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SMSF Asset Allocations a Cause for Worry?

Downturn will hit hard when it comes: expert

Sydney, Australia (September 16, 2014) – Self-managed superannuation funds' (SMSFs) investment exposures at the end of the June quarter reveal high equity concentration risks, which leave many retirees vulnerable to an Australian share market downturn, according to Paul Resnik, Co-Founder of FinaMetrica, which specialises in the risk profiling of investors.

Data from the Australian Taxation Office (ATO) reveals SMSFs invested $177.6 billion in listed Australian shares at the end of the June quarter, up from $174.8 billion in the March quarter. Listed Australian shares accounted for around one third or 32% of all SMSF assets in the June quarter, which hit $557.1 billion in the June quarter, up 1.6% from $548.1 billion in the March quarter of this year.

SMSFs cash investments rose to a record $157.9 billion during the June 2014 quarter, up 1.7% from $155.3 billion in the March 2014 quarter. Those cash holdings represented 28% of all SMSF assets. They devoted $65 billion to non-residential property and another $19.5 billion to residential real estate.

SMSFs invested just $2.3 billion in international shares, with another $437 million in overseas managed investments. Another $20.1 billion was invested in listed trusts in the June quarter and $48.9 billion in unlisted trusts, which includes managed funds.

"There are three areas that SMSF trustees, advisers and members need to think carefully about: their over exposure to Australian assets which could be much higher than 90% of total assets; their under exposure to professional investment management, which might be as low as 20%; and their overall exposure to risky growth assets, typically at around 70%, which is likely to be more than they need to take to meet their financial goals.

"By being so heavily exposed to Australian asset classes, SMSFs leave themselves vulnerable to our local market collapse when that happens – and it will," Mr Resnik said.

"Many SMSFs don't understand, can't easily access or accept the importance of international diversification and so they don't invest meaningfully offshore. Many SMSF investors don't understand ETFs and hold managed funds in low esteem so they stick to what they know, and what they think they can control, and so they invest mainly directly in Australia.

"In addition, SMSF investors seem to be taking on more investment risk than they might naturally accept if they invested consistently with their risk tolerances. Taking into account the Australian tax and social security systems, and often large SMSF account balances, they may also be taking on more risk than needed to achieve their goals," Mr Resnik said.

"With SMSFs moving toward de-accumulation there's a growing need to understand and manage 'sequence risk'. When investments have been set aside to provide regular retirement income for members, it's important that there is a plan to work through potential deep and sustained asset value declines which, unless managed carefully, are likely to dramatically diminish their members' retirement plans."

FinaMetrica's widely acclaimed Risk and Return Guide presents a comprehensive analysis of historical portfolio performance across the risk/return spectrum in a manner that is meaningful to clients in the context of their risk tolerance. By using the Guide, financial advisers can show their clients the impact of market downturns on their portfolios.

"Many SMSFs look to be in need of good investment advice. By better understanding how financial markets work, and the impact of asset allocation on portfolio behaviour, SMSFs can be better prepared for market downturns when they happen," Mr Resnik said.

"No member of an SMSF should be surprised by portfolio behavior. At worst they should just be disappointed that their portfolio didn't do better. And if they care about their families they shouldn't be taking on more risk than they can afford."

About FinaMetrica

FinaMetrica specialises in risk tolerance and risk-related matters. The FinaMetrica risk profiling system is based on a psychometric test of personal financial risk tolerance. Psychometrics, a blend of psychology and statistics, is the scientific discipline for testing attributes such as risk tolerance. Launched in 1998, the system is used by than 5,500 advisers in 23 countries in seven languages. More than 700,000 risk tolerance tests have been completed. The FinaMetrica system enables financial advisers to make valid and reliable assessments of their clients' risk tolerance, incorporate those assessments into the financial advising process and explain risk more meaningfully. More information: *www.riskprofiling.com*.

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