The power of one vision

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Image: Michael Mucci

Investors should use market turbulence as a time to buy, not to sell.

DUBAI is unique. On my last visit in June 2010, I wrote "The place is in stagnation, and there are hundreds of half-finished buildings – nobody has any idea when their economy will recover and when building will resume".

Two weeks ago I visited Dubai again as part of a speaking tour. The turnaround has been remarkable, and just shows what can happen when you get a munificent ruler with seemingly unlimited money available. He is determined to put Dubai on everybody's bucket list, and given its proximity to Europe and Asia, is well on track to do it.

Already it boasts the world's tallest building, and the largest airline, shopping mall, and racetrack. The current plan is to expand Al-Maktoum International Airport by adding six additional runways, which will enable it to handle 120 million passengers a year, and make it the biggest in the world. Dubai already has more visitors than Paris, and its shops claim to have the biggest range in the world.

I told my audience it was frustrating to see how quickly things get done in Dubai, and what a contrast it was to Australia, where we are shackled by political infighting and red tape. We have spent the last 40 years arguing about what to do with Sydney airport while Dubai expects to build six nuclear power plants in five years.

It's a tough climate to endure in summer, but as an English expat pointed out, "I can't go outside for six months in Dubai, but then I couldn't do that in England either".

The next stop was Singapore, which the travel brochures herald as "the shopping and eating paradise of Asia".

Once again you have a modern, clean, safe, vibrant city thanks to another visionary, Lee Kuan Yew. But a shopping paradise it certainly is not. It is one of the most expensive cities I've ever been in – in fact, Singapore has become so dear that most retirees can't afford to live there. They tend to migrate to places like Malaysia or Thailand.

We stayed at the iconic Marina Bay Sands resort, which incorporates the Convention Centre and a huge shopping mall.

Every big name in the world was there, with prices at least 50 per cent more than London or Dubai. As a result, it was rare to see a customer in a shop.

My visit coincided with another big fall in world stock markets and the media were having a field day with doom and gloom headlines. I was asked by BBC World News producer Sharanjit Leyl what advice I would give to panicking investors. I gave my standard response: that investors should use market turbulence as a time to buy, not to sell.

Singapore has long been lauded for its universal superannuation scheme, which is known as the Central Provident Fund (CPF). The employee contribution is 20 per cent of gross salary and the employer contribution is 16 per cent. That's a whopping 36 per cent of salary, which sounds huge until you find out that the maximum salary for CPF purposes is $5000 a month.

Employees can borrow money from their fund for a house deposit but have to recontribute the money to the fund when the house is sold.

Even at these contribution levels, rising life expectancies mean that members will have inadequate retirement funds unless they make extra contributions.

One thing is becoming clear in almost every country in the world – government-sponsored retirement schemes can no longer fund an adequate retirement.

It is up to each individual to put strategies in place to secure their own future.

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Q My husband died a few years ago, after spending some months in a high-care facility. I paid the bond of $575,000 out of our SMSF and was refunded the same amount after probate. The ATO advised I could not deposit these funds back into the SMSF, even though by that time I was 68 and retired. Is this correct?

A A person aged over 65 cannot contribute money to superannuation unless they pass the work test, which involves working 40 hours in 30 consecutive days in the financial year in which the contribution is made. You will need to talk to your adviser to decide if it is worthwhile looking for a part-time job with the aim of saving tax by making a contribution to super.

Q Could you explain the difference between index funds and ETFs, as you have written about them in the past? What are the relative risks, returns, costs, fees or any other issues one should be aware of for, say, a balanced and also growth type investment?

A An ETF is an Exchange Traded Fund, which means it is listed on the Stock Exchange. The term is not restricted to index funds, as ETFs cover a range of investments. An index fund can be an ETF as you point out, or can be offered by fund managers such as Vanguard and Colonial. I suggest you talk to an adviser to decide if an index fund is appropriate for you, and if so what kind.

Noel Whittaker is the author of *Making Money Made Simple*, and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

More than one way to kick faceless super managers to kerb

By **SALLY PATTEN**

SELF-MANAGED superannuation funds have become the latest must-have accessory.

As the barbecue season gets under way, the chatter around the grill will no doubt turn to share prices, yields, exchange traded funds and the pros and cons of borrowing to buy property inside a do-it-yourself vehicle.

More than 1 million Australians now have a self-managed fund. Surely they must be on to something? Well, not necessarily.

Self-managed funds may give trustees the ability to take control of their investments, but alongside the privilege comes the responsibilities of drawing up investment strategies, abiding by a plethora of rules, arranging audits and submitting annual tax returns. And they ain't necessarily cheap.

Analysis by research firm Rice Warner published last year concluded that self-managed funds needed assets of at least $500,000 to make them cost-effective, assuming that investors outsourced all their administration and investments to third parties.

In the July interim report, the Financial System Inquiry panel noted that self-managed funds needed a balance of between $200,000 and $500,000, depending on how much work was outsourced by trustees, "to achieve equivalent costs" to pooled schemes.

"Yet in 2011-12, almost one-quarter of SMSFs had a balance of $200,000 or less. Even after being established for three years, 50 per cent of SMSFs had balances of under $330,000," the FSI report said.

But luckily it is possible for super fund members to have it all.

At least 10 funds, including AustralianSuper, Cbus, Hostplus, Legal Super and CareSuper, offer trading platforms that allow members to buy and sell individual shares, exchange traded funds and term deposits.

These platforms are admittedly not suitable for savers who want to purchase direct property or alternative investments such as art, coins and stamps for their super funds, but they give investors similar freedoms to those who operate a self-managed fund.

In other words, savers no longer need to place their financial destiny in the hands of the "faceless" men and women who run large retirement schemes.

There is no need to pay tax on unrealised gains on their holdings because each saver has an individual tax position and the trustees of the fund retain responsibility for all that cumbersome compliance stuff.

Furthermore, it can all be done at a fraction of the cost of operating a self-managed vehicle. CareSuper charges $300 a year for the service, plus brokerage fees.

This is on top of the normal administration fee of $78 a year and an asset-based charge of 0.19 per cent, capped at $500.

Other schemes are even cheaper. AustralianSuper charges $180 a year for the service, as does Cbus, Hostplus and Legal Super. Users of the direct platform services pay no self-managed fund levy to the Tax Office and there are no administration, establishment and legal fees.

"You are getting flexibility and control, but without the compliance and hassle of running an SMSF," CareSuper chief Julie Lander says.

It is expected that funds will expand their investment menu to include managed funds and specialist funds, potentially making them more attractive.

Around the barbecue this summer, it will be entirely possible to chat dividends, price-earnings ratios and cash rates with the best of them, all without the responsibility of being a trustee.