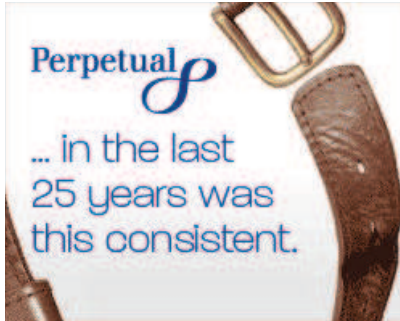


News

## The SMSF honey pot

Liam Egan

There is current research that debunks the notion that cash makes up the majority investment by self-managed super funds (SMSFs) trustees but, anecdotally at least, you wouldn't think many advisers have read it.



At an industry level, for example, a speaker at a recent SMSF conference in Sydney was left visibly startled by the sarcasm of his audience's response to his question from the podium.

"What do you think is on average the largest asset in SMSFs?" he asked innocuously, illustrating a point within his presentation to an audience comprised, at least in part, of financial planners.

"Cash", roared the audience in response.

On an individual level, Chris Murray, SMSF adviser with AXA Australia-owned advice firm Monitor Money, believes cash is still a common asset in SMSFs.

Many of the SMSF trustees Murray sees as prospective clients initially have cash as their majority investment, usually because of a "paralysis to invest".

It's a paradox, he adds, that many of these trustees created their SMSFs precisely because they believed it would give them the power to invest on their own behalf, and in assets that are not always available through managed funds.

"A motivating characteristic of these trustees is a feeling they could outperform the market, but often, once we have analysed their investments, the reality does not match their perception."

Cash-dominated accounts are to be found across the spectrum of Murray's prospective client base, with one account, for example, "totalling \$750,000, all of it in cash, apart from a small diversification".

However, most of his prospective clients are invested "predominantly in Australian equities, with little, if any, international or other diversity".

Many are also "doing some interesting things with direct investments, to say the least, many of these speculatively based on hearsay", while others are over-represented with managed funds".

Murray also meets clients invested in hedge funds "without understanding all of the associated risks", and yet others invested in "such diverse things as vintage cars and wine futures for purely sentimental reasons".

Director of research house Investment Trends Mark Johnston lays much of the blame for the 'cash is king' theory to "exaggerated interpretation" of a widely reported ATO release in 2002 that 24 per cent of SMSF assets were in cash.

"Our research, however, tells that the average SMSF cash component, including 'cash in bank', CMTs and online savings accounts, is closer to 14 per cent of assets."

The research also reveals a majority of SMSFs currently maintain their core investments in blue-chip shares, high yielding shares and to a lesser extent managed funds, Johnston says.

He added that the proportion of trustees intending to make managed funds their single largest investment in 2006-07 has increased from 12 per cent to 18 per cent – a 50 per cent increase.

Investment Trends has also released research revealing this trend is accompanied by increasing numbers of planners entering the SMSF market, as well as more SMSF products and services being offered by fund managers and platform operators.

Johnston attributes this increase to the growing importance and size of the SMSF market, which is "now the second largest category of super behind retail funds, and also the second fastest growing category behind industry funds.

"The metric that best puts this into context is that if you compare SMSF to retail super it has 1/25th its number of people but roughly 70 per cent of the same level of assets."

Investment Trends research also reveals that "72 per cent of planners provided some advice to SMSF trustees as of last year, and, of the remainder, two-thirds expect to be doing so over the next few years".

"Planners as a group told us they expect the SMSF market to continue to grow faster than the rest of the super market, increasing from a current 20 per cent to an estimated 35 per cent of their revenue in a few years time.

"Essentially, this suggests we are moving from SMSFs being about a quarter of what planners do currently to being a little over a third over the next few years."

However, Johnston emphasises that accountants "remain the main source of advice for SMSFs, and also for establishing them. This is based on Investment Trends research revealing 53 per cent of trustees using accountants and 27 per cent using planners."

A key lesson for planners to emerge out of the research behind this statistic, he says, is that "SMSF investors are often very control orientated and also understand the various investment types very well. In fact, most of them say the hard part of maintaining a SMSF is keeping track of all the tax and compliance rule changes involved in the administration of their SMSFs."

This suggests that planners will need to "go beyond their traditional role of choosing investments and constructing portfolios and into helping more broadly in order to best service that market", he says.

Any planners tempted to follow Johnston's advice will at least be able to find an ever-increasing supply of SMSF products and services being released by fund managers and platform operators.

"Some traditional players are developing products that are specifically targeted at the SMSF market, although many more are simply taking existing products and just saying this product is suitable for SMSFs," he says.

Among the more recent of the former initiatives is AMP Capital's recent launch of four new managed funds through its Private Clients channel that are overtly positioned around the SMSF market.

The Core Property Fund, AMP Capital Enhanced Yield Fund, AMP Capital Global Property Securities Fund, and AMP Capital Australian Small Companies Fund follow on from AMP/Investment Trends research that found SMSF trustees are planning to use more managed funds.

In addition, a number of platforms, including MLC, CFS, ING, BT and AXA, have developed suites of services to help planners better manage SMSFs, often above and beyond their usage as a central reporting vehicle and transaction tool for SMSFs.

