

SMSF CASE STUDIES

2022/2023



What Is Possible in SMSF?

Not all SMSF's are the same. Over 20 years, Supervision Group have been looking after hundreds of SMSF's. During this time period we have seen various SMSF success stories. This document highlights some real-life case studies. Whilst "The Trustees" have created the wealth described in this document (using their own investment strategies), our role has been to guide the SMSF Trustees through any compliance issues that arise and help them achieve the best tax outcomes.

These stories will give you a broad picture of what has been successful for some SMSF's, it is not a "how to" guide predicting the future and is not a substitute for licenced financial advice. Whilst decisions look easy after the results are in, it is the overall strategy that is important, not the underlying investments that we have mentioned.

Long Term Growth & Diversification Case Study 1

In 1999, CSL (CSL Limited) was trading at around \$4.52 per share. One keen investor invested around \$5,424 into CSL with the view that the company was in a great position to grow over the long term. Not including any subsequent investments which the investor has made, that one parcel of shares is now worth \$339,636 (Sept 2022). The investor has continually increased their holding over the years. Buying more shares when the price dipped without any major changes to the underlying business.

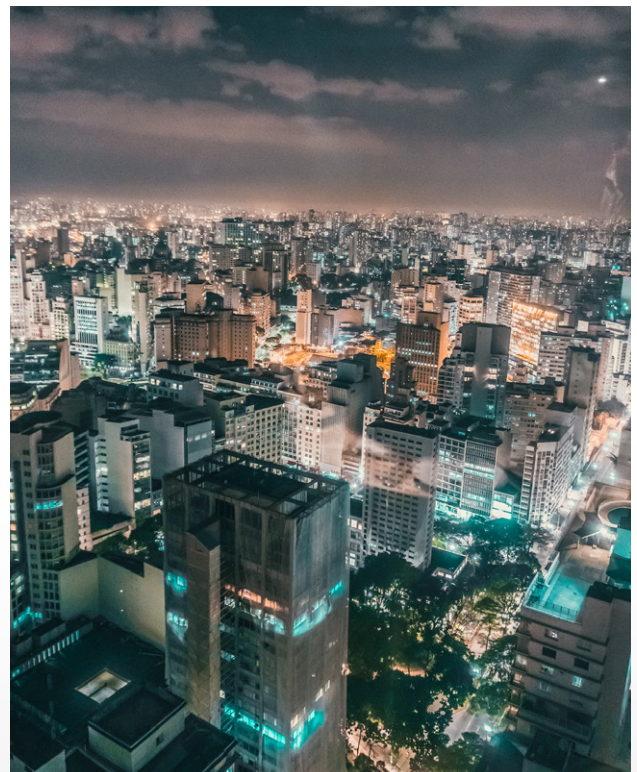
Huge capital growth in CSL (one of the best examples) has put this investor in an amazingly strong position. Over time and various share market conditions including 9/11 the GFC, COVID19, War in Ukraine, the value of this holding has continued to grow. Of course, the growth in the share price has not been linear, but over the long term the share price has reflected the growth of the business, which has been amazing.

Becoming a shareholder means you own a fraction of a business. Profitable businesses do not go out of fashion because creating a machine (with all its parts) that makes money is not easy.

In addition to this inspired selection, this SMSF investor also has holdings in popular shares that have been staples of most SMSF portfolios, like ANZ, CBA, MQG (Macquarie Group), NAB & Santos. Over time, these shares have been continually purchased either through dividend reinvestment schemes or by cash reserves when the investor saw great value (temporary periods of lower valuation).

This portfolio also has further diversification with a large investment in a private company. Whilst private companies can add significant risk to portfolio's (not regulated like listed companies), private companies have the ability to exponentially grow and produce amazing returns.

In this example, the original investment has increased by 520%. "The Trustees" used their personal knowledge and personal association with the business, selecting it on the basis of income and capital growth. The results have served the SMSF well.



Investing in unlisted companies does not automatically mean that you are investing in smaller, riskier businesses. Larger companies making big profits may have decided not to make their shares available to the general public. A famous example of this is Roy Hill. Being unlisted can make them scarce and therefore more valuable, but on the flipside can make it more complicated to sell.

