Cuffelinks
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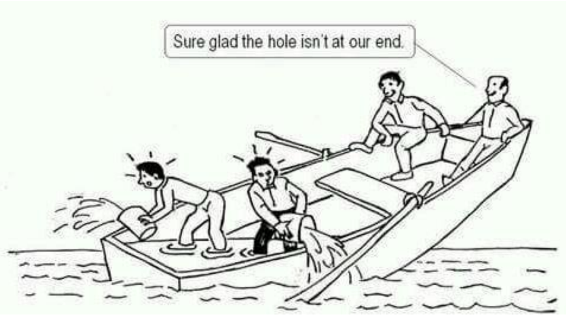
This Week's Top Articles

The $1.6 million cap … an unlucky break for the lucky few

Diana Chan



The Government's proposal to introduce a $1.6 million cap on the total amount of superannuation benefits in pension phase limits the amount a person can accumulate in a tax-free environment. Whilst the average Australian could only dream of building a $1.6 million retirement fund, those that do will be required to move the excess funds out of pension phase. This overflow could be invested in a number of ways, and now would be a good time to talk to your financial adviser about the alternatives.

But let's face it – super is still likely to be the best place to park large swathes of wealth, with generally considerable advantages to retaining excess funds in this environment. Concessional tax on earnings may not be better than no tax, but it sure is better than the marginal rate at the heavy end of the wealth spectrum.

Rolling the funds out of pension phase to an accumulation fund will generally not have any tax consequences on the withdrawal, and future earnings of the accumulation fund would be taxed at the concessional 15% rate. However, the tax consequences of subsequently withdrawing the excess out of super depends on factors such as age, condition of release and the underlying tax components of the benefits.

If you are retired and over the age of 60, withdrawing your benefits would be tax-free (unless you have an untaxed element in your taxable components, which would be taxed at 15% up to the untaxed plan cap of $1.395 million … but now we're getting technical). If you are retired and under 60, you may consider sitting the fund in accumulation phase until you reach that magic age, as a lump sum withdrawal above $195,000 could see 15% of your taxable components going to the Tax Man. Declaring it as an income stream payment would not be any better while you are under the age of 60.

Example of past and possible future

Tom is 56, retired and currently drawing $120,000 per annum as his minimum pension requirements from his $3 million fund. Half of his benefits consists of taxable components so Tom happily pays $3,247 in income tax on his pension payments knowing that this tax impost will only be for another four years.

Taxable Pension Income	$60,000
Tax Free Pension Income	$60,000
Total Income for Tom	**$120,000**

Income Tax	$11,047
Medicare	$1,200
Pension Offset	-$9,000
Total Income Tax	**$3,247**

Let's say Mr Turnbull wins the election and all of Sco-Mo's budget dreams come true.

Tom still wants to live comfortably on $120,000 per annum post- 1 July 2017. He rolls out $1.4 million from his pension account and parks it in an accumulation fund after seeking advice. Being fully retired, he could nominate to take all of his income needs from his $1.6 million pension account, or he could continue drawing the minimum and augment his income with lump sum withdrawals from the accumulation fund (let's keep it interesting and assume that he has fully utilised his low cap rates in the past).

Income and Tax overview	
Taxable Pension Income[1]	$32,000
Tax-free Pension Income	$32,000
Taxable Super Lump Sum	$28,000
Tax -free Super Lump Sum	$28,000
Total Income	**$120,000**

Income Tax	$6,822
Medicare[2]	$640
Pension Offset	-$4,800
Total Personal Income Tax	**$2,662**

Accumulation fund investment earnings[3]	$70,000
Tax on investment earnings	**$10,500**

Total Tax Paid	**$13,162**

[1] Taxed at marginal tax rates less 15% pension offset

[2] Medicare rate of 2% does not apply to superannuation taxable lump sum payments

[3] Assuming 5% income returns on $3 million

Interestingly, Tom would pay less personal income tax under this strategy but the earnings in his $1.4 million accumulation fund are now subject to 15% tax. If the income generated in his accumulation account is 5%, the fund now pays $10,500 in tax on the investment earnings.

Should Tom roll back more into accumulation phase or perhaps pull it out from superannuation altogether? If he does, should he be planning for any future capital gains derived from the accumulation assets now while everything remains in pension phase and tax exempt? Asset transfers between pension and accumulation phase would generally keep the purchase cost information … food for thought.

And he could hold a significant sum (say $400,000 earning 5% income) in his personal name and pay little or no tax due to the tax-free threshold outside super, and any capital which would derive income above the tax-free threshold could remain concessionally-taxed in superannuation.

