, the flow of negative news reaches fever pitch – and this is being accentuated by the growth of social media. Talk of billions wiped off share markets, record point declines for the Dow Jones index and talk of "crashes" help sell copy and generate clicks and views. But such headlines are often just a distortion. We are never told of the billions that market rebounds and the rising long-term trend in share prices adds to the share market.

If you still have concerns, please feel free to contact our office.

Source: AMP.

How to spend more to save

The old saying "penny wise, pound foolish" couldn't ring truer than in today's throw-away world of overconsumption and excessive production of disposable items.

Did you know that many manufacturers have been using techniques to deliberately reduce the life of a product to increase its replacement rate and sell you the same thing again? It's called planned obsolescence.

Some products are not built to last. Others are specifically designed to make them hard to repair. And some just go out of fashion. Apple, for example, has been accused of using proprietary five-point security screws in some iPhones, making them harder to repair which may have encouraged some customers to upgrade their gadgets sooner than necessary. And, the tech giant has admitted that it artificially slows down iPhones

with older batteries.

Then there's the clothing industry. The whole idea is that we keep buying new items to keep up with the latest trends. But fashion changes quickly and last year's hot look may suddenly look dated. Clothes can also be poorly made which means they might not last long.

According to the ABC, each Australian buys an average of 27kg of new clothing and textiles every year. Yet, research found that three-quarters of them had thrown clothes away over the past year and nearly a quarter had thrown away an item after wearing it once.

Worryingly, around 85 per cent of these items end up in landfill. And clothing made from polyester, for example, can take up to 200 years to break down.

Harmful to the earth and your hip pocket

Our buying habits, however, are not only hurting the environment, they are also an example of a poor use of our hard-earned cash. It's like pouring money down the drain or into the garbage bin.

Things are changing though. In August 2015, France became the first country in the world to define and outlaw the practice of planned obsolescence. And thanks to websites like buymeonce.com, and books such as Tara Button's books A Life Less Throwaway and Australian Clare Press's Wardrobe Crisis, many consumers are changing their attitudes to spending.

By making smart buying decisions now, they are finding that they are saving money for more important things in the future, like a home or retirement, and are helping the planet at the same time. As another wise saying goes, "waste not, want not".

Here are some of the ways you can do the same:

Buy quality

An item may appear cheap now, but it's not cheap over the long-term if you are going to have to keep replacing it, maintaining it or repairing it. By doing that, you are not only losing money and your valuable time, but also opening yourself up to future frustration. It's also worth spending a little more on some items – such as household appliances – if they are more energy efficient and can save you on energy cost and water bills over the long-term.

Go classic

Instead of following every fashion trend, buy your clothes for the long-term. Think carefully about each purchase and opt for quality items that are well-made and designed to last. Have classic basics in the colours that suit you, rather than those in fashion, and which can be worn on many occasions.

Go pre-loved

Buying second-hand is no longer uncool, thanks to organisations like the US-based The RealReal and French disruptor Vestiaire Collective. You could also find fantastic items from op shops run by Vinnies, the Salvos, the Red Cross, LifeLine and many other organisations across Australia. Not only are you saving money, but you are also supporting valuable causes.

Get mending

Thanks to people like British designer Stella McCartney and the growth in Repair Cafes, mending stuff is back in vogue and not just something great-granny did. Not only is it relaxing and satisfying to fix something, it can also give us a deeper connection to it. In fact, the Japanese have an ethos known as kintsugi, where items are fixed with gold joinery as a way of appreciating the beauty of broken things that have been mended. You don't need to mend your broken items with gold, but you can wear your mends as a badge of honour, by giving your clothes their own unique look and a new lease on life.

Get quality advice

Just like paying more for quality items that last longer, it pays to get quality financial advice on life's important decisions, like your savings, investments and estate planning. Mistakes made due to lack of advice or getting poor quality advice could cost you a lot more over the long-term.

Source: FPA Money and Life

Role reversal: When your parents are relying on you

In the later stages of life, many seniors want to stay independent for as long as possible, but there usually comes a time when they need more support. So how can you do more for your parents to keep them safe and comfortable, without taking away their sense of independence and dignity? Here are some practical tips to guide you through the process and minimise stress for everyone involved:

Talk together as a family

Instead of waiting until one, or both, of your parents are facing a crisis with their health and/or finances, have a family meeting to talk about what they would like to happen. While it may be a tricky subject to tackle and one the whole family can feel quite emotional about, being prepared to care for your parents as they age can make it a lot less stressful when there's a change in circumstances. Even if your parents are in the best of health now, that situation can change overnight, quite literally, if they were to have a stroke or a fall.

The question of care

How your parents want to live out their days and what they can afford are really the two important questions to address. Answering the following questions can help you determine the best way forward for your parents as they become less capable of looking after themselves:

Do you plan to stay at home as you age?

