5 THINGS THAT CAN GO WRONG

WITH YOUR SMSF INVESTMENT STRATEGY

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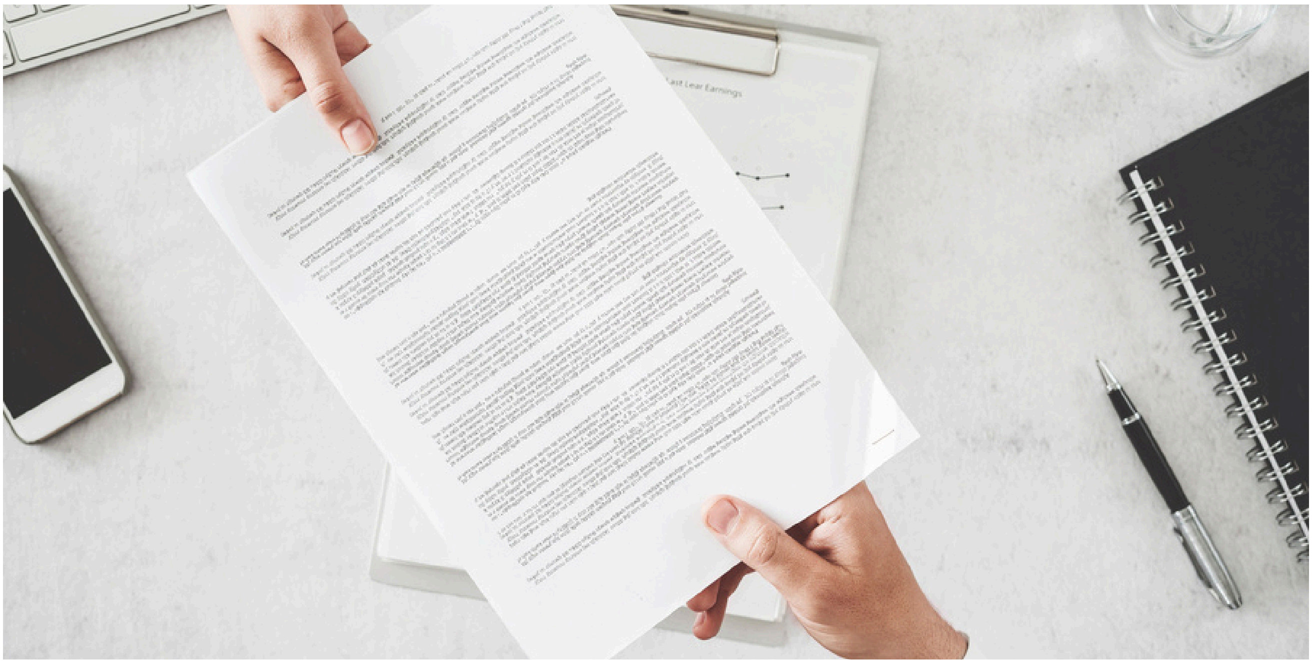
INTRODUCTION

Your SMSF Investment Strategy is the next most important reference document after your SMSF Trust Deed.

It sets out your investment objectives and your approach to achieving them. It should guide your investment decisions and be updated regularly to reflect any changes to your risk profile, circumstances and investments.

Being such an important document, the legislation governing it is specific in its requirements. Let’s take a look at some examples of what you can get wrong with your SMSF Investment Strategy with tips to help you get it right:

YOU DON'T ADEQUATELY DOCUMENT YOUR INVESTMENT STRATEGY



Your SMSF Auditor is required to check that your Investment Strategy meets the legislative requirements. It is not a matter of just writing up something that you consider summarises your approach to investing your SMSF nest egg. You literally need to read the legislation and make sure that you cover off all the aspects required (because that is what your SMSF Auditor is doing).

QUICK TIPS

To save time getting it right, use an Investment Strategy template that covers off all the legislative requirements.