But what about the anti-detriment changes?

Tom has had a happy life and his adult daughter, Jessie, stands to inherit his wealth. Superannuation was taken into consideration as part of his wealth distribution and estate plan. Scott Morrison's proposal to remove anti-detriment payments now means that Jessie's inheritance would be heavily impacted.

Tom's Estate Funds	Balance	Estate Tax	Estate Tax with no anti-detriment payment
Tax-free Components	$1,500,000	$0	$0
Taxable Components	$1,500,000	$225,000	$225,000
Anti-Detriment payment		-$218,738[4]	$0
Total Estate Tax		**$6,262**	**$225,000**

[4] https://www.netactuary.com.au/Calculators/AntiDet/

Tom's adviser shows him that superannuation may no longer be appropriate if his wealth distribution goal for Jessie remains a top priority. Given this significant impact, Tom could potentially look into holding some of his capital in his own name. With careful planning, his adviser can help him minimise the income tax payable over his lifetime.

Some other consequences to consider

There are several questions for the consultation papers when (and if) the budget proposals go through to legislation. Obviously the mechanics and administration changes would need to be carefully planned before 1 July 2017.

Many people will now need to park the plan for additional non-concessional contributions due to the proposed $500,000 life time cap, especially those who have made strong contributions from July 2007.

If you are not part of the $1.6 million club and have under $500,000 in super, there are a few options to consider.

If an impending bonus is going to tip you into the next tax bracket, or you're planning to sell an investment property at retirement, it may be wise to hold back from further contributions (yes, stop that salary sacrificing arrangement) and subsequently make use of the catch-up concessional contributions provisions. This could serve to keep you in the lower tax bracket, and swell your fund balance considerably. And what if you make your large concessional contribution in June? You could then defer claiming the contribution until the following financial year, which effectively gives you up to six years of concessional caps to play with. Of course, you'd need over $150,000 in capital gains or other assessable income to make it worthwhile, but it's a win nonetheless if you have the cash.

What other things should your adviser be considering in the next 13 months? Balance equalisation would be important; making use of the ability to split contributions with a spouse (beyond the age of 65), as well as making use of the spouse tax offset for partners earning under $37,000 (a proposed increase from $10,800). Of course, you would need to leave a buffer under the proposed non-concessional lifetime cap of $500,000 to make this worthwhile and trigger the $540 tax offset.

To summarise, there are a raft of strategic options to consider with the 2016 Budget proposals. The evolution of wealth creation will continue unabated, albeit in a new guise and with vastly different focus areas. Contribution splitting with a spouse will become the norm, whilst salary sacrificing and transition to retirements will be locked up in dusty museums for future generations to laugh and point at. Remember these are just proposals at this stage, and we are far from seeing the changes in their final form. Haste and complacency are your enemies in equal measure, but patience in planning your financial future will always be your friend.

The unintended consequence of Scott Morrison's super 'reforms' is to make the provision of quality financial advice essential once again. Surely, Scott, this wasn't your intention?

Diana Chan is Head of Compliance at [Stanford Brown](). This article is general information and does not address the circumstances of any individual.

Top 10 hints for SMSF trustees before 30 June 2016

Monica Rule

As 30 June 2016 approaches, here are my top 10 items for SMSF trustees to consider. Where relevant, I've also included the 2016 Federal Budget's proposed superannuation changes to show what the future of superannuation could look like.

1. Valuation. The assets in your SMSF must be valued each financial year based on objective and supportive data. Refer to ATO publication 'Valuation guidelines for SMSFs'. The proposal in the Budget to introduce a $1.6 million limit on tax-free pension accounts requires a valuation of SMSF assets prior to 1 July 2017.

2. Contributions. Ensure contributions are received by your SMSF on or before 30 June, especially if made by electronic funds transfer. A day late could cause problems.

Check non-concessional contributions (NCC) made during the previous three financial years to see if the two-year 'bring forward' provision has been triggered. If it has, it will affect the amount you can contribute in the current financial year. The Government proposes to lower the concessional contribution cap to $25,000 for all taxpayers from 1 July 2017, as well as introduce a $500,000 lifetime cap on NCCs effective from 3 May 2016 (7.30pm AEST). NCCs made since 1 July 2007 will count towards the lifetime cap. Therefore, SMSF members need to re-evaluate making NCCs if they will exceed the lifetime limit of $500,000.

3. Employer contributions. Check whether Superannuation Guarantee contributions for the June 2015 quarter were received by your SMSF in July 2015. If so, include this contribution in your concessional contribution cap for the 2015/2016 financial year.

