FLOAT WATCH

Bitcoin breaks into the ASX

Bitcoin Group Ltd

ASX CODE: BCG
SHARES ON OFFER: 100 million
LISTING PRICE: $0.20
MARKET CAPITALISATION: $32.9 million
LISTING DATE: November 11

TIM MORRIS

Australia punches above its weight in the global currency markets. While our economy ranks as the world's 12th largest, the Australian dollar commands the highest turnover behind the British pound, the yen, euro, and US dollar. As a cyclical contraction in demand for the nation's biggest exports is challenging the elevated position of our currency, could the emerging realm of virtual currencies provide another source of competition?

Virtual currencies evolved from the video-gaming industry during its transition to online multiplayer formats in the late 1990s. Originally, virtual currencies were typically closed systems operated by individual game vendors. The virtual currencies provided a means for users to purchase additional game features and functionality.

Estimates of the market for virtual goods of this nature range from $US200million ($273m) to $US10billion. Conceived in 2008, Bitcoin provided the first universal medium of exchange for virtual goods, digital goods, and online services and is the world's largest virtual currency, with an estimated 80 per cent market share. The coming listing of Bitcoin Group aims to harness commercial opportunities surrounding this virtual currency system. Its principal activity is the delivery of transaction verification services for Bitcoin. The process of Bitcoin transaction verification is colloquially known as "Bitcoin Mining" because service providers such as Bitcoin Group are remunerated in units of Bitcoin. Impetus for its IPO is a desire to expand market share. The company aims to increase its installed transaction processing capacity by 14-fold next year and capture a market share of about 13 per cent.

From its existing operating base, Bitcoin Group generated revenue of $1.7m last financial year. Increasing capacity has potential to improve the company's financial performance, although the benefits are not assured.

Entry barriers within the Bitcoin Mining industry are limited, hence increasing competition could impair profitability despite the company's planned capital investments. Other principal risks surround Bitcoin Group's limited operating history, ongoing reliance on external funding, and vagaries associated with operating in China — which represents 98.5 per cent of its processing base.

Tim Morris is an analyst at wise-owl.com

The man who shouted stop to DIY fund management

Sam Sicilia has some sobering data on SMSF performance

ANDREW MAIN

MARK CRANITCH

Hostplus, the industry superannuation fund for hospitality employees, warns savers of the dangers of DIY super.

There's been a lot of reporting recently about how self-managed super funds may have been struggling in comparison with conventional pooled funds, but it's a bit uncertain because the ATO's numbers are only accurate up to June last year.

However, Sam Sicilia, chief investment officer at industry fund HostPlus, has some startling up-to-date numbers.

And they prove beyond doubt that the 1600 members of his fund, out of a total of more than one million, who took the Direct Investment Option offered by his fund, Choice Plus, underperformed dramatically over a two-year period.

Dr Sicilia said that while the standard fund, the HostPlus Balanced Option, returned 19.7 per cent cumulatively over the past two years, Choice Plus filings showed an equivalent return of -5.1 per cent.

"That's a 25 per cent drop, and it includes cash holdings," said Dr Sicilia, who was quick to point out that these figures refer only to the small segment of members' funds that is permitted to go into the Choice Plus option. It's also important to point out that these investors took a self-directed option within the HostPlus as opposed to a stand alone SMSF.

How ChoicePlus works is that members must have a balance of at least $10,000 in the fund and a minimum investment of $2000 in ChoicePlus.

Dr Sicilia, who in a past life was a mathematics lecturer at Swinburne University, has a way of explaining things that is a model of clarity.

"We've allowed members to take some of their balance, play with it themselves, and they've made it smaller," he says.

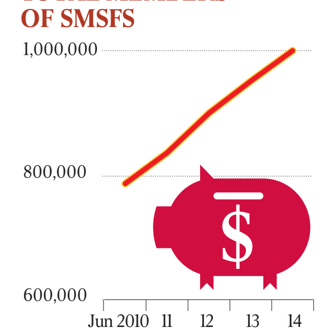
More seriously, he points out that this is people's retirement savings we're talking about, but notes that the average balance in HostPlus is a modest $10,000 because it covers mostly young catering staff.

