Edited by Debra Cleveland: Em

Inviting your children into SMSF bad idea

DIY super

Tim Mackay

With much having been written and speculated about Labor's proposed reform to stop cash refunds for dividend imputation credits, you are probably asking "what should I do?".

Rather than delving into the rights or wrongs of the policy, let's separate hype from reality to best position your self-managed superannuation fund (SMSF).

For Labor to implement its reform, it must clear a number of important hurdles. First it needs to win the federal election. If I were a betting man (and I'm not), I'd concede this looks more likely than not. If Labor loses the election, then its reform is dead in the water and this is all moot.

Assuming Labor wins a May 2019 election, it will need to implement legislation quickly before the proposed July 1, 2019 start date. That's a narrow window to draft, circulate and pass legislation, especially without causing unintended consequences. Labor is unlikely to back down on this reform but the devil will be in the detail of its final legislation.

Labor will need to pass the legislation through both houses of parliament – it may control the lower house, but will it control the Senate? Labor will claim a mandate for this reform but senators may also claim their own opposing mandate.

So do we just sit around waiting for the next election? Well, yes and no.

If you haven't already done so, you should immediately quantify the likely impact on your SMSF. The easiest way is to average your ATO refund cheque over the past few years. Then determine if you can absorb the loss in your family budget.

One potential solution often floated is to add members to your SMSF. Some believe there's an army of large families out there queuing up to join SMSFs – this at the same time that ATO statistics tell us that four-member funds have fallen in relative number while three-member funds have gone nowhere over the past five years.

Regardless, having up to six members in your SMSF could be a workaround to Labor's franking credit refund reform. Family members in accumulation phase can soak up the excess franking credits.

In theory, this sounds great – your family retains excess franking credits rather than forfeiting them to the ATO.

In most cases I can't think of anything worse. In doing so, you almost guarantee inheritance impatience.

Bringing adult children into your SMSF will guarantee inheritance impatience.

Imagine the conversation with your children (and their spouses and anyone else whispering in their ear) when they join your SMSF. "Wow! You've got how much saved in 'our' SMSF? Oh, you're building wealth for the family to eventually inherit. That's great. But we're struggling right now with a mortgage and school fees. Why do we have to wait until we're old to get what you're going to give us anyway?"

In truth, most families are messy. Like any parent, you want your children to be the best version of themselves. We obviously love each other but many of us can struggle to agree on what restaurant to go to, let alone agree on sizeable, co-mingled retirement funds. So if you expand your SMSF to soak up franking credits, do so with your eyes wide open.

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One option you may consider is to roll the Australian equity portion of your SMSF to the Australian equity option of an industry fund. While you still won't directly get a franking credit refund, the low-cost industry fund will use excess credits to smooth the fund's overall returns, which will be reflected in your unit price.

So while the direct benefit to you will be significantly diluted, you may also save on fees. Just don't hold your breath waiting for an adviser tied to a bank to give you that advice. If you're in a unit-based retail super fund, that fund is more likely to just pocket your refund in its profits.

My advice is don't panic and hold your position until after the election. Wait for the details of the legislation and evaluate Labor's ability to pass it, then act on an informed basis. SI

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Currencies Investors could see a strength of the greenback over t

A sea change may be happening in the currency markets, putting at risk outsized currency-related returns that unhedged Australian investors have enjoyed this year and paving the way for portfolio rotation.

"The US dollar was the big call that you either got right or wrong this year," JP Morgan strategist Kerry Craig says. "Currency can have a significant effect on returns."

Australian investors with US assets benefited from a weaker Australian dollar this year, although Craig notes investors often hedge out that currency exposure.

Year-to-date returns from US equities stand at 19.5 per cent in Australian dollar terms and 10.6 per cent in local currency, for example, according to JP Morgan data.

But last week two Federal Reserve speakers struck a dovish tone when they spoke about the US economy, referring to signs of weakness in the global economy as a potential source of stress for America. The US dollar staggered after the comments, sending other currencies such as the Australian dollar higher.

Strategists and fund managers have noted the currency moves, with some commenting that it may be a sign that the US dollar's stellar run through 2018 is set to end.

"Foreign exchange markets move in cycles. The US dollar can't go up forever. The US is not an island. Problems in the rest of the world will affect the US as well," Vertium Asset Management chief investment officer Jason Teh says.

Teh is referring to factors such as a slowing in the Chinese economy and other emerging markets which are in the direct line of fire from a US-China trade war. Trade tensions were neatly illustrated by weak third-quarter GDP data from Germany and Japan, both open economies where trade forms a significant component of growth.

"Volatility remains elevated, and concerns about the health of the global economy have re-emerged," Morgan Stanley economist Chetan Ahya says. The broker estimates that global growth decelerated to 3.4 per cent in the third quarter, from 4.1 per cent in the second quarter.

Still, Morgan Stanley is expecting global growth to move back to 3.6 per cent in the fourth quarter. "The fading of temporary disruptions to growth in Germany and Japan, still healthy momentum in global trade and a sustained recovery in emerging markets ex-China should all lend continuing support to global growth," the Morgan

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