4. Salary sacrifice contributions. Salary sacrifice contributions are concessional contributions. Check your records before contributing more to avoid exceeding your cap.

5. Tax deduction on your personal superannuation contributions. If you are eligible to claim a tax deduction, then you will need to lodge a 'Notice of intention to claim a tax deduction' with your SMSF trustee before you lodge your personal income tax return. SMSF trustees must provide you with an acknowledgement of your intention to claim the deduction. The Government proposes that from 1 July 2017, everyone under the age of 75 can claim a tax deduction for personal contributions.

6. Spouse contributions. Spouse contributions must be received by your SMSF on or before 30 June in order for you to claim a tax offset on your contributions. The maximum tax offset claimable is 18% of NCCs of up to $3,000. Your spouse's income must be $10,800 or less in a financial year to receive the full tax offset. The tax offset decreases as your spouse's income exceeds $10,800 and cuts off when their income is $13,800 or more. The Government proposes, from 1 July 2017, to increase the income threshold for spouses from $10,800 to $37,000. The cut off threshold will increase from $13,800 to $40,000. The Government will also allow contributions to be made for spouses up to the age of 74.

7. Contribution splitting. The maximum amount that can be split for a financial year is 85% of concessional contributions up to your concessional contributions cap. You must make the split in the financial year immediately after the one in which your contributions were made. This means you can split concessional contributions made into your SMSF during the 2014/2015 financial year in the 2015/2016 financial year. You can only split contributions you have made in the current financial year if your entire benefit is being withdrawn from your SMSF before 30 June 2016 as a rollover, transfer, lump sum benefit or a combination of these. The Government proposes, from 1 July 2017, to introduce a $1.6 million limit on individual superannuation balances that can be transferred from accumulation phase to retirement phase. SMSF members could consider contribution splitting to maintain their pension account balances under the $1.6 million threshold per member.

8. Superannuation co-contribution. To be eligible for the co-contribution, you must earn at least 10% of your income from business and/or employment, be a permanent resident of Australia and under 71 years of age at the end of the financial year. The government will contribute 50 cents for each $1 of your NCC to a maximum of $1,000 made to your SMSF by 30 June 2016. To receive the maximum co-contribution of $500, your total income must be less than $35,454. The co-contribution progressively reduces for income over $35,454 and cuts out altogether once your income is $50,454 or more.

9. Low Income Superannuation Contribution (LISC). If your income is under $37,000 and you and your employer have made concessional contributions, you will be entitled to a refund of the 15% contribution tax up to $500 paid by your SMSF on your concessional contributions. To be eligible, at least 10% of your income must be from business and/or employment and you must not hold a temporary residence visa. The Government proposes, from 1 July 2017, to introduce the Low Income Superannuation Tax Offset which will replace the LISC.

10. Minimum pension payments. Ensure that the minimum pension amount is paid from your SMSF by 30 June in order for your SMSF to receive the tax exemption. If you are accessing a pension under the 'transition to retirement' arrangements, ensure you do not exceed the maximum limit also. The Government proposes, from 1 July 2017, to remove the tax exempt status of assets supporting a transition to retirement pension.

Monica Rule is an SMSF expert and the author of the book 'The Self Managed Super Handbook'. See www.monicarule.com.au.

Will roboadvice exterminate traditional financial planners?

Donald Hellyer

A concise definition of roboadvice is an online wealth management service that provides automated, algorithm-based portfolio management advice without the use of human financial planners. The question is, will this form of advice become dominant, exterminating traditional financial planners?

The answer is yes, of course, but only when robots take over the world. Between now and becoming slaves to the machines, financial advisers will be greatly assisted by changing technology. But not every planner will benefit. Roboadvice will vastly increase the market size through offering inexpensive advice, but some planners will fail, unable to deal with the ever-increasing pace of technological change.

Winners and losers

Many people lack confidence in managing their money and they will want face-to-face advice, but that does not mean technology will not materially disrupt the industry. Winners will be non-aligned financial planners, planning groups in small superannuation funds, and smaller banks. Losers will include major banks and bank-employed and aligned planners.

While always open to debate, my selection for winners and losers is based on:

- Ability and willingness of organisations to adopt new technology
- Burden of legacy systems holding back implementing new technology
- Restrictions from having a valuable brand - companies who are very protective of their brand are often slow to adopt new technology, waiting for all bugs to be removed
- Degree of 'creative destruction' occurring within the industry - those at risk of losing market share are more likely to look to innovation to remain competitive.

