

# Simplicity the key to best returns from your DIY super fund

## SMSFs



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Recent Tax Office statistics reveal that the establishment of self-managed superannuation funds in the 2017-18 financial year (25,034) was the lowest in more than a decade. Even allowing for wind-ups of existing funds, 2017-18 experienced the lowest growth in SMSFs since 2012 (14,505 net growth in funds).

So what's going on?

Well, SMSFs are still growing in number but they're just not growing as fast. With 1.1 million SMSF members out of a total population of 25 million, at some stage we will reach a saturation point.

In addition, recent bad press about high-fee SMSFs with small balances, endemic issues with SMSF advice and increased regulatory focus on leveraged property investments have removed some SMSF gloss.

What does this all mean for you? My advice is to do nothing rash, take stock and re-evaluate your SMSF. I'm a big fan of reducing complexity in your SMSF.

The medieval philosopher William of Occam established the principle that of two equivalent explanations, all other things being equal, the simpler one is preferred. We know this as "Occam's razor".

When you take control of your family's financial future with an SMSF, cut through complexity to meet your retirement goals. You should seek to simplify your structure, simplify your fees, simplify your investments and simplify your service providers.

Roughly 93 per cent of SMSFs have one or two members, where the focus is you and your partner. Four-member funds have fallen since 2012, while three-member funds have remained stable. Ignore the hype of six-member funds, it's a solution looking for a problem.

The royal commission has taught us to be on top of fees. Fees for dead people, fees for no service, commission-driven behaviour – sadly, we saw it all. So know what you are paying, to whom and for what service.

For shares and exchange traded funds (ETF), keep track of brokerage costs. For managed funds, keep track of high fees.

If your SMSF is on a platform, compare the cash and term deposit interest rates with market rates. A low interest rate is just



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actual cost. In my opinion, a fixed cost agreed each year is simple and transparent.

In your SMSF, stick to investments you understand that fit within your investment strategy and asset allocation.

A laundry list of 20 to 30 stocks (or more) can bury you under a mountain of complex paperwork, adding nothing. If you cannot explain the rationale for any single investment, then wield the razor.

A well-known study by Brinson, Singer and Beebower (1991) showed that, on average, 91.5 per cent of portfolio returns are determined by asset allocation decisions, while less than 5 per cent of returns come from individual investment selection. So dedicate most effort to your asset allocation.

another hidden fee. Platforms add to SMSF fees and complexity while making your adviser's job easier. Why pay for this privilege?

Whichever way you choose to pay your adviser (commissions, percentage of assets, hourly fees), know the

The genius Leonardo da Vinci improved "Occam's razor" with his view that "simplicity is the ultimate sophistication". That's how I view ETFs.

SMSFs were early adopters of ETFs as beautifully simple investment tools focused on asset allocation. Low cost and liquid, with instant diversification, they simplify paperwork and reduce your investments.

Simplify your SMSF by working with expert service providers who truly add value. By simplifying your SMSF, you simplify the financial accounts and reduce your accounting and audit fees.

Six hundred years after William of Occam, another genius, Albert Einstein, argued that we should "make everything as simple as possible, but not simpler".

Undoubtedly some readers will have more complex situations where simplification is difficult. You should seek expert SMSF advice.

You should never lose sight of your goal to support your dream lifestyle in retirement. Continually ask yourself: "What adds unnecessary complexity in my SMSF and do I really need it?" ■

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