August 2025

As the winter chill lingers, we look forward to the arrival of spring and brighter days ahead.

Interest rates and tariffs continue to influence markets globally.

In Australia, soft inflation data has paved the way for a possible rate cut. CPI slowed more than expected to an annual rate of 2.1% from 2.4% and core inflation – the RBA's preferred measure – fell to 2.7% from 2.9%.

US interest rates were kept steady in July despite pressure from President Trump. The greenback eased in response, providing a small boost to the Australian dollar, which has been on a rollercoaster ride in recent times

The US S&P 500 and Nasdaq 100 continue to record all-time highs as tariffs begin to be locked in and AI investment takes off.

Meanwhile, the S&P ASX 200 experienced another volatile month, but the trend continued upwards and included an all-time high.

There are also signs of consumer optimism. The July Westpac–Melbourne Institute Consumer Sentiment Index found consumers buoyed by the chance of interest rate cuts this year.

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Keeping **your cool** when the markets **heat up**

Investing isn't just a numbers game. It's an activity that stirs various emotions from hope and optimism to fear and anxiety.

Whether the ASX is surging or stumbling, emotional responses to market movements can shape outcomes just as much as economic fundamentals. Understanding those responses is crucial to building resilience, especially in unpredictable times.

These patterns underscore the importance of long-term perspective, especially in a market shaped by both global sentiment and uniquely local factors.

How emotions enter the equation

We like to think our financial decisions are rational, but the truth is more complex. Investors aren't robots crunching numbers in isolation. We are influenced by news cycles, cultural values and personal stories from friends, family and colleagues.

When markets rise, euphoria and FOMO can drive hasty buying decisions. During downturns, anxiety and regret can push investors to sell at a loss, despite having sound long-term strategies.

This pattern has played out across decades, from the dot-com bubble to the COVID recovery. And remember that emotional investing isn't just a beginner's problem. Even seasoned investors can be swept up by sentiment if safeguards aren't in place.

Psychologists have long observed how financial stress activates similar responses to physical threats, triggering fight-or-flight instincts rather than thoughtful analysis. That's why even well-informed investors may react defensively when facing market instability.

The good, the bad and the balancing act

Emotional investing isn't all risk. In the right conditions, it reflects conviction, clarity and purpose. For example, values like patience and belief in the future can help investors stay committed during market dips.

Life changes such as home ownership, welcoming a child or retirement can bring useful emotional clarity to financial decisions. And ethical investing often stems from emotions such as care and connection to community.

When used with discipline, emotions can reinforce sound decisions rather than undermine them. Investors who use emotional clarity to establish long-term goals tend to feel more confident, even when short-term volatility strikes.

That said, emotions can also derail strategy. Panic selling during downturns, overconfidence after gains and herd mentality all pose risks.

The 2022 market correction saw many Australians pull out of super investments prematurely, missing the rebound that followed. These reactions stem not just from fear but also from a desire to act, even when patience may be more effective.

Learning from behavioural finance

Behavioural finance gives us tools to interpret emotional reactions. Biases like loss aversion, recency bias and anchoring affect decision-making in subtle but powerful ways.

These include:

- Loss aversion – People often feel the sting of losses more intensely than the joy of equivalent gains, which can lead to overly cautious or reactive choices.
- Recency bias – Recent events weigh heavily on perceptions, leading investors to expect trends will continue simply because they've just occurred.
- Anchoring – Fixating on a past portfolio value or arbitrary benchmark can skew rational assessment.

Recognising these tendencies helps investors avoid knee-jerk decisions and design portfolios that stay aligned with goals over time. It's not about eliminating emotion; it's about becoming aware of how it operates and mitigating its effects through smart responses.

After all, markets are always shifting. Emotions will always emerge. The goal isn't to shut them out, but to understand them and develop structures to keep emotions from steering the ship. When investors learn to pause, reflect and act with intent, they not only improve outcomes but feel more confident in their journey.

If you'd like to explore strategies to build emotional resilience in your portfolio, or tools to help remove bias from investment decisions, please give us a call.