In retirement, listed share assets can be sold off to suit the pension requirements of the members. Listed shares give amazing flexibility when it comes to selling fractions of your total holding. This ability to sell off parts of your holding quickly adds to the appeal of listed shares in an SMSF, not to mention the income they produce.

Investment in Multiple Properties

Case Study 2

This SMSF investor has invested into 4 direct properties. They were purchased in 2009, 2013, 2015 & 2017. On average these properties cost \$169,000 each. The properties are short term accommodation assets located in a central city location. The sole member of this SMSF has been retired for some time and is currently drawing down a pension in their SMSF. The combined income that these properties generated last financial year is \$57,000. Added to interest received from cash deposits, this investor is able to fund pension requirements each year with this recurring income. The security of bricks and mortar gives this investor peace of mind in retirement. An investment strategy like this meets income requirements and also the risk tolerance of the client who worried about share market corrections and quick erosion of capital.



Whilst these investments are meeting their revenue target, the investor does not need to realise any capital growth, nor worry about adding additional diversification to a portfolio which is essentially cash and 4 properties.

As the investor/member needs more cash for living expenses, one or more of the properties can be sold down to create more cash for lump sum drawdowns or larger pension payments. Alternatively, if the member wants to change direction and sells down assets when the time is right, they will have cash to invest in other income bearing investments.

Using Your Business Premises - Business Real Property (BRP)

SMSF's can invest in a property that the member uses for their own business premises. BRP strategies have many advantages. If your location is important and you want to secure your tenancy, being the landlord through your SMSF can give you peace of mind. In addition, the rental income is adding to your retirement savings even when it may be difficult to pay yourself Superannuation contributions.

Many Supervision clients are already using this strategy and some of them are in accumulation phase (still working) while others have already retired.

Pre-Transition to Retirement - Working Case Study 3

This SMSF investor is currently using their business premises to help them save for retirement. They purchased the premises back in 2013. The investors have used borrowing to be able to afford the property. Since then, the SMSF has received rental income of \$180,000 per year from the investors related business. As the lease is at arm's length, after repayments are made on that property, the SMSF is building its value year on year. Over time the investor is banking on the capital growth of the property to be significantly higher than the current market value.

When the members of the SMSF are looking to retire from the business, they will be able to choose to sell the asset to realise the cash back into their SMSF or continue to hold the investment and use the rental income to pay their pensions.



Post Transition to Retirement - Retired Case Study 4

This SMSF investor bought a surgery in their SMSF name when they were practising medicine. Whilst Practising, they rented the premises from the related SMSF to the business.

Over time as the Doctor pushed towards retirement, he was able to bring in another Doctor into the practice to take over the rent on the property.

After handing over the lease for the business premises to the younger Doctor, the retired Doctor was able to receive passive income as the landlord. As the rental income was very reasonable, the retired Doctor also has an asset which is able to grow in capital value also. At the moment there is no requirement for the asset to be sold all of the SMSF assets combined are meeting members pension requirements.

The retired Doctor knows that in the future if he wants to sell the premises to realise a large lump sum of cash, the current tenants of the business property will be able to use their own Superannuation to take up the same strategy using an SMSF. Effectively, the strategy passes from one generation of business owner to the next.

You don't have to be a doctor to get the maximum benefit out of your business premises. Any small/medium business owner who is currently paying rent to a stranger,

can become their own landlord, building a nest egg for their eventual retirement.

BRP Strategy- Wealth Creation by Minimising Tax

Case Study 5

One client who owned his engineering business premise in his family trust sought advice about how to increase his retirement savings. At the time, property prices were stagnant, but the business owner believed that prices would increase into the future. In order to get more money into Super and also to remove the cost of repayments that he was personally paying, the owner decided to use his Super to buy the business premises.

As one of two scenarios where your SMSF can purchase from the member (the other is listed shares), the business real property was purchased by the SMSF releasing the business owner from personal debt. The business entered into a lease agreement with the SMSF to make rental payments which is used to put cash back into Superannuation for the business owner. That cash can be used to purchase other assets which build the members retirement savings.

