Complexity helps to justify fees

Like *The Wizard of Oz*, as long as financial players can hide behind complexity, consumers can believe financial gurus have the secrets.

DIY super

Tim Mackay

Warren Buffett is a genius investor but he also has a second, less talked about super power. He explains complex financial concepts in terms anyone can understand. Many investors would welcome his focus on simplicity when it comes to running their self-managed superannuation funds.

Why are investing and SMSFs so complicated? Are they by their very nature complex or do we in the finance industry increase the complexity, deliberately or not? Do investors willingly gravitate towards complexity?

Buffett puts huge effort into his letters to shareholders, and he respects his reader. This is a rare gift indeed. This also helps to explain the runaway success of books like Scott Pape's *The Barefoot Investor*.

Consumers crave financial knowledge in language and concepts they can relate to. Deep down, we all want to Marie Kondo our finances.

The biggest problem, I believe, lies in language and communication. My industry is littered with insider jargon and impenetrable terminology. We shroud important concepts in acronyms and Greek letters. It's not a DIY super fund, it's an SMSF. It's not a low-cost fund traded on the ASX, it's an ETF (exchange traded fund). Your investments don't outperform the index, they generate alpha.

As inside members of the finance club, we speak in shorthand gobbledegook to each other which seems perfectly normal. But when we communicate with consumers, we're baffled when they don't understand us.

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Ironically, studies have shown that using jargon makes you untrustworthy. This problem is us, not you.

People in finance are good at finance but we are terrible at explaining it in plain English to consumers. We assume you know what we know. We assume you love our slides with impenetrable graphs. We assume you devour our research reports, most of which would fail a Year 12 English exam for readability.

Another issue is that investing and SMSFs really are complicated. SMSFs sit at the intersection of several complex laws. They're a trust structure and so are subject to trust law dating back to the Crusades. As a superannuation vehicle, they are subject to detailed super legislation. They derive their tax concessions from the tax laws, and investing in your SMSF is subject to the Corporations Act. Each is highly complex, let alone when they overlap and interact. So if the rules feel complex, it's because they are.

Investing is also complex. It presents itself as a science with formula and rules, cause and effect relationships. Learn them all and you should have it mastered. But when the proverbial hits the fan, it doesn't behave anything like a science. So you also have to understand the psychology of investing (behavioural finance).

Last but not least, my industry has a vested interest in complexity. Think of *The Wizard of Oz*. As long as the curtain is drawn to consumers and the financial players can hide behind complexity, consumers can believe financial gurus have the secrets.

We bombard you with choice, too much choice. How do you filter it all and make informed decisions? Surely the most complex products have to be the best ones or they wouldn't cost so much?

Sadly, this *60 Minutes* quote from former Goldman Sachs employee Greg Smith is all too true: "The quickest way to make money on Wall Street is to take the most sophisticated product and try to sell it to the least sophisticated client." Complexity helps justify fees.

As consumers, we don't like boring, we're time poor, we like action and we want to somehow access the industry's investing secrets – the best investments, the perfect asset allocation. The real secret is no one knows this in advance, only in the rear-view mirror.

The finance industry hopes you don't ever pull that curtain open. SI

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