The answer to this question isn't always yes, but many people feel safe and comfortable in a home that's familiar. The idea of moving somewhere new later in life can be pretty intimidating so wanting to stay put is a natural and very popular choice for seniors. In the 2018/19 budget, $1.6 billion was allocated to providing 14,000 additional high-level home care packages by 2021/22. So if your parents are set on staying in their home, talk to them about the possibility of seeking the extra help they might need, from a government subsidised service, family members, or both.

How well are you coping at home?

Some parents may say they don't need any help with day-to-day living at home. If this is the case, you may need to do some sleuthing and check if they're showing any signs of actually needing assistance. Seeing things that are out of character – like a messy house or garden, not cooking or shopping as often, wearing dirty clothes – could be warnings that they're struggling to do things they normally would.

Do you feel connected to your family, friends and community?

If it puts your parents at risk of becoming more isolated, staying at home may not be the perfect solution. You may already be well aware of how active or quiet they are socially, but it's still worth asking how connected and safe they feel in their community. Are they still comfortable walking, driving or taking public transport to enjoy life outside their home? Are there people nearby they can call on if they have an emergency or just need someone to talk to?

What can family do to make things easier at home?

Giving Mum and Dad the support they need to continue getting out and about is just one of the ways you can care for them as they age. It can be the case that a little extra help from family, or a few modifications like handrails in the bathroom, are all that's needed to keep parents safe and happy in their home.

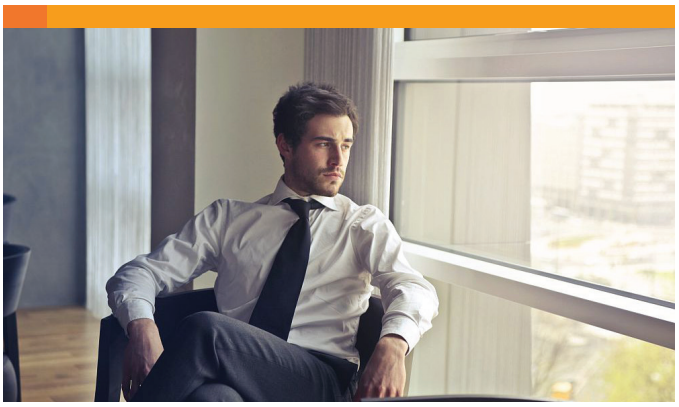
Have you looked at other options – retirement village or residential aged care?

If your parents are looking to downsize, spend less time looking after their home and more time with like-minded people, moving to a retirement village could work well for them. But when parents need a higher level of medical care, support or supervision, they may need to plan for transition into residential aged care. The earlier you can start this process, the better the outcomes are likely to be for your parent or parents, particularly if they're anxious or fearful about making the move. Start research and planning sooner and you're likely to have a wider range of options to choose from.

Wealth and wellbeing

No matter how strong your relationship is with family, things can get a bit fraught when it comes to finances. An honest conversation about your parent's financial position is just as important as establishing what their wishes are.

Source: FPA Money & Life



Who is the boss of your super?

It's tempting not to think too much about your super when retirement is still a long way off. After all, it's growing just fine by itself … right? But the reality is, if you don't take control now, you might be left with less than what you need when it's time to put it to use.

Here's how to be the boss of your super in three simple steps.

Step one: Know what you're entitled to

If you're working full-time or part-time for an employer, they generally have to make regular Super Guarantee (SG) payments into your super account. But there are some exceptions, like if you're:

- Earning less than $450 a month
- Under 18 and working 30 hours or less a week
- Doing domestic or private work for 30 hours or less in a week (for instance, if you're a part-time nanny)
- An overseas worker temporarily working in Australia and you're covered by a bilateral superannuation agreement
- A non-resident working overseas but paid by an Australian employer
- A Reserve Defence Force employee (applicable to some payments only).

SG contributions are calculated as 9.5% of your Ordinary Time Earnings (OTE). This includes loadings, commissions, allowances and most bonuses, but usually doesn't include overtime pay. Your employer also has to keep making SG payments even when you're on sick leave, annual leave or long-service leave – but not if you take time off for paid parental leave.

Step two: Check that your super is being paid

When you start working for a new employer, they need to give you a Superannuation (super) standard choice form. This lets your employer know which super fund to pay your SG contributions into. All you have to do is provide your fund details and account number.

By law, your employer has to start paying SG contributions into your chosen account on a quarterly basis – and they must start paying any amounts that are due within two months of receiving your completed standard choice form. If you think your employer isn't making these payments – or they're paying you the wrong amount – here's what you can do:

1. Check your super statement to find out how much your employer has been paying.
2. Speak directly to your employer about how and when your payments are scheduled.
3. If you can't resolve the issue, lodge an enquiry with the Australian Taxation Office and they'll take steps to investigate.

