Is it right for you is the right question

Stephen Jones

One of the most frequently asked questions for financial planners is about getting a self-managed super fund. But just because you can have something doesn't always mean you should. There seem to be three reasons SMSFs are thought to be desirable.

- **Lower fees**
- **Status anxiety**: Keeping up with the Joneses and making sure you'll have something to talk about at your next barbecue.
- **Better returns:** The belief you can do better than the super fund you are in.

In most cases, fees for a SMSF are not lower than professionally run funds. And in most cases SMSFs do not perform better than a professionally run fund.

Which brings us back to the first point — the fact that having a SMSF is very trendy right now. And buying property within your SMSF is the hot new strategy.

The desire to set up a SMSF is fuelled by people hearing that if you have $200,000 in your fund you can buy a $600,000 property by borrowing the rest through a relatively complex and very expensive structure, called an instalment warrant.

If you are in business, you can purchase the commercial property that you use, which is one, if not the only, real exception to the rule that a member must not get a benefit from their SMSF assets.

The appeal may stem from a near universal dislike of banks and a desire by investors to minimise exposure to them. That is another perceived benefit of using your SMSF to buy your commercial property with gearing via an instalment warrant.

When you have a big number of people asking whether they can buy property in their SMSF to a big number of people who are keen to optimise their returns by answering "Yes", it's no surprise there has been exponential growth in the number of SMSFs. The right questions are: Should I have an SMSF? Should I buy property in my SMSF using borrowed money? These are much harder questions to answer.

You need to be satisfied a SMSF will produce an optimal financial outcome before you proceed. Seek financial advice from a member of a professional financial body and ask them to explain the after-tax outcome of the strategy inside super and out.

Compare all the costs of the strategy to your costs now.

Many barbecue-inspired strategies may sound good but result in a poor outcome that has not taken your specific circumstances into account. The Millionaire Next Door by Thomas Stanley and William Danko will help alleviate your status issues far better than a SMSF.

Stephen Jones is a financial services consultant with Smith Coffey