The long-term plan for this business owner is to sell the business premises after his business is sold and he has retired. At that time if a large profit is made by the SMSF, it is possible that there will be zero tax paid on the sale, leaving more in retirement.

Unlisted Assets - Property Trust

Case Study 6

Investing into unlisted assets brings with it increased compliance requirements each year. If you are able to meet compliance requirements however, unlisted assets can deliver awesome income returns and great capital growth.

In a large diversified SMSF investment portfolio, unlisted assets (like a property trust) have given one SMSF investor a big kick along. An investment of \$164,000 is currently paying income of \$15,314 per annum or 9.33% return on investment.

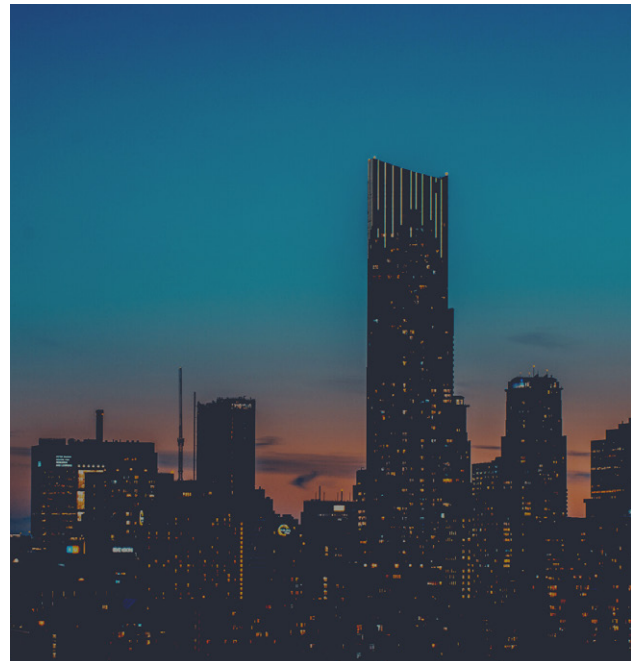
This investor has a very good understanding of the underlying property asset which is the central asset of the property trust investment. Therefore, the SMSF investor can monitor lease agreements and expenses of the trust. The higher risk inherent with these types of investments is offset by its low percentage weighting in a diversified portfolio. The income received by this investment boosts the portfolio's overall income yield whilst most assets could be considered defensive lower risk- like term deposits.

A Property Unit Trust may be used to purchase large assets like Shopping Complexes or Large Commercial Buildings that are tenanted by multiple businesses that pay rent. Depending on the underlying investment of the Property Unit Trust, returns can be based on the ongoing rental income, development potential or a combination of both. Understanding how these investments work and the strength of the underlying investment is key to underlying performance.

Gold & Precious Metals

Case Study 7

What happens when you worry about where the economy is heading and want to invest into gold and precious metals like silver? SMSF's are able to buy these assets. One



SMSF investor has purchased silver and gold from a reputable dealer. The dealer stores the assets for the investor in a safe place. Each year the investor can receive a valuation on the multiple assets and if required sell or top up investments depending on the investment strategy of the SMSF.

Digital Assets Crypto Currency

Case Study 8

Most SMSF industry insiders consider digital assets unsuitable for SMSF's. Whilst they are a legal asset, you must make sure that your investment strategy aligns with the high risks that digital assets pose and the wild fluctuations that occur. One investor made considerable capital gains of \$300,000 in one year. This may be equivalent to 15 years of contributions. Unfortunately, volatile markets can make reinvesting the gains into poorly chosen digital assets highly risky as the prices swing so rapidly. Bad timing and bad selections can result in a lack of cash available to pay tax on previous gains or worse totally destroying the capital value of the SMSF.

General Warning & Disclaimer

This publication should not be viewed as advice on establishing or investing in an SMSF. Whilst the above scenarios are real, no one can guarantee investment returns. All of the above strategies involve risk. Loss of capital, income and growth can be the result of all of the above case studies. The trick is to understand your risk tolerance, compile and execute a comprehensive investment strategy which suits your needs. We always advocate that you seek written advice from a licenced Financial Adviser. If you don't have one, we can help.