Australian banks have large IT budgets but most of it is spent on maintaining legacy systems or meeting changes in regulations and compliance. When banks do turn their hand to system development it is almost embarrassing. Bank technology development frequently fails, incurs major cost and time over-runs, and becomes prohibitively expensive. Banks should not build technology because they are just not good enough.

Major banks are unwilling to risk their brand with start-up technology. A Chief Investment Officer of a very large superfund once told me that systems development now either costs less than $2 million or more than $200 million. There is nothing in between. Smaller start-ups are so nimble and inexpensive that new technology from this source is amazingly cost-effective. But a large organisation is unwilling to risk tarnishing its brand with a small start-up. Major banks are more willing to risk their brand from expensive technology failures so long as the developer is a well-known company.

Major bank wealth management groups risk placing too much reliance on building new platforms. The disruptor to platforms is the predicted increase in open APIs (application programming interfaces). Open APIs will mean:

- Client investment and personal data can be sourced cheaply and safely. The planner, at almost no cost, can see their client's position, in almost real time, with data presented in a useful manner with recommendations based on previously-agreed financial objectives and constraints.

- Fund (and SMSF) administration and tax will be commoditised, driving down price.
- Planners can execute transactions where they like. Planners will no longer be restricted to what the platform offers.

Bank platforms are yesterday's technology.

My winners are selected because they are organisationally smaller and experiencing some 'creative destruction' in their industry.

Size is important. If you are not the lion in the jungle, you better wake up running. Smaller organisations will have to be nimble to survive. Those who do survive, and there will be many who do not, will have an ability to make quick decisions with a high degree of management accountability. They are likely to have less to lose by realising that their historical technology spend has little to no residual value. Cheaper more powerful technology means smaller organisations can quickly develop a technological advantage over larger organisations. A smaller technology spend will not mean less capability. It might mean more.

Younger planners are also big winners with technology, not because their minds are youthful but because they need the business. Younger or new financial planners will see technology as a way of growing their list of clients, including those clients which more established planners thought were uneconomic.

Creative destruction refers to the incessant product and process innovation mechanism by which new production units replace out-dated ones.

The reason Australia is slow to adopt financial technology is the absence of creative destruction in many parts of the industry. Traditionally, superannuation funds do not go out of business because members are attracted to another fund with better products and services. But that is no longer the case. Many small and mid-size superfunds are losing members or are under pressure to merge with larger funds.

These smaller funds must adapt or lose their purpose for being in business. They have to adopt ways to improve member engagement and offer higher quality services at an ever-decreasing cost. They will have to engage with emerging technologies, as they don't have the budget or capabilities to build their own systems. Their size, rather than being a weakness, will actually make them competitive, offering superior products.

Where are the financial planners?

Financial planners must decide where they are as technology emerges. There are warning signs that they are not prepared for the technology changes, including:

- Their main browser is Internet Explorer or Safari rather than Chrome or Firefox.
- They have a fax number on their business card.
- They have just replaced their server in the office.
- They have not yet tested or had any experience with a roboadvice product.

Technology is moving to a Netflix / Spotify business model. It can be tested for a very small amount of money. If it works, users can increase the subscription and if it doesn't, they can terminate the service.

Financial planners must at least experiment with roboadvice and related technology, or they are at risk of not developing the management skills to deal with what will be a material change in the industry.

Conclusion

Technology will only get better. Information will become cheaper and more available. A financial planner will spend materially less time collecting and summarising data and will spend more time with clients discussing important issues. Technology will release them from the cost and limitations of large platforms. Those contractually obliged to use platforms will be at a material cost and flexibility disadvantage.

Size and brand will be a disadvantage. Small flexible organisations will be the winners with more clients, higher margins and providing greater service.

Donald Hellyer is the former Global Head of Funds and Insurance at National Australia Bank and Chief Executive of BigFuture.

Digital disruption meets retirement incomes focus

Jeremy Duffield and Chris Stevens

This is the fourth in a series of articles highlighting the leadership attributes needed to move the superannuation industry from its historical focus on accumulation to whole-of-life with an emphasis on retirement income provision.

There's no shortage of leadership challenges for super industry executives – the dramatic Budget proposals are just the latest blip. But more fundamental secular changes are an even greater test. Two trends are now coalescing to create both a survival and a growth test: the increasing focus on retirement incomes in super and the digital disruption shaking every industry. I spoke with Chris Stevens, Founder of Digital Frontier Partners, on how these changes might come together.

