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Top 10 tips for SMSF trustees before 30 June 2017

Monica Rule

With the superannuation law changes taking effect from 1 July 2017, it's more important than ever for SMSF members and trustees to get their affairs in order. Here are my top 10 items to consider.

1. **Valuations**. From 1 July 2017 if you are accessing a retirement pension, you can only have up to $1.6 million net assets in your pension account. The limit applies to the total value of all your pensions and not per superannuation fund. If you also have a lifetime pension or a market-linked pension then you will need to take into account the Special Value of those pensions to determine if you have exceeded the $1.6 million transfer balance cap. Your total superannuation balance as at 30 June 2017 is used to assess your eligibility to make non-concessional contributions from 1 July 2017. For help on valuing an SMSF's assets refer to the ATO publication *Valuation guidelines for SMSFs*.

2. **Contribution timing**. Ensure your contributions are received by your SMSF (or any super fund) on or before 30 June 2017 in order to use the higher limits available under the current law. Making the contribution a day late could result in you exceeding the new limits. If you are under the age of 65, check your non-concessional (after-tax) contributions made during the last three financial years to see if the bring forward provision has been triggered. It may affect the amount you can contribute in the current financial year and from 1 July 2017. The non-concessional limit for the 2016/2017 year is $180,000 per person assuming no prior triggering of the bring forward rule, and you may be able to access the full bring forward for three years at $540,000. These amounts are attractive as contribution limits will be reduced from 1 July 2017 to $25,000 per annum for concessional contributions, and $100,000 per annum (or $300,000 using the bring forward provisions) for non-concessional contributions. Anyone with more than $1.6 million in superannuation will not be able to make additional non-concessional contributions.

3. **Employer contributions**. Check whether Superannuation Guarantee contributions for the June 2016 quarter have been received by your SMSF in July 2016. If so, include the contribution in your concessional contribution cap for the 2016/2017 financial year.

4. **Salary sacrificed contributions**. Salary sacrificed contributions are concessional contributions. Check your records before contributing more to avoid exceeding your cap (this year, caps are $30,000 for those aged 48 or under on 30 June 2016 or $35,000 for older people).

5. **Tax deductions on 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. Your SMSF trustee must provide you with an acknowledgement of your intention to claim the deduction.

6. **Spouse contributions**. Spouse contributions must be received by your SMSF on or before 30 June 2017 in order for you to claim a tax offset on your contributions. The maximum tax offset claimable is 18% of non-concessional contributions of up to $3,000. Your spouse's annual 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 out when their income is $13,800 or more. From 1 July 2017, the income threshold for spouses will increase from $10,800 to $37,000 and the cut-off threshold will also increase from $13,800 to $40,000. Also, from 1 July 2017, the low-income spouse's total superannuation balance must be less than the transfer balance cap immediately before the start of the financial year in which the contribution was made; and, their total non-concessional contributions received by their SMSF in the financial year must not exceed the $100,000 annual limit.

7. **Contribution splitting**. Contribution splitting is where you take a part of your contribution and contribute it into your spouse's accumulation account. 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 2015/2016 financial year in the 2016/2017 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 2017 as a rollover, transfer, lump sum benefit or a combination of these. Due to the $1.6 million limit on retirement pensions and the eligibility to make further non-concessional contributions from 1 July 2017, contribution splitting can be used as a method to reduce your superannuation balance and top up your spouse's lower balance superannuation account.

8. **Superannuation co-contributions**. To be eligible for the co-contribution, you must earn at least 10% of your income from a 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 non-concessional contribution to a maximum of $1,000 made to your SMSF by 30 June 2017. To receive the maximum co-contribution of $500, your total income must be less than $36,021. The co-contribution progressively reduces for income over $36,021 and cuts out altogether once your income is $51,021 or more. From 1 July 2017, you will only be eligible for the co-contributions if your total superannuation balance at 30 June of the previous financial year is less than $1.6 million and you have not exceeded your non-concessional contributions limit in the financial year.

9. **Low income superannuation contributions**. If your income is under $37,000 and you or 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 low-income superannuation contributions tax offset will remain available from 1 July 2017.

10. **Minimum pension payments**. You must ensure that the minimum pension amount is paid from your SMSF by 30 June 2017 in order for your SMSF to receive the tax exemption. If you are accessing a Transition to Retirement Income Stream (TRIS), ensure you do not exceed the maximum limit also. From 1 July 2017, the tax exemption on earnings from assets supporting a TRIS will cease. The earnings from these assets will be taxed at a maximum of 15%. In addition, from 1 July 2017, partial commutation of a pension will be treated as a lump sum and will not count towards a member's annual pension payment. A TRIS cannot be commuted unless it contains an unrestricted non-preserved benefit (UNPB). In which case, only the UNPB can be commuted and treated as a lump sum.

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Warning about investing in unit trusts in June

Chris Cuffe

Most fund managers struggle to deliver a 1% outperformance every year, and with the cash rate at 1.5%, investors need to eke out every bit of return they can find. So it's important to know how investment structures work. In particular, the tax impact of investing in June can be a trap for the unwary and cause unexpected tax leakage.

