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SMSFs Devote More to Cash and Shares, Super Funds Drop Cash Holdings

Sydney, Australia (May 29, 2015) – Self-managed superannuation fund (SMSFs) assets hit a fresh high of $580.2 billion in the March quarter of 2015, with Australian share holdings jumping to $193.1 billion, while Australia's total managed funds industry hit a record $2.6 trillion in the same quarter. While SMSFs devoted more to property and cash, superannuation funds reduced their cash deposits.

Data released this week by the Australian Bureau of Statistics shows Australia's total mangaed funds industry grew 5% in the March 2015 quarter, with $2.6 trillion in funds under management (FUM). Of this, $1.8 trillion was invested with resident managers while around one third, or $864.2 billion, was invested directly in offshore markets or with offshore managers. The value of superannuation assets jumped 6% to $2.0 trillion.

Separate data from the Australian Taxation Office (ATO) shows SMSFs' share holdings were up $18.4 billion or 10.5% in the March quarter from the December 2014 quarter. SMSFs' holdings of cash and term deposits rose 1% to $157.4 billion, another fresh record, with cash investments now representing 27% of SMSF assets.

Paul Resnik, co-founder of FinaMetrica, which specialises in the risk profiling of investors, said the numbers highlight just how large the SMSF sector is becoming but they also reveal the investment risks which many SMSFs face.

"SMSFs now account for almost 30% of Australia's $2.0 trillion superannuation pool and this proportion is likely to grow as more Australians opt for managing their own retirement investments. However, there are dangers involved with doing it yourself and SMSFs need to ensure they achieve a greater geographic diversity with their asset allocation.

"Unlike superannuation fund generally, SMSFs have most of their assets invested in Australian shares and cash investments, which could spell disaster for funds when the local market corrects. While one third of SMSFs are invested in Australian shares, SMSFs had invested just $2.7 billion in international shares in the March 2015 quarter, which is a stark contrast with one third of all managed funds being invested offshore or placed with offshore managers," Mr Resnik said.

"Moreover, while the ABS Managaed Funds data reveal Australian supernnuaiton funds are finally reducing their deposits, SMSFs continue to hoard cash despite very low returns," Mr Resnik said. Superannuation funds held $251.2 billion in cash despoits in the March 2015 quarter, down 1% from the December quarter and following a fall in the previous quarter, the first for several years.

“SMSFs would be prudent to consider how they can diminish their Australian equities risk and reduce cash holdings and rebalance their portfolios to incorporate greater georgraphic diversification. Given that some of the best returns right now are being offered by offshore stock markets, SMSFs are missing out on these opportunities given their huge bias towards local shares. Moreover, if the Australian dollar continues to fall, investors could see even greater gains from holding offshore investments.

“That’s because a falling Australian dollar boosts returns for international investors when assets are converted into local currency. So if, for example, the Australian dollar falls 10 per cent, the value of offshore investments would rise by 10 per cent. For investors in offshore assets, such currency movements would represent a real gain on their portfolio,” said Mr Resnik.

“Moreover, unhedged international invesments can spread investment risk in another way. When international equity markets fall, the Australian dollar tends to fall also, which can cushion a downturn in global share markets given the benefits of local currency depreciation. For this reason, SMSFs might want to reassess their asset allocations and their home bias,” said Mr Resnik.

In terms of other investments, SMSFs allocated record levels to Australian property, with $72.1 billion invested in non-residential property as at March 31, 2015 and another $21.8 billion in residential real estate, both up 1.4% over the March quarter.

“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 better prepare for market downturns when they happen. No SMSF should be surprised by falling markets and they should be prepared for the inevitable,” 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.

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