"The balances are small and they've mostly still got around 40 years to help their fund recover," he says, "but other super funds offering a do-it-yourself option may not give their members so much time to come good." Dr Sicilia, whose doctorate is in physics and mathematics, has some strong and perhaps politically incorrect views about the risks of letting people do their own investing.

"Politically, it looks good to let people make their own decisions, and from a marketing perspective it's all about education.

"But there should be a third perspective ... realism. It's time for someone to stand up and say it's not a good idea.

"There are *no* other industries where doing it yourself provides a better outcome then getting professionals to do it," he says.



Source: ATO

"We all think we're better than the person next door. I'm not attacking SMSFs as they have a role to play, but I personally can't understand why people who aren't finance professionals want to invest their own money?"

Again, he reiterates the Choice Plus option is not an SMSF, just an option within a pooled fund that has so far been taken up by 0.0016, or 0.16 of one per cent of his membership.

Sam Sicilia

He's also bothered by the lack of diversification in portfolios managed by their owners. He himself admits to having no personal investments outside the thoroughly diversified pooled fund that he's in.

"Other than the CBA mortgage on my house, the 15-year-old car that I own and the clothes and furniture in my home, I have no other investments outside superannuation.

"The market is made up of groups of very smart, very well educated people but no one has a mortgage on skill, and even they get it wrong quite often ...

"What makes you and I think we can do investing any better?

"When it comes to investing, a little knowledge is a dangerous thing.'

"If it was up to me, and it's not, I wouldn't have member investment choice at all, as 99 per cent of members would be better off going away and coming back when they retire.

"The minute you learn about moving money from bucket A to bucket B, that's something you can never unlearn.

"Meanwhile the superannuation system is paternalistic, and it's universal.

"And the more people who lose money on managing their own retirement funds, the more they're going to have to draw on the age pension and that is a burden on society that we may not be able to quantify fully for another 40 years."

SMSFs must be for you not your adviser

MONICA RULE

Should you set up a self-managed superannuation fund and roll your superannuation savings from your retail super fund into your SMSF? People often ask me this question because their accountant has recommended they set up a SMSF.

I get annoyed when I get these questions from clearly vulnerable people who have no inkling of how involved running a SMSF can be. Think carefully. If you are being encouraged to set up an SMSF, consider if the recommendation is good for you or good for your accountant who stands to receive ongoing fees for doing your SMSF's financial statements and tax returns. (SMSFs do not suit everyone as Andrew Main reports today).

One of my clients was told by her accountant that an SMSF can offer more than her current retail superannuation fund. He even told her that money in her retail super fund would diminish once she commenced accessing her pension whereas money in her SMSF would last until her death! I wish I had this accountant's crystal ball!

The advice my client received was incorrect. In fact, the accountant did not even look into my client's retail super fund to see what it offered.

Nowadays, most retail superannuation funds and public sector superannuation funds will allow you to maintain an accumulation account with them once you retire from your employment and commence accessing a superannuation pension from them. They will even allow you to keep your superannuation savings with them until your death.

The superannuation law applies to most superannuation funds (with the exception of some public sector schemes which were set up under an act of parliament). Therefore, what you can do in an SMSF you can also do in a lot of these funds. For example, you can leave your money in these funds until your death. You can place more money in these funds once you retire as long as you maintain an accumulation account with them. Most people like to travel more once they have retired. One of the drawbacks of an SMSF is — if you leave the country for long periods — you will need to make sure that your SMSF meets the Australian residency test in order to maintain its complying status. Whereas in a retail or industry superannuation fund it does not matter where you are residing.

The main difference between an SMSF and other types of superannuation funds is the flexibility to invest in whatever you desire and the ability to control the SMSF's bank account. But do you really want to have to spend all your free time thinking of what to invest in. Are you comfortable in making investment decisions? Most retail superannuation funds have various professionals behind the scenes that make all the investment decisions for you. Not only that, they do all the administration. Do you really want to be doing all this when you are 70 or older?