Distributions from a unit trust

In a unit trust, all income received (including realised capital gains) is divided among unit holders based on how many units they hold at the time of a distribution. Unit holders must then include their share of this income (which may comprise dividends, interest, capital gains and franking (imputation) credits) in their own tax return in the year it was earned.

The same distributions are paid to all unit holders according to their holding on a particular day, whether or not the investor has been in the fund one day or one year. Distributions are not pro-rated for investors who were not unitholders for the whole period. This means an investor may receive some of their investment back immediately as income if they invested just before a distribution.

Immediately after a distribution is declared, the unit price of the fund will usually fall by the amount of the distribution, because the distribution reduces the fund's assets.

The most important point on timing

An investment in June that receives a distribution in say July may be converting capital to taxable income. For example, if someone invests on 25 June 2017 when the unit price is say $1.00 and then a 10 cent per unit distribution is made on 30 June, the unit price will fall to 90 cents (assuming no market movement) at the beginning of July and the 10 cents will be taxable income in the hands of the unit holder in their 2017 tax return.

Obviously, the worst consequences are for individuals with high marginal tax rates where the distribution includes no franking credits. This might be the case for a global equity fund which distributes once a year with no franking credits from Australian companies.

Alternatively, an investor such as a tax-free charity or super fund in pension mode in an Australian equity fund might pay no tax and receive a franking credit, so a June investment might actually be favourable for them.

The only way to eliminate these effects would be to make a daily distribution, but clearly this is not practical. The more often a fund distributes income during the year then the less of an issue this distribution inequity becomes. For example, most Australian equity funds distribute twice per year but most international funds only distribute once per year.

Other funds with particularly punitive outcomes for unit holders who invest close to a distribution date might be actively-traded funds in a rising market. They might have large capital gains on shares not held for longer than 12 months (and therefore, not subject to the 50% CGT discount factor). The distribution might contain a large taxable capital gain component.

How do we handle the problem with the Third Link Growth Fund?

Many of you know I manage a unit trust, the Third Link Growth Fund. I consider this issue of such significance that from the start of May each year, I ask our administrator to contact every new applicant and check whether they understand the tax consequences. While this might cost us some application money in the short term, hopefully it builds a better long-term investor experience.

I also provide a health warning in the PDS for Third Link Growth Fund. It says: *Distributions are not pro-rated for investors who were not unitholders for the whole period, meaning that you may receive some of your investment back immediately as income if you invest just before a distribution.*

Billions of dollars will flow into unit trusts in the next month as investors top up their superannuation prior to the more restrictive rules from 1 July 2017. Anyone who invests in June should at least ask the fund manager for an estimate of the distribution and its tax components, unless they want to share the tax burden for prior investors.

Chris Cuffe is co-founder of Cuffelinks; founder & Portfolio Manager of the charitable trust Third Link Growth Fund; Chairman of UniSuper; and Chairman of Australian Philanthropic Services. The views expressed are his own.

10 things to check now on your estate planning

Donal Griffin

The biggest potential impact of the new superannuation rules which will apply from 1 July 2017 is tax of 15% and 30% on the capital for repeated breaches of the new rules.

Almost all the commentary (including this) is quite technical and unfortunately, there's no avoiding the details to achieve the best outcome.

By now, most of you know the facts. A new transfer balance cap will restrict the amount a person can transfer to a pension from the accumulation phase. The limit will initially be $1.6 million and it is not transferable to a spouse or anyone else. Many people are still talking about increasing their member balances by taking advantage of the last chance to make a non-concessional contribution of $540,000 (being three years' contributions, covering FY17, FY18 and FY19) each before the caps drop to $100,000 each year.

Traditional super nominations may be sub optimal

Anecdotally, most people have not made superannuation nominations or they have expired. Those who have usually nominate their spouse, but this option may not be optimal now.

In Australia, there are no death taxes as such but there are situations where tax is payable after a spouse or parent dies. This could arise from a simple loss of a separate set of marginal tax rates in terms of income tax. In 2007, the tax introduced on benefits paid to adult children was another 'back-door' death tax.

After 1 July 2017, a transition to retirement income stream (TRIS) will no longer benefit from the zero-pension tax but will be subject to the 15% tax on income and 10% capital gains tax on realised gains on assets held for more than 12 months. The strategy to make a lump sum election to access the lump sum low rate cap of $195,000 will also no longer be available. The strategy for a person with a TRIS who has not otherwise met a full condition of release will probably, subject to their circumstances, be to commute such a pension. For those who have met a full condition of release, they should convert to an account-based pension. The current law requires them to commute and restart a new pension but Treasury has advised the law will be amended to reduce this administrative burden.

The new rules mean that if a pensioner (say Lucy) with a superannuation pension balance of $900,000 receives a death benefit pension of $800,000 from her late husband (Malcolm), Lucy would have to cash $100,000 out of super or risk incurring an excess transfer balance tax of 15% on the notional earnings (based on the general interest charge, currently 8.78% annualised) on the excess over the cap for the first breach and 30% thereafter.

One way to manage this is to have Malcolm make the pension reversionary to Lucy and review the death benefit nominations. If Malcolm's nomination is a reversionary pension in favour of Lucy, the $100,000 will have to be taken out of the superannuation fund. However, with flexibility, the trustee of his super fund has other options.