Chris: My view is that technology is changing many of the basic premises we've had for running a business. Change is happening faster than leaders of organisations can predict and legislation can't keep up. Customers' expectations are driven by experience with global digitally-sophisticated industries. If businesses don't adapt they'll fail, but that's also true for individuals. Previously successful executives can fall behind.

Jeremy: In our industry, there's a monster demographic shift towards a pre-retired and retired population. And 62% of industry assets are owned by those over 50. But the industry so far seems ill-prepared for an ageing population, with, until recently, little focus on retirement incomes solutions. We're going to see some funds and some leaders fall behind here, too.

Chris: In my travels, I see several archetypal executives:

- those in complete denial about the magnitude of digital change, who just keep doing what got them to their executive position. They're at the highest risk
- those who realise the organisation has to change but are uncertain as to what they have to change … and so recognise they need help
- those who realise they have to change their own way of managing and leading. They don't have all the answers and are ready to source input from various places and collaborate.

Jeremy: If these archetypes hold true for the super industry, a shift is needed to take us to a retirement incomes focus. At one end of the spectrum there may be executives that haven't recognised the lifeblood provided by ageing members or thought through the essentials of keeping them in the fund. At the other end, there are executives who are fully on-board and taking bold actions to change the way they think about their membership base with a whole-of-life focus.

Chris: We can think of three key areas of change: client expectations, what's possible, and leadership requirements.

Client expectations

Most fundamentally, client expectations are changing rapidly. A business only exists if it provides value to a customer and it's challenged when expectations of value are changing at a rapid clip and in unpredictable ways. Businesses often get into trouble in a 'Wash, Rinse and Repeat' cycle, where they're focused on measurements which dictate their ongoing operating rhythm. Those measures may not be consistent with the changing attitudes and desires of the customer. The lesson is to keep focused on what's important to the client – that's your North Star.

Jeremy: In our industry, it's obvious that client expectations are changing through the influence of global digital service standards. Phrases like '24*7,' 'instantaneous anywhere access,' 'mobile first,' 'make it easy,' 'it's about me,' 'give me control,' capture the spirit of the time and member expectations. The idea that these expectations only apply to Millennials is a myth. Over 50s and retirees are highly adept at digital channels and have high expectations of service. Keeping super members through to retirement and beyond requires a strong commitment to digital solutions.

What's possible

Chris: Technology innovation has changed the boundaries of the possible. Digital tech and data availability have changed the personalisation and ease of access for doing business. If consumers aren't getting personalised solutions, they're moving on.

Great advances in using algorithms and in machine-learning will lead to reinvention of service possibilities. Structured and unstructured search mean that information can be tailored much better for individual needs. I recently visited Hilton Hotels in Nevada and was greeted by a robotic concierge, Connie, which checked me in and gave me tips on what I might do there. Chatbots are now widely discussed as ways to get personal assistance to clients.

Jeremy: Using technology to deliver personalisation is key for super funds. One-size-fit-all defaults just aren't going to cut it for the planning and retirement phases. Members need and want help making better decisions about their futures, and the old ways of dishing up advice aren't going to scale to the needs of an ageing population. We need to think of advice in ways that aren't feasible in a human-only model. I'm not talking about the replacement of human advisers but expanding the reach of advice to a much greater population and supplementing human interactions.

Management and leadership

Chris: It's one thing to identify current technology, but it's quite another to lead a company or super fund into enduring success in the context of rapid change. This is the real leadership challenge.

Command and control is passe. Not that you don't need the controls; there are parts of every business that need to be run for precise operating delivery. The new environment is also demanding an agile focus around the customer, to be genuinely client-centric. In a world of strong regulatory and compliance thinking, we often retreat back to our conventional KPIs and metrics. But you have to do both.

You can feel the cultural difference when you walk into meetings and the predominant conversation is about how this will impact the customer. "What will the customer think?" That's much more powerful than a conversation about how we will improve a process.

Customer-centricity requires new skills. It's now about infusing some of the 'software'-type skills using data and programming to create better outcomes. Thinking agile. Design thinking.

Leaders can't, or shouldn't, do it all themselves. Changes around the tech eco-system, such as Software as a Service and cloud computing, mean that better, more reliable, cheaper solutions may be available from partners. And solution providers are filling all kinds of niche services with a degree of specialisation that Adam Smith could only have dreamed of. IP is at the end of every Google search and businesses that can provide this are creating disruption options for established players in all industries.

Executives and businesses have both a challenging and exciting world in front of them. As always, those who adapt and create winning propositions and teams will survive and prosper.

Jeremy: In our industry as much as in any other. Amen, brother.