> The accountant did not even look into my client's retail super fund to see what it offered

Retail superannuation funds can also offer great insurance for death and disability situations due to the size of the fund. The same level of insurance could cost you a lot more to provide in your SMSF.

Having control of your SMSF's bank account may not be a good thing if you are one of those people that can be tempted to use money in your SMSF during financial difficulties. Don't get me wrong, SMSFs are great for people who take an interest in their obligations and have the discipline to invest wisely and let their savings grow. But they are not for everyone.

So next time someone tells you to set up an SMSF, ask them how much they know about your retail superannuation fund. If they don't know much at all, perhaps you need to consider that there might be more benefit for them in you setting up an SMSF than for yourself.

Monica Rule is an SMSF Specialist and the author of The Self Managed Super Handbook — www.monicarule.com.au

Segregation's not a dirty word when optimising SMSF pension-payments tax

TONY NEGLINE

Super pensions have two major tax attractions — one, the income and capital gains earned by the super fund aren't taxed, and two, if you're aged at least 60 then the pension payments are not taxed.

The Tax Office estimates that almost 40 per cent of self-managed super fund members — that is, 400,000 people — receive a pension from their fund and they are paid $19 billion in income payments each year. Over the next 10 years another 250 000 people in the existing SMSF cohort will become eligible to receive pensions.

There's no doubt these are big numbers, and given the tax exemptions available it's hardly a surprise that the ATO is increasingly focused on how accurately super funds work out how much taxable income belongs to the assets backing these pensions and hence isn't subject to tax.

Melanie Dunn, technical services manager at consultants Accurium, says that incorrectly calculating exempt pension income tends to lead to errors in SMSF tax returns over several years.

There are two primary ways of calculating exempt pension income in your fund's financial accounts, often called segregated and unsegregated assets. If an SMSF is only paying pensions then it's deemed to be using the segregated assets approach.

These methods are best explained by looking at a super fund involving two members — Jim and Janet. Jim is receiving a Transition to Retirement pension, he is still working and therefore still contributes to super. Janet isn't retired and has yet to take any of her super balance as a pension.

If Jim and Janet wanted to use the segregated assets approach they could select specific assets that are used to pay Jim's pension with the balance of their super fund monies allocated to the non-pension member benefits. This means they would be segregating assets at the fund level of their financial accounts.

Another way to segregate assets is to specify assets that belong to each member's account in the fund. In this case particular assets would be allocated to each of Jim's two member benefits and to Janet's sole member benefit. This is segregating assets at the member level of financial accounts.

> There are two primary ways of calculating exempt pension income in financial accounts

When you isolate assets for pensions then an important job for a fund's bookkeeper, accountant, tax agent and auditor is to ensure income and expenses have been allocated correctly.

An alternative approach is to leave the assets of the fund unallocated.

This is the unsegregated approach and when you use this method you must ask an actuary each year to work out how much of the fund's net income is exempt from income tax.

SMSFs that use the segregated assets approach don't need an annual actuarial certificate.

Importantly, different tax outcomes arise if a fund decides to segregate or unsegregate pension assets.

For example, typically a taxpayer can offset realised capital gains with any unused capital losses. This rule doesn't apply when a super fund uses the segregated assets approach. When pension assets are segregated all capital gains and losses are ignored and the losses can never be used against future gains.

As those losses disappear forever, some clever SMSFs that are only being used to pay pensions keep a small amount of non-pension money in their fund and use the unsegregated pension accounting method.

They will only do this when the tax benefits are larger than the additional costs of obtaining the necessary actuarial certificate to have their pension assets exempt from tax.

In other situations, the segregated assets approach can produce a better after-tax outcome, depending on the timing of income receipts and asset sales. Is it possible for SMSFs to move between segregated and unsegregated pension asset approaches from year to year or even during an income year?

Two lawyers, Dan Butler from DBA Butler and Michael Hallinan, superannuation special counsel at Townsends Business and Corporate lawyers, believe you can do this.

However, care must be taken and both stressed the need to have specific powers in a fund's trust deed to permit the different approaches. Butler stressed that the decision to use segregated or unsegregated accounts must be done prospectively.

Tony Negline is author of The Essential SMSF Guide 2015/16