

Do the due diligence to make your super safer



□ Leadership Matters is a weekly column in which business leaders raise and reflect on issues they see as important in leadership, governance and operating a business.

□ Today's column is by **GRAEME YUKICH**, managing director of private wealth management firm **Entrust**.

YOU can sense the barometer rising by the day in the cauldron that has become Australian superannuation.

Hailed as the saviour of the nation when it became compulsory in the 1980s, superannuation is fast becoming a dirty word.

I began working in the investment advisory business almost 15 years ago. In the intervening time, it has become very apparent investors will find every imaginable way to lose money from supposedly lucrative investments.

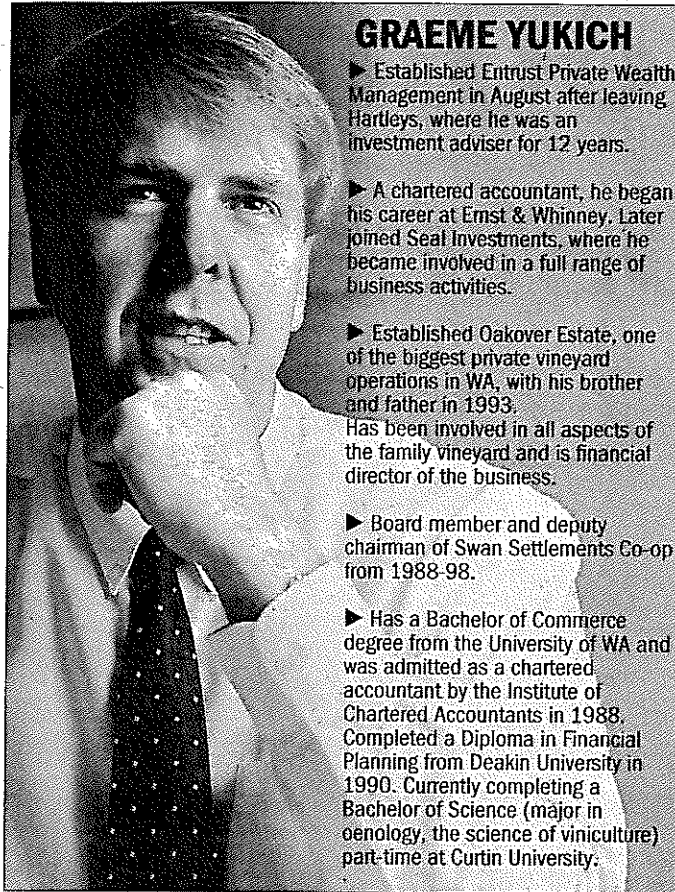
And superannuation has not been immune. Dismal returns, an oppressive tax regime and brewing scandals have made most Australians question whether super is all it was cracked up to be.

And at the pointy end of public concern: whether Australians can trust advisers, managers, promoters and regulators to not only protect their nest eggs but grow them to a level that will sustain lifestyle demands in retirement.

Forget about any alternative because superannuation is here to stay. And for most, it will work well over the long term.

But the reality that clearly has not sunk in with some investors is that safe super is not a given — regardless of market conditions. Undoubtedly, there are superannuation funds that are managed poorly by inadequately qualified and, in some instances, unlicensed individuals.

It's a recipe for disaster — and no amount of regulation will stop it. As long as investors chase higher than average returns by entering into higher



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► Established Oakover Estate, one of the biggest private vineyard operations in WA, with his brother and father in 1993.

Has been involved in all aspects of the family vineyard and is financial director of the business.

► Board member and deputy chairman of Swan Settlements Co-op from 1988-98.

► Has a Bachelor of Commerce degree from the University of WA and was admitted as a chartered accountant by the Institute of Chartered Accountants in 1988. Completed a Diploma in Financial Planning from Deakin University in 1990. Currently completing a Bachelor of Science (major in oenology, the science of viticulture) part-time at Curtin University.

risk ventures — and put racy super schemes front and centre stage here — they will get chopped up.

All the regulation in the world won't save people. You can't legislate against greed and stupidity, especially when the public purse cannot afford all-pervasive regulation.

There is a balance to be struck but it involves a higher amount of self responsibility on the part of investors than many would care to admit. Anything else is self delusion.

No amount of regulation can help people who stick financial logic on the shelf and chase higher returns.

The culture of blaming others for financial distress — privatising profits but looking to socialise losses — is starting to take hold in superannuation just as it had crippled the insurance industry.

Self responsibility through prudent investing with professional advisers must kick in at a point. Anecdotal evidence suggests Australia is on the verge of a series of superannuation disasters where fund members will see serious losses and, in some cases, face financial ruin at a time when they are getting ready to put their feet up.

The howls of complaint will

be directed at the industry regulator, the Australian Prudential Regulation Authority, and the Federal Government.

Stung by its ignominious role in the HIH Insurance scandal, APRA will be quick off the mark with prosecutions. And so it should be. But the public demands will be for reparation for investment products and schemes that go wrong badly.

If the advisers and promoters have broken the law, by all means litigate for compensation. But frankly, in most cases, this is shutting the gate after the horse has bolted.

Better, you might agree, to eliminate the prospect for litigation by conducting rudimentary due diligence before charging into the investment.

Investing does funny things to some people. They will spend hours choosing a new washing machine, days and weeks searching for the new car, yet commit to a \$100,000 property syndication investment on the say-so of someone they don't know, with whom they have only spoken twice on the telephone.

Work that one out and you will have gone a long way to understanding why so many Australians are now staring down the barrel at superannu-

ation and investment losses.

Learning nothing from history, investors continue to fall foul of investments, which are easy to get into, impossible to get out of. The lure from some promoters is the chance to participate in investments supposedly the exclusive domain of so-called professional investors. Alarm bells should ring loud and clear.

What happens too often is investors chasing better returns — and frightened to death of the sharemarket — find themselves over-exposed to a single asset or single asset class.

They take inadequate time to investigate downside risk and when the balloon goes up they find their capital loss is enormous. The upshot for investors is that they must take responsibility for picking their advisers.

Get independent advice, and this means speaking to three or more advisers not just the person mentioned at the dinner party last weekend who supposedly doubled money for the bloke who's married to your second cousin.

Find out who you are dealing with as advisers. Ask who owns the business. Ask how the adviser gets paid (and steer clear of commission-weighted engagements). Demand full disclosure on related-party transactions.

NOW is a time of massive change in financial services regulation with the Financial Services Reform Act. The pendulum is swinging towards recrimination and higher regulation.

Technically, nothing much should have changed. Disclosures of related-party transactions between advisers and investment promoters should have been made under the old regulatory regime. Quite often they were not, and the next 12 months will see numerous cases hit the courts because of this.

But heightened compliance requirements has ironically led to a boom in the number of advisers who rely on others for licensing. Advisers effectively rent compliance from bigger firms.

Investors are crazy if they are not aware of this and conduct their own due diligence by seeking independent advice and checking out references.

You will do it when buying a new car — so why not super?

► Leadership Matters continues next Monday.