Jeremy Duffield is Co-Founder of [SuperEd](). He was the Managing Director and Founder of Vanguard Investments Australia, and he retired as Chairman in 2010. Chris Stevens is the Founder of digital consultancy, [Digital Frontier Partners]().

Online broking: same game, different players, lower cost

Josh Callaghan

Online stockbrokers are in a new phase of disruption not seen in over a decade and they'll have to move quickly to stay ahead of the game or risk losing their customer relationships.

A wave of new 'fintech' is the catalyst for this change but it's not the robots and cryptocurrencies that are causing the disruption. It's the resulting changes in consumer behavior and expectations that are forcing online brokers to redefine their business. Online brokers have always been more consumer-focused than their institutional counterparts but they still struggle to innovate beyond the technical aspects of their craft. This is where fintechs are starting to redefine the game for the industry, particularly regarding information, research and advice. These entrants have paved a new path for equities that is changing the way that consumers want to trade, leaving online brokers in a strategic minefield.

Investors are doing it differently

Products such as Simply Wall St, Livewire, StockLight and Cuffelinks are all redefining the way that investors find and research investment opportunities and strategies and make trading decisions. Twitter and HotCopper are in the tool box of many investors, and StockTwits will no doubt make its way to Australia in the near future.

Furthermore, as Google has improved its quality measures of content, online publications have been forced to produce high quality original content, making them a great source of insight. The significance of this shift is that investors are less likely to be using their online broker as the primary source of information for trades.

A sample of over 10,000 users of Canstar's online share trading comparison table showed that only one in four were refining their results based on broker recommendations, access to company reports or daily market updates. This could mean one of two things: either investors are automatically expecting those services as part of the platform or investors aren't looking to their online broker for recommendations and market information. In either case it suggests that broker-generated content may not have the same impact that it once did on investor behavior.

In contrast, according to Andy Rogers, Head of Stockbroking at CMC, their most popular online resources are the Morningstar quantitative reports and theScreener equity reports:

"Having multiple sources of information for clients to review and cross reference means they feel more confident about validating their investment and trading decisions".

My hypothesis is that investors will eventually complete most of their primary research off-platform and use the on-platform data as a sanity check or to fill in the gaps. Perhaps what was once a competitive differentiator is now a hygiene factor in this ever-evolving investment information landscape.

Brett Grant, Head of Self Directed Investing at nabtrade, agrees that investor needs are constantly changing and becoming more demanding:

"Innovative and relevant products, underpinned by a rich information experience, ease of use, smart device-accessibility and cost-effectiveness, will be the key determinants in consumers' minds going forward when it comes to selecting a broker. Players in this industry will need to disrupt themselves and think big and yet be nimble to stay ahead."

Mobile is crucial

Looking at the investing context alone will only tell half the story. Consumers have a life outside their bank accounts and this life is a major driver of the expectations they apply to financial services. Consumers want:

1. A simple mobile experience
2. Everything for nothing (or very little)
3. Immediacy

Right now you can decide to listen, on our smartphone or laptop, to almost any song ever recorded. You can either do this for free or pay a small monthly sum to bypass the advertising via a premium model. You can order a car to pick you up from your destination right now within three clicks (including opening the app), or four clicks if you want a quote for the trip. Just over a decade ago having a GPS in your car cost several hundred dollars, was on a 2D map and was out-of-date very quickly. Now you can street view Moscow's Red Square from your mobile phone and navigate anywhere in the world for free. You can pay for your lunch by tapping your phone.

Anecdotally, mobile logins to trading platforms have taken off significantly in the past two years and 20-30% of total executions are now done via a mobile app (for those with a dedicated app). All providers in Canstar's recent online share trading platform research had a mobile responsive website but not necessarily a dedicated mobile app. I would suggest that this should be a key focus for all providers in the coming years.

More for less

Conventional wisdom would suggest that with better features, new technology should come at a higher cost for consumers but in fact the reverse is true.

Canstar's most recent research shows that the average cost of trading at all dollar amounts has fallen – in some instances quite significantly, over the past five years.

Trade Value	Average Brokerage 2010	Average Brokerage 2015	Average Brokerage 2016	Change in Average Brokerage over 7 years*	Brokerage Cost as a % of Investment
$5,000	$25.20	$19.15	$18.21	**-27.74%**	**0.36%**
$10,000	$25.75	$20.08	$19.09	**-25.87%**	**0.19%**
$25,000	$30.22	$27.54	$26.11	**-13.62%**	**0.10%**
$50,000	$54.04	$50.71	$49.65	**-8.12%**	**0.10%**
$100,000	$104.49	$96.48	$96.38	**-7.76%**	**0.10%**

Source: CANSTAR. Based on the average Online Brokerage Fee of the platforms considered for Online Share Trading star ratings in March 2010, May 2011, March 2012, March 2013, March 2014, March 2015, and March 2016.