If Malcolm is in pension phase, before his death Lucy could use an appropriately drawn Enduring Power of Attorney to commute his pension if it is not reversionary to her and restart it as a reversionary pension in favour of Lucy. She could then revert $100,000 of her pension back to accumulation (in the 15% tax environment, not the personal tax environment of up to 49%). Lucy would have 12 months before Malcolm's pension counts towards the cap and it would not include the earnings since Malcolm's death.

Subject to their marginal tax rates and the risk of litigation, it may be better to pay Malcolm's death benefit to his estate or an adult child as, at that stage, we would know their marginal tax rates in that year and their need for asset protection at that time.

Child pensions are also an option if they had a child under 18 or financially dependent and under 25 or with a permanent disability. Children can get $1.6 million from each parent without breaching the new caps.

Unfortunately for people who like to keep matters as simple as possible (a good policy), the new rules require that death benefit income streams must always be kept separate.

Capital Gains Tax (CGT) relief is available to preserve the tax-free status of unrealised gains on assets supporting a pension before 1 July 2017 if they make either the (a) segregated current pension asset election or the (b) unsegregated current pension asset election. In our experience, most trustees use the unsegregated approach.

There is one last chance to fix breaches of less than $100,000 before 31 December 2017 but the CGT relief will need to be activated before 1 July 2017 so we do not recommend that people rely on this.

Checklist before 1 July 2017

1. Ensure the estate planning consequences of a non-concessional contribution of $540,000 before 1 July 2017 are anticipated.

2. Where there is a Power of Attorney, ensure it allows a trusted person to attend to changes to the superannuation balance if the member becomes ill before implementing advice.

3. Split contributions to a spouse with a lower balance.

4. Use re-contribution strategies without using 'wash sales' particularly where there was an intention to use anti-detriment strategies which will no longer be possible after 1 July 2017.

5. Consider transferring assets out of superannuation if in pension phase.

6. Make an election to get the CGT uplift on an asset-by-asset basis once the gain is known and understand any other CGT discount available for that asset.

7. Check that pensions are properly documented as reversionary if appropriate.

8. Review insurances within superannuation as they are often larger than the member balances and count towards the transfer balance cap. If children are over 18, it may be better to have the policy outside super.

9. Commute TRISs if they have not met a full condition of release.

10. Review estate planning strategies if a person and their beneficiary have a combined superannuation balance (including insurance) over $1.6 million.

Until the rules change again, that is.

Donal Griffin is a Principal of Legacy Law, a legal firm specialising in protecting family assets. The firm is not licensed to give financial advice so please contact him for a referral to a financial adviser or accountant who specialises in superannuation. This article does not consider any individual circumstances.

Philanthropy is booming, but what's the best way to give?

Antonia Ruffell

With 30 June approaching, charities are ramping up their fundraising campaigns, reminding people that they can make tax deductible donations before the end of the financial year. The challenge for donors is finding the most effective way to give.

Rapidly increasing in popularity, private and public ancillary funds enable an individual or family to put aside a chunk of money in a trust to support charities over the long term.

It's good news for charities. The most recent ATO tax statistics (for the 2014-15 year) show philanthropy continues to gain traction in Australia. Total deductible giving by Australian taxpayers increased by 18% in

2014-15 to just over $3 billion. About 75% of this increase came from the most wealthy Australians (those with total incomes over $500,000). Encouragingly, those with incomes over $1 million donated the equivalent of 3.4% of their taxable income in 2015, up from 2% the previous year. An increase in donations to ancillary funds was a significant part of the uplift in total giving.

How ancillary funds work

Private ancillary funds (PAFs) were introduced in Australia in 2002. A PAF is a type of charitable trust that allows an individual or family to put aside a chunk of money for charitable purposes in perpetuity. The individual donates capital into it and gets an immediate tax deduction for the donation. The capital is then invested long-term, and a minimum of 5% of the value of the PAF assets must be distributed as grants to charities each year. To be eligible, a charity must have Deductible Gift Recipient Item 1 status, and there are over 20,000 charities to choose from.

By their nature, PAFs are a vehicle for the wealthy – most people donate upwards of $500,000 to kick one off. However, there is an alternative, usually for smaller amounts.

A public ancillary fund (PuAF) has the same tax advantages as a PAF but is a communal structure. Unlike a PAF, there is no requirement to establish a new trust or trustee company, so a named sub-fund can be established immediately. It can be set up in a few days before 30 June, and there's no set-up cost to do this. For example, a sub-fund in the Australian Philanthropic Services Foundation can be established with $50,000. A minimum of 4% of the PuAF assets must be given away each year, slightly lower than with a PAF, and the same range of charities can be supported.

A sub-fund in a PuAF can be a great way to grow your philanthropic pot. Portability is allowed which means, for example, that someone could set up a sub-fund in a public ancillary fund, grow the balance over a few years, and then transfer the funds to their own PAF later.

Leading to more structured giving

This proliferation of charities can make deciding where to give an overwhelming task. It takes time to think through the projects worth supporting and the desired impact, especially if you're involving others, such as family members, in the decision. In my role, I often hear people say that before they set up a sub-fund or PAF, they gave reactively, responding to fundraising appeals, phone calls and events. Over time, as they gave away more, they felt they were being increasingly ineffective.