YOU DO NOT CONSIDER THE PERSONAL DETAILS AND CIRCUMSTANCES OF EACH SMSF MEMBER INCLUDING THEIR RISK PROFILE

ISMSF Trustees and members are typically the same people, so it makes sense to consider each member's details, circumstances and risk profile when determining your SMSF Investment Strategy. The Australian Taxation Office (ATO) as the Regulator of SMSFs, expects this information to underpin your decisions for the types of investments to hold, the level of liquidity that is appropriate, how you will diversify (or not) and if you will hold insurance (or not).

QUICK TIPS

Make sure your Investment Strategy template prompts you to consider each SMSF Member's personal details, circumstances and risk profile

YOU DO NOT REGULARLY REVIEW YOUR INVESTMENT STRATEGY

The legislation governing an SMSF Investment Strategy not only requires it to be documented but also requires that it is "regularly reviewed". One of the reasons for this requirement is to try to make the SMSF Trustee actually use their strategy as an active tool to guide their investment decisions, rather than something they document and then file away never to be referred to again.

QUICK TIPS

Use a template that is set up to be easily completed and can be re-used for future updates

YOU DO NOT CONSIDER INSURANCE

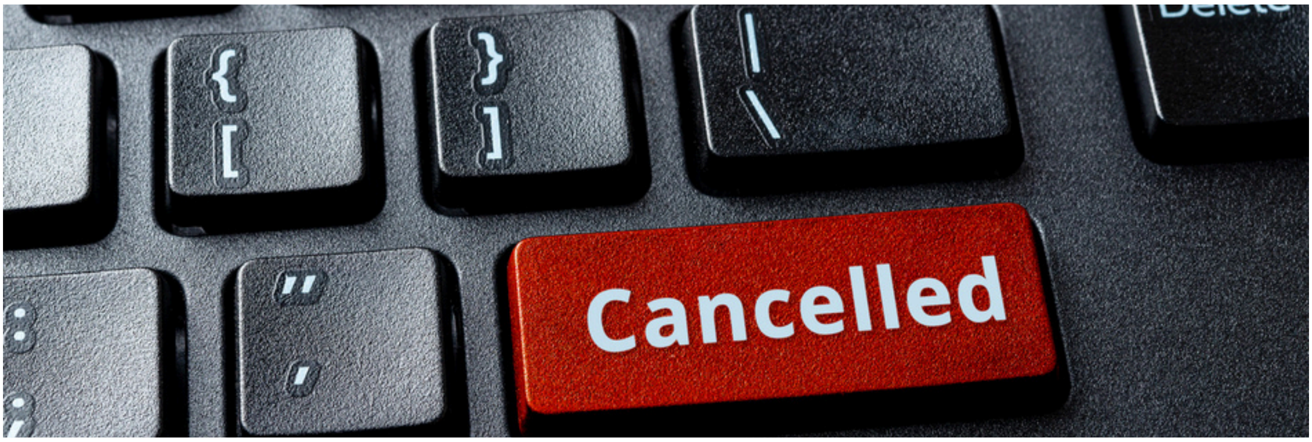
Other types of superannuation funds will usually have insurance options (like Life Insurance) built into the membership. This is not a feature of membership of an SMSF and so it is up to the SMSF Trustees to decide whether to implement insurance.

Therefore, when a member rolls out of another type of superannuation fund to an SMSF it is possible that they lose insurance benefits. To address this, the legislation requires SMSF Trustees to consider insurance for their members and to document this decision.

QUICK TIPS

You should ensure that the Investment Strategy you select includes a specific section on Insurance

YOU HAVE A LACK OF DIVERSIFICATION AND DO NOT PROPERLY DOCUMENT YOUR REASONS WHY



Borrowing to investment in property is a popular SMSF strategy that can result in a lack of diversification within the SMSF. The ATO requires Trustees to document their reasons why they consider that this lack of diversification is acceptable. Not doing so, will have your Auditor requesting an appendix be added to your Investment Strategy to document this or to redo the strategy entirely.

QUICK TIPS

to avoid the rework, choose an Investment Strategy template that helps you easily document the reasons for not diversifying

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