Lack of innovation will mean lack of customers. Failing to gauge both changing investor preferences and the level of fintech disruption will be a death knell for complacent companies. The next few years will be fascinating.

Josh Callaghan is General Manager, Wealth, with CANSTAR and Wealthbricks

An interview with Chris Cuffe

Kirsty de Garis

Over the course of a career in wealth management spanning more than 25 years, Chris Cuffe has cultivated his own personal brand of wisdom. Be it building a business from a staff of three to a 1500-strong team or working in the not-for-profit sector, Cuffe's signature approach in a high-pressure environment is to play the slow game. Perhaps it's this attitude that's also enabled him to weather a few storms.

"I do two things essentially: help people make money and help people give money away," he says. On the money making side, Cuffe is chairman of UniSuper, Australia's fourth-largest super fund. He's on the board of Global Value Fund and an unlisted financial management company. He advises three separate families on investing, and has established Cuffelinks, a web site and newsletter read by 30,000 people each week. "It's been phenomenally successful," Cuffe says.

Balancing his commercial interests, Cuffe is founder of Australian Philanthropic Services, supporting wealthy families and individuals who seek deeper engagement in philanthropy. He finds it immensely rewarding. "If you ever get the opportunity to start something in life and it comes off, you get a great deal of satisfaction," he says. He also runs an Australian equity fund – Third Link Growth Fund – that uses a collection of hand-picked fund managers. The fees he earns from Third Link Growth Fund, Cuffe gives to charity. "The whole idea was to create something that investors value, get above average returns if I could achieve that. And at the same time, be able to give to the not-for-profit sector. Plenty of investors would invest in it because it's a good investment, but plenty of investors also like where the fees are going," he says.

Finally, Cuffe works with Primary Ethics, a NSW-based education initiative in primary schools. "It's for the kids who, for whatever reason, don't go to the one hour a week of structured religious education," he explains. "They now have an alternative which they never had in the past. It's a very well-structured ethics class: world-class content that's been developed over a long time."

In a career that's seen some ups and downs, Cuffe views his professional life in bright colours. "I look at the world as just swirling opportunities," he says. "And depending on your character, whether you're able to just try and grab one of those, and give it a go, is probably the true meaning of being an entrepreneur… I would have no regrets about [taking] the same journey, but there was a period some years ago when I was roasted in the press."

Cuffe is referring to the 2003 Commonwealth Bank disclosure upon his exit from Colonial First State, of more than $32 million paid to him following CBA's acquisition of the wealth management business. At the time, it was said to be the largest payout to anyone in business.

"I was the front page of every newspaper in Australia, and every current affairs and news bulletin for about a week in early 2003," Cuffe recalls. "There were all sorts of misleading connotations. It was a very uncomfortable period of time for me and my family. But you know, the flip side of that… after the wounds had healed a bit, suddenly a lot of people knew me. On balance, I think they knew me for good things."

So what did the experience teach him about being a high-profile person in business? "I always think reputations in a career sense are very fragile," Cuffe says. "A reputation builds up like drops going into a bucket of water: slowly, the water fills. But you can kick the bucket over and kill the reputation in five seconds if you're not careful. I've been lucky to have a following of people who have some admiration for what I'm doing. I always feel very grateful for that."

Cuffe's investment strategy is a long-term one. "I just don't care at all about three months, or even three years," he says. "I'm aiming at five years minimum. Probably longer." His reason for this approach is simple. "Investment markets go up and down all the time. A lot of fear and greed drive it. It takes a while to see proper strategies come through and judge them clearly." Cuffe's sympathies also lie with CEOs in the corporate world, pressured to account for short-term results. When analysts, fund managers and press are nipping at the heels of corporates to reveal and explain quarterly results, he says, "It completely bastardises what a good corporate should be doing. They should be planning long-term."

How best to structure a company at different stages of growth provides a challenge that has always interested Cuffe. Colonial First State, he says, was "a journey of continual re-adaption. The way you configure a company with 20 people is different from 100 people, is different from 1,000 people. You've got to adapt your leadership style, depending on the size and stage of the firm." Good leadership is paramount. "People are going to watch you as the leader or the boss. You set the tone; it's vital to walk the talk. I believe in calling a spade a spade. [Then] if something's wrong, you've got the environment where people are encouraged to tell you bad news... Praise people, give them a lot of rope, plenty of trust." That's how a company builds culture.