Establishing a philanthropic structure provides a solution. Rather than having to make a quick decision, a PAF or sub-fund allows an immediate tax deduction while the choice of charity can be made at a later stage when there is more time for research. The founder can spend time articulating what they are passionate about and the types of causes they want to support. Some people like to fund those areas that are overlooked by government, or to support slightly riskier, pilot projects that seek to find new ways to respond to some of society's most entrenched and difficult issues. Others like to support those long-standing charities that they know and trust. There is no right or wrong answer, but taking the time to consider where you want to donate leads to greater satisfaction that your charitable dollar is making a difference.

A philanthropic structure can also be an important investment in the future. Multi-year funding commitments are easier as the PAF or sub-fund founder knows the money is already set aside, and the charity has the benefit of knowing they have a revenue stream for the next few years. Involving younger family members can help to increase childrens' social awareness, inspire future generations, and ensure the founder's philanthropic legacy continues.

In the next ten years, baby boomers will be retiring, selling family businesses, or passing away, setting in motion an enormous transfer of wealth to the next generation. People often think of donating after they've had a particularly good year, retirement payment or inheritance. Ancillary funds are likely to continue to grow as people ponder what to do with philanthropic plans and charities will reap the benefits over the long-term.

Antonia Ruffell is CEO of Australian Philanthropic Services (APS), a not-for-profit organisation that sets up and administers private ancillary funds, offers a public ancillary fund, and provides grant-making advice. Chris Cuffe is the pro bono Founder and Chairman of APS.

Tax deductions are still available for property investors

Bradley Beer

When looking to purchase an investment property, most buyers consider location, purchase price and tenanting ability, while depreciation is often overlooked. Depreciation can unlock the cash flow potential within an investment property, often resulting in thousands of additional dollars for the investor each financial year.

Announcements made in the 2017 Federal Budget may change some of the eligibility for depreciation, but investors should not overlook where it remains available.

What is depreciation?

As a building gets older, items wear out – they depreciate. The Australian Taxation Office (ATO) allows property owners to claim this depreciation as a tax deduction by any property owner who obtains income from their property.

Capital works deductions are based on the historical cost of the building excluding the cost of all 'plant' and non-eligible items. As a general rule, residential buildings which commenced construction after 15 September 1987 and commercial properties after 20 July 1982 are eligible for the capital works allowance.

Although these time restrictions apply, older properties have often undergone renovations. Renovations completed within the legislated dates can also entitle the owner of the investment property to deductions, even if the renovations were completed by a previous owner.

Common depreciable items in an investment property

Plant and equipment items, commonly known as removable assets, are also eligible for depreciation deductions (but see comment on 2017 Budget later). Each plant and equipment item has an effective life set by the ATO which determines the deduction.

Some plant and equipment depreciable items commonly found within a property include hot water systems, dishwashers, carpets, blinds and curtains, light shades, ovens, furniture, range hoods, smoke alarms and cook tops.

Case study

An investor has purchased a property for $420,000 and is receiving $490 per week in rent for a total income of $25,480 per annum. The estimated expenses for the property include interest, rates and management fees, which total $32,000 per annum. The following scenario shows the investor's cash flow with and without depreciation. A typical $420,000 unit will show a total deduction of $11,500 in the first full financial year.

Property purchased for $420,000			
Scenario without depreciation claim		**Scenario with depreciation claim of $11,500**	
Annual expenses	$32,000	Annual expenses	$32,000
Annual income ($490 x 52 weeks)	$25,480	Annual income ($490 x 52 weeks)	$25,480
Taxation loss (income - expenses)	-$6,520	Pre tax cash flow (income - expenses)	-$6,520
Total taxation loss	**-$6,520**	**Total taxation loss (pre tax cash flow and depreciation claim of $11,500)**	**-$18,020**
Tax refund (total tax loss x tax rate of 37%)	$2,412	Tax refund (total tax loss x tax rate of 37%)	$6,667
Annual costs of the investment property (pre tax cash flow + refund)	-$4,108	Annual cash flow of the investment property (pre tax cash flow + tax refund)	$147
Cash outlay per week	-$79	Weekly cash flow of the investment property	$3
Depreciation difference = $82 per week			

2016_TA535

The depreciation deductions were calculated using the diminishing value method of depreciation.

In this example, the investor uses property depreciation to go from a negative cash flow, paying out $79 per week, to a positive cash flow scenario, earning $3 per week, saving $4,255 for the year.

Claiming depreciation during renovation

When old assets like carpet or hot water systems are replaced during a renovation, the owners may be entitled to claim any residual depreciation as a tax deduction. Property owners should consider a pre-renovation depreciation schedule and update an existing tax depreciation schedule after work is completed to ensure they capture deductions for any new items added during the renovation.

Changes in the 2017 Federal Budget

Under proposed changes, investors who exchange contracts on a second hand residential property after **7:30pm on 9 May 2017** will no longer be able to claim depreciation on plant and equipment assets. Investors who purchase a new property will be able to continue to claim these items as previously.

We are currently speaking with government to further understand the intricacies relating to the proposed changes.

