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## SMSF Asset Allocation Exposes Funds to Big Risks

**Sydney, Australia** (March 2, 2015) – Self-managed superannuation fund (SMSFs) assets jumped almost \$10 billion to \$553.7 billion over the December quarter of 2014, according to data from the Australian Taxation Office (ATO), with Australian assets still dominating the mix, exposing these retirement investors to significant investment risk.

Holdings of Australian shares at \$176.2 billion accounted for 32% of all SMSF assets, cash and term deposits at \$156.7 billion represented 28% of SMSF assets. In contrast, SMSFs invested just 0.4% or \$2.4 billion in international shares.

"SMSFs are continuing to focus their investment efforts in Australia, with a huge bias towards local assets almost to the total exclusion of those offshore," said Mr Resnik, co-founder of FinaMetrica, which specialises in the risk profiling of investors.

"This is exposing SMSFs to significant investment risks and they should urgently be reviewing their asset allocations before these risks are crystallised. When Australian markets correct – and they will – SMSFs will be hard hit given the sheer size of their exposure to Australian shares," Mr Resnik said.

"But if SMSFs look offshore, there are unlimited opportunities to diversify their exposures across different asset classes and geographies, thereby reducing investment risks. The benefits potentially include stronger returns. US markets have, for example, outperformed Australian markets over the past 12 months and the fall in the Australian dollar has magnified returns for international investors," Mr Resnik said.

"If the Australian dollar continues to fall, then we could see even further gains. Economic growth in Australia is lackluster given the commodities downturn and the nation's falling terms of trade, which could also depress share market returns this year. The US is expected to experience stronger growth in 2015, which could prompt such a further fall in the Australian dollar," Mr Resnik said.

SMSFs allocated record levels to Australian property, with \$69.9 billion invested in non-residential property as at December 31 and another \$21.1 billion in residential real estate, representing a combined 16% of all SMSF investments.

“Such a high level of investment in property and shares is probably much more risk than is consistent with SMSF investors’ risk tolerance,” Mr Resnik said. “They are saving for retirement and such a high exposure to growth assets means SMSFs may be taking on more risk than they need to meet their cash flow needs. There’s a high likelihood that herd behaviour may be at play here.

“Most SMSFs still largely don’t understand just how debilitating a downturn in Australian markets would be to achieving their retirement goals. Good investment advice can help to minimise this risk. Moreover, by using FinaMetrica’s Risk and Return Guide, financial advisers can highlight to SMSFs the impact of a market downturn on their portfolios and ensure their risk and return expectations are realistic,” Mr Resnik said.

FinaMetrica’s well regarded 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.

#### 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 750,000 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](http://www.riskprofiling.com).

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