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SMSFs Vulnerable as Offshore Diversification is Ignored

Sydney, Australia (December 17, 2014) – Assets held by self-managed superannuation funds (SMSFs) increased marginally over the September quarter to $544.4 billion, according to data from the Australian Taxation Office (ATO), with most of that held in cash and Australian shares.

Cash and term deposit investments rose to a record $156.7 billion during the September 2014 quarter, up 0.8% from the June 2014 quarter, representing 29% of all SMSF assets. Australian share investments dropped slightly out of favour, falling to $173.0 billion, or 32% of all SMSF assets, down from $174.2 billion in the June quarter.

SMSFs allocated record levels to property, with $67.8 billion invested in non-residential property as at September 30 and another $20.4 billion in residential real estate, representing a combined 16% of all SMSF investments. Another $20.1 billion was invested in listed trusts in the September quarter (4% of total SMSF assets), $50.6 billion in unlisted trusts including managed funds (9% of total assets) and $26.6 billion was allocated to other managed investments (5% of total assets).

SMSFs invested just $2.3 billion in international shares directly, or a miniscule 0.4% of total assets, with another $467 million in overseas managed investments.

"SMSFs need to reassess their very high exposure to Australian assets, which represent almost 100% of their portfolios. This lack of geographic diversification exposes SMSFs to potentially substantial losses when Australian markets correct," said Mr Resnik, Co-Founder of FinaMetrica, which specialises in the risk profiling of investors.

“Many SMSF investors don’t understand, or have confidence in, managed investments or ETFs, through which they can gain exposure to offshore investments, so they avoid them. Instead, they stubbornly stick to what they know, Australian property, shares, terms deposits and cash,” he said.

“Nor do SMSFs seem to be aware of the opportunities and benefits that they are missing out on. US markets, represented by the S&P 500, for example, are up 15% over the 12 months to mid December, while the depreciation of the Australian dollar could have boosted this by a further 10%. In comparison, the Australian share market has risen 7% over the same time,” Mr Resnik said.

“Moreover, SMSFs are missing out on asset classes that are not well represented in Australia such as technology stocks like Apple and Microsoft, leaving them over exposed to the limited investment choices in Australia such as banking and resources shares.”

Mr Resnik said SMSFs also need to re-assess their very concentrated exposure to Australian growth assets, “which stand at a little over 70% of their portfolios. Such a high level of investment in property and shares is likely to be more than many need to take to meet their financial goals and probably much more risk than is consistent with their risk tolerance.”

Mr Resnik said the need for greater regulation of the advice sector is illustrated by the lack of confidence SMSFs have in professionally managed investment products such as managed funds, which are typically recommended by financial advisers.

“Lack of confidence results in the continuing growth of the SMSF sector and the desire of trustees to manage their own portfolios," he said.

“David Murray's Financial System Inquiry (FSI) will have limited impact on boosting investor confidence in financial advice given that there is nothing specific in the FSI recommendations relating to investment suitability standards, which have gone a long way to creating trust in advice in the UK."

Mr Resnik said that by better understanding the impact of asset allocation and diversification on portfolio performance, SMSFs can be better prepared for market downturns when they happen, “and they will happen.”

FinaMetrica’s widely acclaimed Risk and Return Guide can be used to help educate investors about market returns and volatility. The Guide presents a comprehensive analysis of historical portfolio performance across the risk/return spectrum that is meaningful to clients in the context of their risk tolerance.

“By using this Guide, financial advisers can show their clients the impact of market downturns on their portfolios. It is clear that many SMSFs still don’t understand the extent to which a downturn in Australian markets could impact the achievement of their retirement goals. Good investment advice can help to minimise this risk,” Mr Resnik said.

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