Claim property depreciation this financial year

To maximise cash flow, investors should engage a specialised Quantity Surveyor to complete a tax depreciation schedule. The fee for a tax depreciation schedule is 100% tax deductible. The schedule will show deductions for the life of the property (40 years) and will ensure the property owner improves the return on their investment

Bradley Beer is the Chief Executive Officer of BMT Tax Depreciation, a leading provider of tax depreciation schedules for investors. This article is general information and individuals should seek their own tax advice.

Diversification captures those winning outliers

Chamath De Silva

At a conceptual level, diversification is about spreading risk and not putting all our eggs in one basket. Quantitatively, as I've previously explained, one of the main benefits of diversification is lowering the volatility for a given level of expected return. Another way of looking at it is that diversification allows an improvement in returns for a given level of risk, either through levering up to our desired risk tolerance or by capturing positive outliers in the return distribution of stocks in the market.

Missing out on the big winners

Both here and abroad, a concentration of stock returns has often driven overall market performance, in that a relatively small number of large-cap 'winners' can carry an entire index. One key implication is there is potentially a large opportunity cost of *not* holding the index or a broad market portfolio, particularly in a bull market, either through attempts at stock picking or trying to diversify using only a few stocks. By constructing a narrow portfolio using a limited number of securities, significant returns might be left on the table.

Much has been written about the underperformance of most active managers against their respective benchmarks, and one possible reason is the degree of outperformance by a relatively small number of stocks. These positive outliers may not have been held or have been held underweight by underperforming active managers, dragging down overall fund returns relative to the index.

To investigate the degree that a small number of stocks drive index performance, let's decompose the returns in the S&P/ASX200 Total Return Index over the past few years and find out which stocks were the key drivers of index performance during broad market rallies.

S&P/ASX200 Total Return Attribution

Period	S&P/ASX 200 Total Return	Number of stocks with at least 50% contribution to S&P/ASX 200 Total Return	Average total return of key contributors	Combined average weight of stocks with 50% of contribution to S&P/ASX 200 Total Return
Calendar Year to end April 2017	5.33%	**5** (CSL, CBA, NAB, WBC, TCL)	14.47%	27.6%
1 year ended Apr-2017	17.77%	**6** (CBA, ANZ, NAB, WBC, CSL, BHP)	28.14%	35.9%
3 years ended Apr-2017	7.27% p.a.	**9** (CBA, CSL, WBC, NAB, MQG, TCL, SCG, NCM)	19.1% p.a.	32.4%
5 years ended Apr-2017	11.0% p.a.	**6** (CBA, WBC, CSL, ANZ, NAB, TLS)	17.8% p.a.	36.5%
10 years ended Apr-2017	4.5% p.a.	**4** (CBA, WBC, CSL, TLS)	13.5% p.a.	20.1%
2016	11.77%	**8** (BHP, ANZ, S32, NAB, RIO, FMG, NCM, SCG)	71.50%	20.7%
2015	3.05%	**3** (CSL, WBC, MQG)	27.31%	12.6%
2014	5.75%	**3** (CBA, TLS, CSL)	21.53%	17.1%
2013	20.29%	**5** (CBA, NAB, WBC, ANZ, TLS)	34.80%	34.2%
2012	20.84%	**6** (CBA, WBC, TLS, ANZ, BHP, CSL)	38.9%	38.1%

Source: Bloomberg. Total returns include reinvested dividends. Past performance is not an indication of future performance.

The table shows that in most return periods in recent years, a few large cap stocks have accounted for the S&P/ASX 200's returns. For example, just 4 stocks – CBA, WBC, CSL and TLS – accounted for 51% of the index's 55.29% total return (4.5% annualised) over the past 10 years, with the average return of just those stocks 256% over the period (13.5% annualised).

Active managers need to pick these winners

There are a number of ways of interpreting the results. One is that large index-beating return possibilities have existed by picking the right stocks in recent years. However, the risk of underperformance and likelihood of failing to include the right stocks are also large because the number of index drivers have been so few.

It would be remiss not to point out that the reverse could well happen during a bear market, where a handful of large-caps could drive the overall index lower. For example, BHP was a particularly large driver of 2011's market correction and weighed heavily on S&P/ASX200 returns in 2014 and 2015. But assuming we're taking a long-term view, the market tends to trend upwards over time.

Caution is also needed regarding the nature of market cap weighting, as past 'winners' will account for an increasingly larger index share over time, which we've seen for the major banks. This may increase the likelihood that yesterday's heroes could become tomorrow's broad market villains in a correction, due to the nature of their outsized weightings. Using an alternative weighting strategy to market cap (such as Research Affiliates' fundamental weighting methodology) can potentially reduce this risk.

If you have a particularly strong view and have confidence in the stock picking abilities of yourself or a fund manager, you should back yourself. However, it's worth keeping in mind that failure to pick the few stocks that drive an index's returns could generate significant underperformance.

Chamath De Silva is an Assistant Portfolio Manager at BetaShares Capital. BetaShares is a sponsor of Cuffelinks and issues broad market ETFs such as AUST, QOZ, GEAR or WRLD.

Cuffelinks
Connecting investors with ideas

Reader feedback from 2017 Survey

Leisa Bell

In a world where data is the new gold, the 2017 Reader Survey provided excellent feedback on who Cuffelinks readers are, their level of investment experience, what they like and don't like, as well as their expectations of the newsletter and website. Thank you to the 2,135 people who participated in the survey, and the overwhelmingly positive support that Cuffelinks receives.