AXcess, for example, which is available on AXA's platforms, Summit and Generations, is a full administration service for both advisers and their clients, according to Shaune Egan, senior product manager retirement income.

Egan says the service, which has "picked up close to \$30 million in funds under administration in less than four months" since its launch, is targeted at a rapidly increasing number of planners working in the SMSF space.

"Planners are already very active in the SMSF market, and given the recent Budget changes, clearly SMSFs will become even more attractive to them." (See breakout story.)

Small businesses drove much of the early growth of SMSFs because of the ability to place their own business property in the fund, but a "greater number of professional people are now entering the market as trustees," he says.

"This growth will be somewhat accelerated by member choice of super, especially those who have been in corporate super funds [who have higher balances]."

Egan says the growth will likely increase demand for platform-like features in SMSFs, such as consolidated reporting, because the planner/professional segment is accustomed to using managed funds and platforms.

Illustrative of this growth, Egan points to a forecast by researcher Dexx&r that SMSFs will "increase at an average rate of 19 per cent per annum to be \$976 billion by June 30, 2015".

"Already, this forecast as a percentage of growth may be slightly understated when you consider current APRA [Australian Prudential Regulation Authority] data that shows growth of SMSFs of 22 per cent, compared to 19 per cent for retail funds, in the 12 months to December 2005, he says.

He adds that APRA's Annual Superannuation Bulletin of December last year found the small funds sector (which is comprised almost entirely of SMSFs) had the largest average account balance in the industry at \$293,000.

"This is 17 times higher than the average member in retail super, while AXA's average account balance in AXcess self-managed super is currently \$568,000."

A clear indication that advisers are increasingly entering the SMSF sector is an increase in specialist SMSF adviser members of the Superannuation Professionals Association of Australia (SPAA) over the past 12 months from 100 to 350.

SPAA chief executive Andrea Slattery attributes the increase to "growing awareness of huge opportunities out there for planners to specialise in this area and provide significant value-add to their business".

She likens the growth of the SMSF sector to the evolution of the financial planning sector itself "from just a concept in the early 1980s to the profession that it is now in the 2000s. SPAA, too, as an industry body for SMSF professionals, was launched because we could see a potential industry there, and the growth and business opportunities that go with it."

Slattery says the increase in advisers should be viewed against the context of current research showing new SMSF start-ups running at its long-term average of about 2,000 a month, after a "spike" of about 3,000 a month last year.

She adds that the current total balance of SMSF accounts is about \$192 billion, or about 24 per cent of the super market, which indicates "a lot of people putting a lot more money into the small funds sector".

The rate of closure of small funds with balances under \$100,000 is increasing significantly, she adds, while at the same time the average balances of small funds greater than \$1 million has risen significantly (since 1999).

Slattery says the combined statistics suggest a "growing number of planners are responding to a growing awareness by consumers of small funds as a super option at the higher end of the market".

"You could say SMSFs have now become established as the top book-end of the super market, while industry funds, by contrast, represent the other book-end."

3 July 2006

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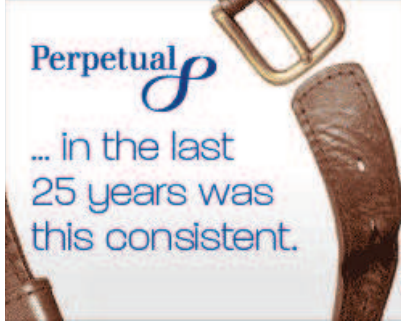
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News

## Asgard drops Tropicana software title

Liam Egan

Asgard Wealth Solutions has changed the name of its planned financial planning and practice management software package to AdviserNETGain, ditching the working title of Tropicana.



Currently still under development, AdviserNETGain will be made available to advisers from the end of this year, including within its dealer group Securitor Financial Planning.

The new name "evolved naturally" out of Asgard's desire to develop a software solution that allowed advisers to "increase productivity and gain time to spend with clients", according to director of distribution and sales Wayne Wilson.

"It was also logical to capitalise on the name of our existing platform software, adviserNET, which has won multiple industry awards as an online service for planners over the past three years."

"Finally, the choice of name seemed perfect because AdviserNETGain will be the single portal through which users of the new solution will access adviserNET."

Unveiling the new name has coincided with the release of an Asgard survey of more than 200 planning practices that revealed 'ease of use' is what most planners want from their financial planning software.

Undertaken by research house Investment Trends, the survey also found planners highly rate software that has an ability to easily produce plans for clients with complex investment needs, as well as a facility to efficiently undertake scenario modelling for clients.

Additionally, more than 90 per cent of planners said they would prefer to conduct planning tasks and product administration through one integrated system, finding it frustrating to have to switch between multiple solutions to undertake tasks.

In accordance with these findings, Wilson said AdviserNETGain would have "one system with a single data entry point that seamlessly integrates an adviser's front office processes with their back office activities".

"Our research reveals that [most] respondents use multiple applications to service their clients and manage their businesses – our objective with AdviserNETGain is to get this down to one."

26 July 2006

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