FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

Self-managed brew is not everyone's cup of tea

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The start of a new financial year is often a catalyst for people to take a closer look at their super fund.

One popular option often considered is a self-managed super fund. This popularity may now increase because from July 1 SMSFs are allowed to have up to six members, whereas previously you were limited to four. Interestingly, though, more than 90 per cent of all SMSFs have either one or two members.

The benefits of a SMSF are often cited as being the level of control, transparency and flexibility they provide. Unfortunately, the potential downsides are also the control, transparency and flexibility they provide.

SMSFs offer control as you are able to tailor the investments to meet your specific needs. But sometimes this power of control is not all it's cracked up to be. For some, taking control of your investments, especially as you get older, becomes a burden and something else to worry about.

Transparency is an extension of control. Because you pick and choose your investments, you know exactly what each is and how they are performing. While this can be a good thing, it does have its downsides, particularly for those who are prone to wanting to react to the daily gyrations of the market.

The flexibility an SMSF provides is an obvious advantage, whether this is the flexibility of what you can invest in — property, for example — but also from an administration perspective. If you want to start a pension or make a contribution, you can arrange it rather than relying on a third-party provider.

But again, this puts added responsibilities on to your shoulders and compels you to keep accurate records, which is not everyone's cup of tea.

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Illustration: Don Lindsay