In the interests of sharing our results, a longer summary is linked here, and below are some highlights.

Reader demographics

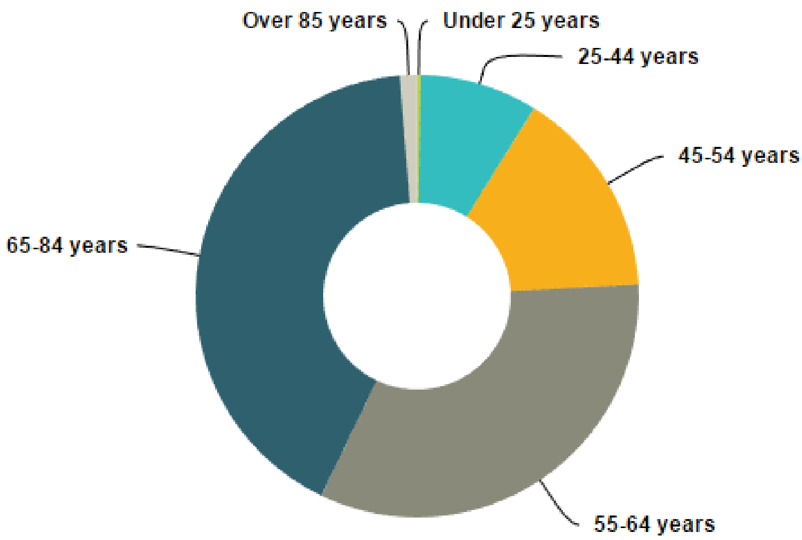
We first asked respondents to categorise themselves based on career or investor type, and whether they use an adviser. More than one option could be chosen. About 54% said they were SMSF trustees, 44% were retired and almost 45% said they do not use a financial adviser. In sum, about 30% are market professionals working in wealth management.

Answer Choices	Responses
SMSF trustee	**54.38%**
Active investor but no SMSF	**25.34%**
Retired from paid work	**43.63%**
Financial adviser	**8.57%**
Accountant	**6.87%**
Portfolio manager or analyst	**3.13%**
Work for a retail or industry fund	**2.75%**
Work in another part of finance industry	**7.15%**
Work in media and communications	**0.81%**
Use a financial adviser	**16.30%**
Don't use a financial adviser	**44.95%**

Question two gave us a breakdown by age bracket.

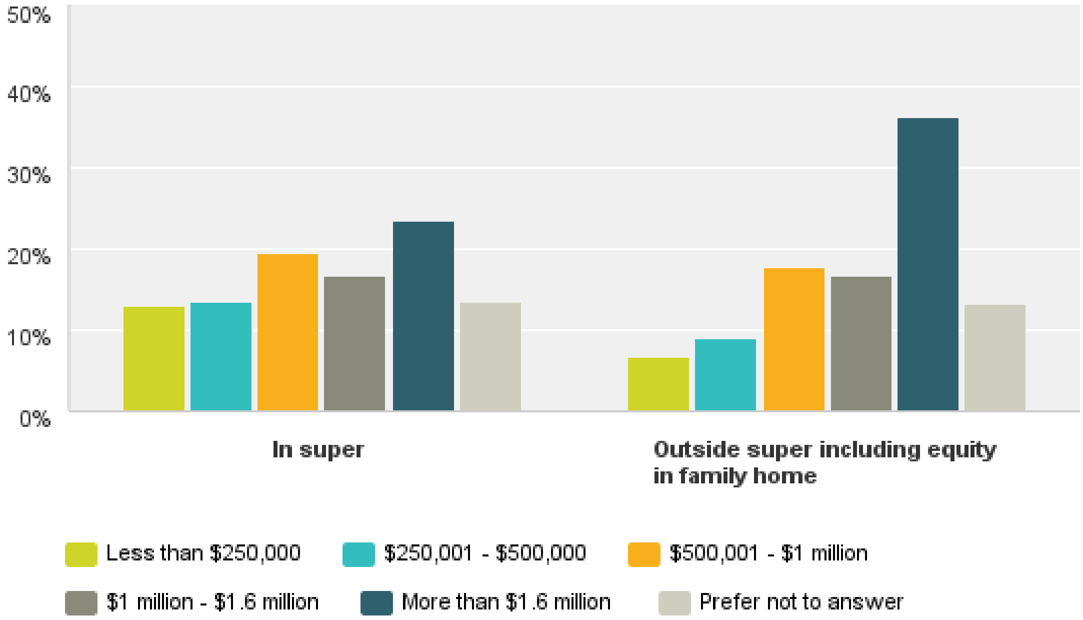
It wasn't a surprise to learn that most readers are over 55, but it was unexpected that a high 42% were 65 to 84 years old.

There is a solid group of almost 10% under the age of 44, but no doubt the readership corresponds with when people want more sophistication in their investment knowledge.



Distribution of existing investments

Questions three and five asked respondents about the current asset distribution (in and out of super) and knowledge of different types of investment products. Showing the importance of the new superannuation caps, the highest category in super was balances over $1.6 million. Notably, this group held far more in assets outside super, but the majority of value is probably the family home. There's billions of dollars of wealth in our reader base.



