# What Is Your Role When It Comes To SMSFs?

Given the focus on SMSFs in this edition I thought I might explore your role when it comes to clients that have - or want to have – a self-managed superannuation fund…..

The challenge for me lies in the first hyphenated word: Self-managed. If the fund is "self-managed" what is your role as a financial adviser?

One option is to give your clients what they seek. You're there to help, right? Let's say that a potential client comes to you with a desire to establish an SMSF, perhaps based on reliable advice they have received at a barbecue or from a taxi driver. It would be straightforward (and financially rewarding) to take on the role of "facilitator" and simply arrange to establish the fund for them.

A second option is to play the role of an adviser. An adviser would explore the goals and aspirations of the potential client, as well as their financial situation, and then objectively assess whether an SMSF is in the best long term interests of the potential client. What happens if an SMSF is not the right solution for the potential client? It's a tough question but real advisers are confident in their advice and want the best outcomes for their clients. Hence, an adviser would explain why an SMSF is not in their interests and provide an alternative recommendation. If the potential client walks away that is unfortunate - but the right result. They would not have been an ideal client anyway because they have clearly demonstrated that they don't accept advice.

Another test for your role is the asset selection for the SMSF. Let's say that a client with an SMSF takes the "self-managed" definition seriously and has firm views on their choice of assets. What is your role as a financial adviser?

Again, one option is to take on the role of "facilitator" and arrange for the asset sales and purchases that are necessary to implement the client's wishes.

Again, a second option is to play the role of an adviser and apply your skills, insights and experience to recommend an asset allocation that is in the long term interests of your clients. What happens if that is in conflict with the client's preferences? Genuine advisers lead their clients – they don't follow them – so they would be firm in explaining the rationale for their advice.

What is happening in practice? I'm not sure but I looked for clues in the aggregate asset allocation for SMSFs and it appears that the majority of investment decisions are being made by the owners of the funds and not their advisers. Here is the aggregate asset allocation for all SMSFs as at 30 September 2014:

| **Asset Class** | **%** |
|---|---|
| Trusts and Managed Investments | 18% |
| Cash, Term Deposits, Debt Securities & Loans | 30% |
| Australian Shares & Ltd Recourse Loans | 34% |
| Australian Real Property | 16% |
| Overseas Assets | 1% |
| Other Assets | 2% |
| Total Assets | 100% |

Source: ATO – SMSF Statistical Report September 2014

That asset allocation looks kind of odd to me. However, the SPAA submission to the Murray inquiry clearly states: "ATO statistics show that SMSFs, in aggregate, have a well-diversified asset allocation." Really? What do you think?

I'm not an expert but I do know that the above asset allocation is very different to the asset allocation across all Australian superannuation funds. It is also very different to the asset allocation recommended by my financial adviser for my SMSF. Do I need a new adviser?

These are the best of times to take the lead as an adviser and direct your clients to achieve better outcomes. Don't let them manage their own SMSF.