"You can't manufacture culture," he warns. "You can't put a sign on the wall and say, 'We are that'. People will work extraordinarily enthusiastically and hard for you if they understand where things are going and they feel a part of it and are appropriately rewarded in both a monetary and non-monetary sense." How does he describe non-monetary reward? "Keep them informed. Tell them what's going on," Cuffe says. "Regular staff updates. Once a quarter at Colonial we would get everyone together in a room. By the time I left, I'd hire out Darling Harbour for 1,500 people. And it was to tell them what happened last quarter. We'd have staff awards, people up on stage recognised by their peers. It is so, so important. I think people sometimes underestimate the importance of that." For larger businesses in various locations, he's a fan of webinars.

The fast-moving digital landscape is impacting financial services as well, with the arrival of robo-advice. Cuffe embraces robo-advice as an opportunity to make advice accessible to more people moving forward. Robo-advice can bring costs down, doing what he calls the "donkey work": capturing basic information about a client. But the human element, he insists, won't become redundant. "The actual valuable advice bit will never be replaced by a machine," he says. "It's a funny commodity, money. [Clients] need someone to hold their hand, to explain what's going on."

For Cuffe, money management is a slow game. "A lot of the results of good money management doesn't come out for years," he says. "It's like going to the gym… the future benefit as much as today's benefit." When meeting with a potential client, Cuffe is quick to emphasise this approach. "The more mature you get, you realise there are no short cuts. Patience is really important… Slow money is better than quick money. Slow money should have fewer accidents." Nonetheless, he believes the investment world improves all the time. "Every now and then there's a cleansing, there's a bit more law, these days more education is required," he says. "All that's got to be good… With our level of patience, some people want it to be perfect now. But we're getting toward it."

Patience is much of the reason why Chris Cuffe places such value in great wealth advisers: for him, it's a question of professionalism. Training, maturity and real world experience go a long way to building an outstanding financial adviser. "Some grey hair genuinely helps!" he says. A knack for explaining investment terms in plain English doesn't hurt, and an adviser should always work for their client, not themselves. "The best thing many advisers could do is spend time with great advisers and learn the difference between competent and excellent," Cuffe suggests.

Kirsty de Garis is a freelance writer. This article was first published on [Macquarie's Smart Practice] blog and is reproduced with permission.

Reader question: Are managed funds or LICs better in super or out?

Frank Casarotti

I have a very specific question that I would like one of your experts to answer. My question is about the difference in tax rules between managed funds and Listed Investment Companies and which is most appropriate inside or outside super. I read and understood the rules but I am still confused. There are products like Magellan Global, Platinum Global or Watermark Market Neutral Fund which have both a managed fund version and a LIC version. The managed fund version usually has stellar returns but higher tax would be payable; the LIC version usually has worse returns but would give lower tax and franking credits. Does that mean that managed funds are better in super and LIC are better outside of super? Thank you very much for your help. Kind regards, Laurent

Frank Casarotti, General Manager of Distribution at Magellan Asset Management, sets out the differences between these two investment structures. Magellan offers unlisted managed funds, listed 'Exchange Quoted Managed Funds' (EQMF) and a Listed Investment Company (LIC), and there is a video on our Sponsor Noticeboard further explaining the differences.

Reply from Magellan:

It's difficult to comment on whether managed funds or LICs are more suitable inside or outside super. It really depends on the investor's preferences (e.g. non-tax features of the product, cash distribution or dividend reinvestment plan (DRP), frequency of distributions, asset classes, franking credits or not, etc.).

Here is a table highlighting the major differences.

Managed funds	LICs
Pays distributions.	Pays dividends (franked or unfranked).
Tax is paid by the beneficiaries.	Level of franking reflects the tax already paid. If dividend is fully franked (i.e. at 30%), then this would be more favourable to a super fund (which is taxed at 15%).
A fund must distribute 100% of its annual tax income, so distributions can be volatile.	Can declare to pay any amount of dividend.
Distributions may include such components as CGT concession amounts or tax deferred amounts. This means distributions are usually not 100% assessable now.	LICs cannot pass on CGT concessions. Return of capital is also unlikely.
Open ended Turnover may be impacted by capital flows, especially when a trust needs to sell assets to fund a redemption. This in turn means capital gains in the fund could be higher (or lower) than LIC.	Close ended This means capital flows are more stable and a LIC is not easily influenced by applications / redemptions. Turnover is therefore considered lower and has longer holding period.

Frank Casarotti is General Manager of Distribution at Magellan Asset Management.

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