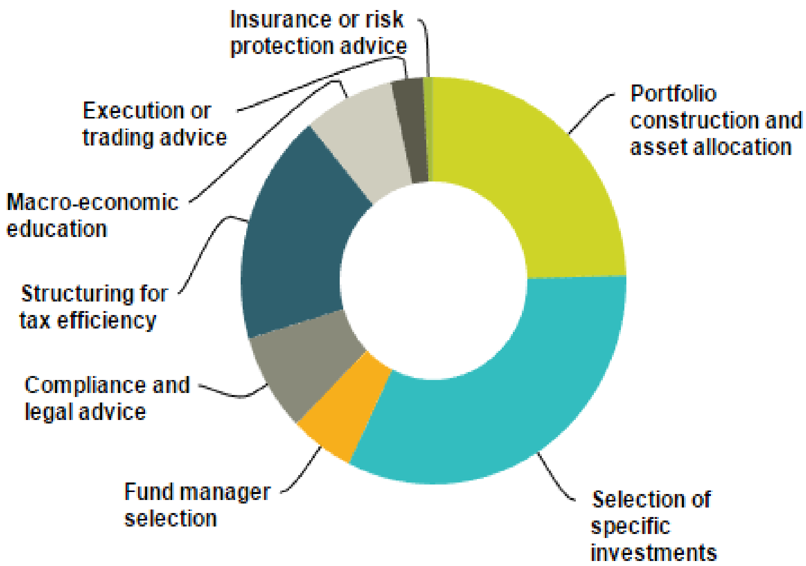
Investments strongly favoured by SMSF trustees are direct holdings in Australian shares (24%), listed investment companies (16%), actively managed funds (12%), ETFs and A-REITS (both around 11%). These preferences didn't change much when investing outside super. We also had a solid group of readers who do not know enough about particular asset types, so we will continue to address this.

Knowledge gaps

Question four allowed respondents to tell us the one investment area they needed most help with.

The top three knowledge gaps were the selection of specific investments (33%), portfolio construction and asset allocation (25%), and tax efficiency (18%).

Cuffelinks will continue to target these areas, along with many other aspects of investing. We're pleased to see portfolio construction and asset allocation receive prominence, and structuring for tax efficiency was surprisingly high.



Relevance and readability of articles

Questions six and seven asked about the relevance and readability of Cuffelinks' articles. We're happy to see that the vast majority of readers find our articles credible and professional, easy to understand and independent. Only 2.5% said the content was not useful for their own portfolios.

Article length is about right, with tiny minorities saying the articles are either too short or too long. Time is also a factor, with 10% saying they don't have the time to read the full article. This is where our downloadable version of the newsletter might be preferable. Saving it to your computer or device allows you to read it later, perhaps offline.

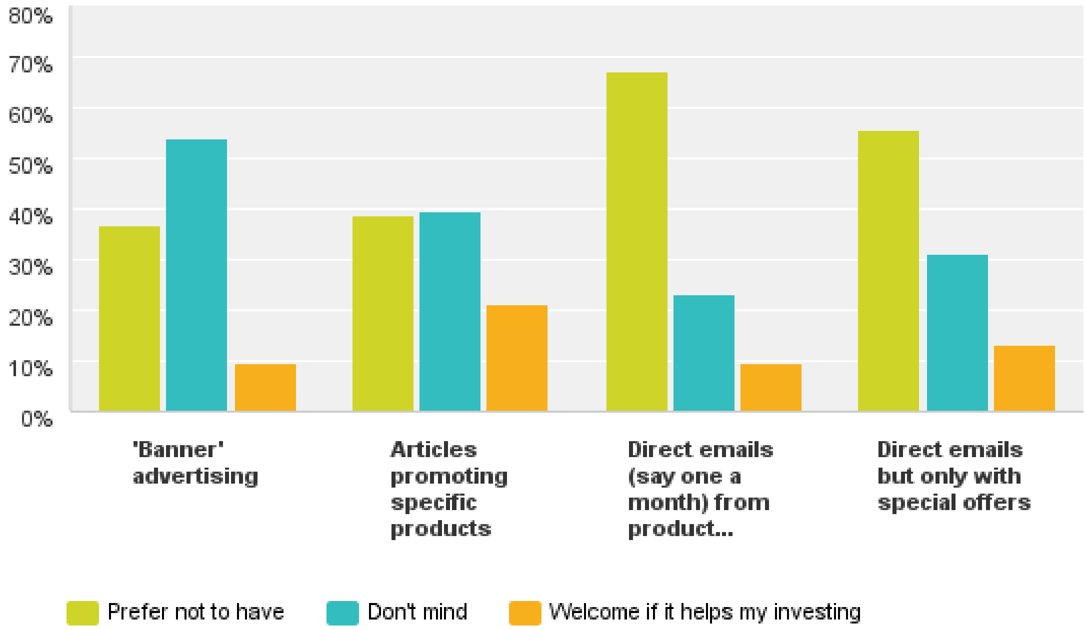
How is Cuffelinks different?

We received almost 1,300 comments for this open question, so rather than print every comment, this word cloud shows the most regularly occurring words and phrases. Thank you for the overwhelmingly positive comments (and the word 'bias' below was invariably in the context of 'lack of bias').

