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Australian Wealth Hits High With Property Splurge

Property downturn will hit hard when it comes: experts

Sydney, Australia (June 25, 2015) – Australians' love affair with property and flirtation with shares pushed up their wealth to fresh record highs in the March quarter of 2015 to over $8 trillion. FinaMetrica risk experts Paul Resnik and Peter Worcester warn that such a huge allocation to property exposes households to a higher interest rates and a sudden fall in values.

As at the end of March quarter 2015, household net worth rose to $8.09 trillion from $7.86 trillion in the December 2014 quarter, made up predominantly of $5.45 trillion of property assets and $4.13 trillion of financial assets such as shares, less $2.12 billion of household liabilities, according to data released today by the Australian Bureau of Statistics (ABS).

During the quarter, household net worth rose by $232 billion, driven mainly by a $129 billion rise in financial assets, reflecting higher equity values, and an $80 billion rise in property assets.

FinaMetrica co-founder Paul Resnik and consulting actuary Peter Worcester said such a big allocation towards property made Australians somewhat vulnerable to rising interest rates or to an Australian recession, which could trigger a property-market correction.

"Most Australians dive into property without thinking more deeply about other investment options. Without the benefit of good financial advice, many Australians are ignoring the investment opportunities offered by other assets, such as managed funds, offshore investments and alternative investments such as infrastructure which all enable investors to diversify their wealth and better insulate their assets against a financial or macroeconomic shock such as a sudden rise in interest rates, rising unemployment or an Australian recession," Mr Resnik and Mr Worcester warned.

They said high levels of household debt to assets, in part due to high property prices, made Australians somewhat vulnerable to even small rises in interest rates.

While the mortgage debt to residential land and dwellings ratio has declined since peaking at 30.6% in September quarter 2012, it has remained unchanged since December 2014 at 29.2%, the ABS said.

"While the ratio has stabilised, it remains high, and this highlights that for those households with mortgages, a large portion of their income goes towards debt servicing, which may become impossible to service if interest rates were to rise, which is exactly what they are likely to do in the US," said Mr Resnik and Mr Worcester.

"That sends an inevitable signal to households that interest rates will rise in Australia in the medium term and it's time now for households to reassess their investment portfolios," they said.

“Many Australians 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, Australians can be better prepared for a financial shock when it happens,” said Mr Resnik and Mr Worcester.

“FinaMetrica provides an online risk tolerance test which enables financial advisors to measure the financial risk tolerance of their clients and better match investments to investors’ needs. Risk tolerance can be quickly and accurately measured by psychometric questionnaires in as little as 10 to 15 minutes. Such tests are important as individuals can often misalign their investments with their risk tolerance,” they said.

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 now used by 5,500 advisors in 23 countries in seven languages. To date, more than 800,000 tests have been completed. The FinaMetrica system enables advisors to make valid and reliable assessments of their clients’ risk tolerance, incorporate those assessments into the financial planning process and explain risk more meaningfully. More information: www.riskprofiling.com.

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