Planning is key as SMSFs enter new phase

Self-managed superannuation funds (SMSFs) have long been associated with older Australians and small business owners looking for greater control over their retirement savings.

But recent data suggests the sector is undergoing a quiet transformation.

Alongside tax reforms and persistent compliance challenges, younger people are slowly moving into the SMSF space. While 85 per cent of SMSF members are 45 years or older, there's been significant growth in members aged between 25 and 34 years from just 2.4 per cent two years ago to around 10 per cent now.[i]

Almost 8,000 new SMSFs were established in the three months to the end of March 2025 with the number of new members increasing by 13,000. Australia's SMSFs hold an estimated $1.02 trillion in assets with 26 per cent invested in listed shares and 16 per cent in cash and term deposits.[ii]

A new tax era

The new Division 296 super tax, due to apply from 1 July 2025, is aimed at those with total superannuation balances exceeding $3 million. An extra 15 per cent tax will apply to earnings on the portion of a member's balance above $3 million, effectively lifting the tax rate on those earnings to 30 per cent.

What makes Division 296 particularly contentious is the inclusion of unrealised gains. For example, a share portfolio the SMSF holds has seen positive returns. Trustees may face tax liabilities on paper profits, even if assets haven't been sold. This may cause issues for SMSFs holding illiquid assets such as property or farmland that has increased in value.

SMSF Australia and other industry bodies have raised concerns about fairness, complexity and the potential for unintended consequences.

Trustees with high balances should begin planning now before 30 June 2026, to consider asset rebalancing, contribution strategies and the timing of withdrawals. SMSF Australia recommends obtaining advice about your specific circumstances.[iii]

The advice gap

Despite the increasing complexity of SMSF regulation, the vast majority of trustees continue to operate without professional advice. While the number of SMSFs using financial advisers has grown to 155,000, up from 140,000 in 2023, some 483,000 are not using a financial adviser.[iv]

This could lead to costly mistakes, especially when navigating contribution caps, pension strategies or related-party transactions. SMSF Australia says that while there's no legal requirement to obtain advice from a licensed financial planner, "unless you have the skills and expertise to do this yourself, it is certainly conventional wisdom to do so".[v]

The compliance burden

Every SMSF must undergo an annual audit by an approved SMSF auditor. This includes verifying the fund's financial statements and ensuring it is compliant with super laws. Trustees are also required to value all fund assets at market value as at 30 June each year, using objective and supportable data.

For property and other complex assets, valuations can be time-consuming and costly. The ATO recommends using qualified independent valuers when assets represent a significant portion of the fund or are difficult to assess. Auditors may request evidence such as comparable sales, agent appraisals or formal valuation reports.[vi]

Failure to maintain accurate records or provide sufficient documentation can result in audit delays, contraventions or penalties. Trustees must also ensure their investment strategy is regularly reviewed and documented, particularly when starting pensions or making significant contributions.

Looking ahead

As the SMSF sector evolves, trustees face a dual challenge: adapting to new tax rules and maintaining rigorous compliance. For those considering an SMSF – or already managing one – the message is clear. Getting financial advice can give you peace of mind when the rules are regularly changing.[vii]

With Division 296 to contend with and a younger demographic stepping in, the sector is poised for both growth and greater scrutiny.

Whether you're a seasoned trustee or just starting out, now is the time to review your fund's structure, seek expert guidance and ensure your paperwork is in order. The future of SMSFs may be more dynamic than ever, but it will also demand greater diligence.

Contact us if you have any questions.

i https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/smsf-newsroom/highlights-smsf-quarterly-statistical-report-march-2025

ii https://data.gov.au/data/dataset/self-managed-superannuation-funds/resource/b545bf09-57a7-4684-b706-63c16f950e02

iii https://smsfaustralia.com.au/understanding-div296/

iv https://www.vanguard.com.au/corporate/media-centre/2025/new-smsf-trustees-propel-uptake-of-financial-advice-but-sector-still-has-advice-gaps

v https://smsfaustralia.com.au/what-are-the-rules-for-financial-planners-giving-smsf-advice/

vi https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/smsf-administration-and-reporting

vii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/before-you-start-an-smsf/about-smsfs