Step three: Boost your super savings

Employer SG contributions play a vital role in building up your super savings throughout your working life. But they're not the only way to grow your nest egg.

You may be able to set up a before-tax contribution from your salary, known as a salary sacrifice arrangement, with your employer. This means authorising them to take out a fixed amount or percentage of your before-tax income from every pay, which they then deposit straight into your super. But first, you should speak to your employer about how this arrangement would work for your employment situation.

Alternatively, you can use your own money to make voluntary contributions. In this case, you may be entitled to claim an income tax deduction on your contributions.

An advantage of salary sacrificing or making personal tax-deductible contributions is that your contributions will be taxed at just 15% in most cases, instead of your usual marginal income

tax rate. However, it's important to remember that the combined total of your SG payments, salary sacrificed amounts and your personal tax-deductible contributions can't exceed $25,000 in a financial year or extra tax will apply.

What if you're self-employed? You don't have to pay yourself super, but it's still a valuable way to save for your retirement.

Source: Colonial First State

Use your SMSF to teach your kids about finance

With self-managed super funds (SMSFs) permitted to have up to four members, it may be a surprise for some to learn that approximately 70% of SMSFs have only two members and about a further 23% only have one. Which means that only 7% of funds have three or four members[1].

If you consider that most of the two member SMSFs are likely to be "mum and dad" funds, and single member funds often arrive when one of the original two members has passed away, it begs the question – "where have all the children gone?"

Whilst it is always an important personal decision to set up and start your own SMSF, and an important decision as to who else you want to be in the same SMSF with, there are a couple of important elements you could consider in deciding whether to have your kids join your fund or not. Most of these would apply to your children who are at least 18 years old, but there can be some aspects that are important for younger kids as well.

The first is the opportunity to teach your children more about finances and the importance of managing your money. One of the reasons you're likely to be in a SMSF is because you want control, and with control comes responsibility. In fact one of the most important facets of being in an SMSF and being a trustee of your own fund is that you are ultimately responsible for the operation of the fund. As much as you can, and probably should, outsource certain aspects to professional SMSF advisers, but ultimately the decisions rest with you.

Having your children involved in managing their finances and being responsible for the decisions they may make (both legally as well as personally) is a great way to make them more accountable for their saving and investment decisions. And if they can do that in the safety of an SMSF environment where they have you as co-trustees, hopefully the disciplines can also spread to their other financial decisions outside of the SMSF environment.

Whilst having children under the age of 18 as members of the SMSF is permissible, they can't be a trustee and usually the parents will assume this responsibility for them until they are of legal age. However, it doesn't mean you can't start to include them as part of the process so they learn.

The second aspect to consider is around cost. For many younger people, superannuation isn't a huge consideration as they don't have much of it. Generally their employer sends the compulsory super guarantee off somewhere, often to a default fund, and in most cases the member hasn't really chosen how to invest their super or understand what costs are involved. It's an issue for later in life. The issue is, in a low return environment, the costs of their current super environment could actually work against them as it means they could have less super working for them. And over the long term, that could make a difference.

But if they join your SMSF, is there the possibility that their costs will fall? Whilst studies have said you may need somewhere between $200,000 and $500,000 in an SMSF to make it economically viable compared to a non-SMSF environment[2], don't forget this is for the total amount across all members, rather than per member. If you are already paying a set fee for the administration of your SMSF, will there be much of a change by adding a new member?

Third comes the opportunity for diversification. Members with low balances are often forced to use a default investment arrangement and share risk and return with thousands of other members, simply because they don't have enough to be able to build their own personalised investment portfolio. In an SMSF, whilst they may not have enough for their own portfolio to begin with, there may be a greater level of control and understanding by pooling their super with yours to create a bespoke investment portfolio.

The last aspect to consider is around estate planning. If your children are of an age where you have appointed them as executor to your will, when you pass away your children will have the ability to step in (as your legal representative) to administer the distribution of you super savings held through the SMSF. To help reduce the burden this can place on your loved ones at that time, introducing your children earlier to your SMSF can make a significant difference as they will have a better understanding of where your super is, how you want it dealt to, how the fund operates and decisions that need to be made.

Running an SMSF is not easy, but neither is gaining an understanding of finance and the decisions that need to be made at different stages in life. If using your SMSF and the guidance of your professional adviser is an option to get your kids' financial future on track, isn't it something worth considering?

[1] ATO SMSF statistical report June 2016
[2] ASIC SMSF report 442 (information sheets 204 & 205)

Source: BT.

For further information please contact Mark Power on (02) 6590 1030 or email mpower@evoroad.com.au