Contact Us

Supervision
GROUP

Apply Online Today or call **1300 693 863**

CONTACT US

Level 2, 76 Mill Point Road
South Perth, WA, 6151

PHONE

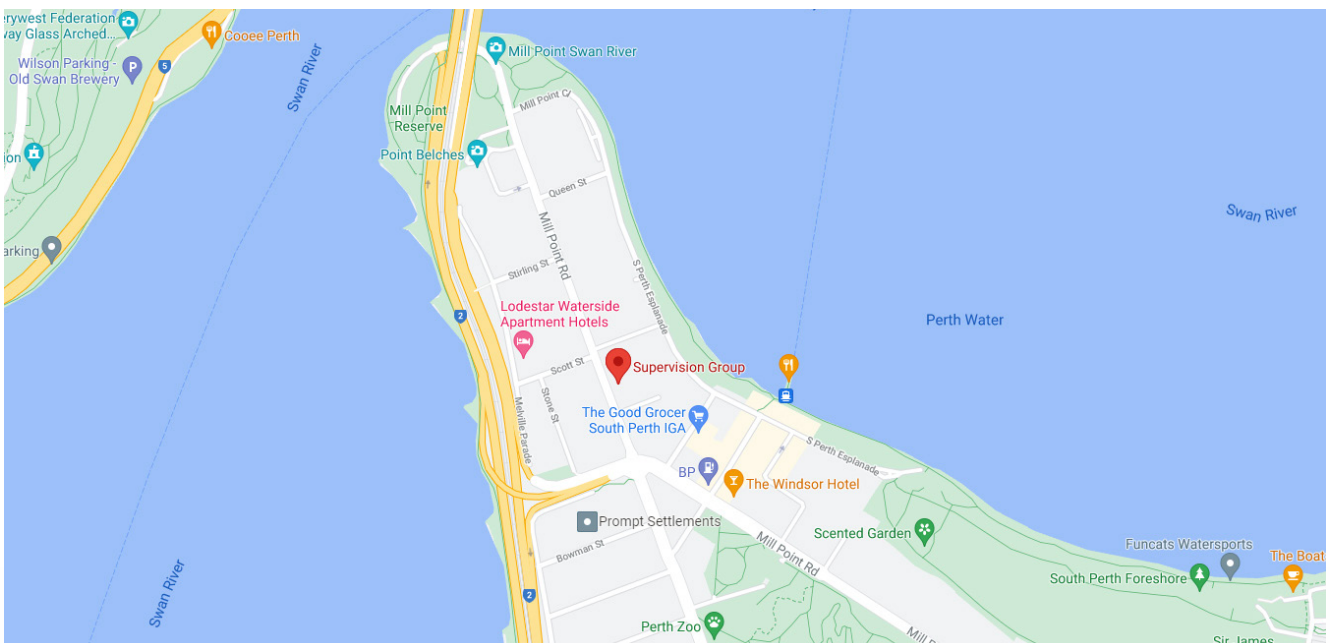
1300 693 863 or 08 9367 9655

POSTAL ADDRESS

PO Box 879, South Perth, WA, 6951

NEW ENQUIRIES

chris@supervision.com.au
Info@supervision.com.au



Disclaimer: All the information provided in this marketing material does not consider any of your investment objectives, financial situation or needs and should not be in any way considered as financial advice. SUPERVISION does not provide financial product advice or recommend any financial products or whether you should establish as SMSF. This applies equally to those financial products which are established for any entity or when you become a client of SUPERVISION. We also recommend the you seek professional advice from a licensed financial adviser before making any decision to establish an SMSF or purchase any financial product referred to on our website. Please refer to our important documents on our website to give you more information about any financial arrangements that we may have with our product suppliers. While the sources for the material are considered reliable, responsibility is not accepted for any inaccuracies, errors or omission. Supervision SMSF Solutions (ACN 134 666 596). © Copyright Supervision Group Oct 2019.