Future direction

On new ways to finance the Cuffelinks business, we saw an aversion to direct marketing emails either for specific products (67%) or special offers (55%). About 54% of readers wouldn't mind if Cuffelinks used banner advertising to generate revenue, and 10% would welcome it where it helped in some way with their investing.

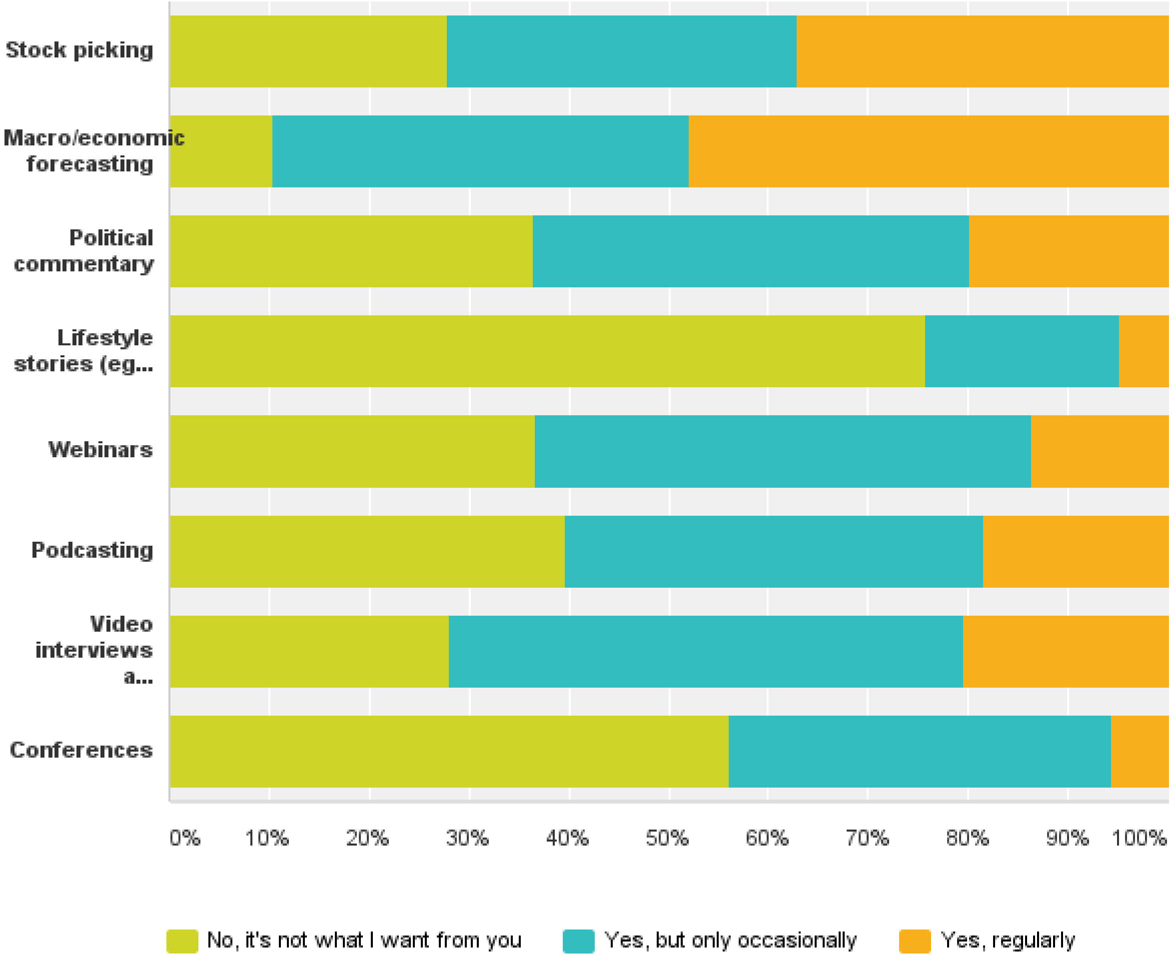
Opinion is mixed on whether Cuffelinks should run articles promoting specific products. While we have run articles in the past that promote, detail, or explain certain products, it's done to inform readers of new products coming to market, emerging trends or in the interests of financial education. However, over 60% of readers seem comfortable with articles promoting specific products.



In question ten, we sought readers' views on providing additional content and services.

The top two additions that would be welcomed are stock picking (37% on a regular basis, 35% occasionally) and macro/economic forecasting (48% on a regular basis, 42% occasionally). Traditionally, these are areas we have downplayed, because the future is so uncertain and much commentary is guesswork, and because of the proliferation of coverage elsewhere.

There was little appetite for lifestyle articles, but nearly half would like to see Cuffelinks run conferences. We hope to add resources to do more webinars, podcasting and videos.



Recommending Cuffelinks

Most encouragingly, about 94% of respondents said they have already referred friends or colleagues to Cuffelinks or are highly likely or likely to, and only 6.5% said they are unlikely to. Without a big advertising budget, Cuffelinks relies on referrals support to grow our subscriber base.

Other feedback

We received over 1,370 comments for this final question requesting general feedback, so rather than print every comment, here's the word cloud. Again, thanks for the great feedback.

Leisa Bell is Assistant Editor at Cuffelinks.