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Super surge

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A phenomenon of superannuation is that self-managed funds tend to reinforce their popularity when investment markets experience sharp downturns and intense volatility for an extended time.

And it is very likely that this phenomenon is occurring right now.

Investment researcher Mark Johnston, principal of Investment Trends, has reported in the past a spurt in the numbers of SMSFs being established when investment markets are troubled for longish periods.

He has attributed this growth in SMSFs when markets are down to members of large funds reaching the conclusion that they can do better themselves.

This phenomenon had occurred after members of large funds received their annual statements for 2001-02 and 2002-03 with most balanced and growth investment options producing negative or barely positive returns for those years. But, paradoxically, by the time disappointed members received their far-from-impressive annual statements for 2002-03, the share market was staging a powerful recovery.

The reality is, of course, that the performance of the large super funds reflects what is happening on investment markets – to varying degrees depending upon the asset allocation of their members' portfolios.

A decision to leave a large super fund to establish a SMSF is a critical one at any time but is particularly critical during a bear market. Many people gain professional guidance not only about setting up a SMSF but about their suitability or otherwise to run their own funds.

Apart from handing particularly tough investment markets at this time, SMSF trustees face strict rules relating to investments, acquisition of assets, borrowing, investment strategies, and maintaining the funds for the sole purpose of providing for the members' retirement.

And the Australian Taxation Office, as regulator of SMSFs, is focusing its compliance operations much more closely on new trustees.

For instance, the ATO sends new trustees what it calls a start-up kit within 28 days of registering their new funds. Publications in these kits explain the role and responsibilities of trustees, and as well as how their funds are regulated.

These are worth a close read BEFORE making a decision to establish a SMSF. (See:

<http://www.ato.gov.au/smsf/content.asp?doc=/Content/00112391.htm>)

SMSFs have shown a remarkable ability to grow in number throughout the good and bad times.

The latest figures released by the Australian Prudential Regulation Authority (APRA), show that SMSFs have consolidated their position as the largest superannuation sector with \$358 billion in assets.

As at June 30, SMSFs held 30.6% of the \$1.17 trillion in super followed by retail funds (29.1%), industry funds (17%), public-sector funds (14.5%), and corporate funds (5.2%), and the remainder in other types of funds.

The introduction of the revamped super system from July 2007 gave a huge boost to the SMSF sector.

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