CONTACT
Nicki Bourlioufas
FinaMetrica
0411 786 933
nicki.bourlioufas@finametrica.com

SMSF Portfolios Testing Risk Tolerance Levels

Sydney, Australia (September 29, 2015) – Self-managed superannuation funds (SMSFs) may be investing in more growth assets and exposing their portfolios to more investment risk than they might be comfortable with, according to investment expert Paul Resnik, co-founder of FinaMetrica, which specialises in the risk profiling of investors.

SMSFs allocated around one third of all their assets, at $187.1 billion, to Australian shares in the June 2015 quarter, down from $199.3 billion during the March quarter, according to recent data from the Australian Taxation Office (ATO). SMSFs poured a record amount into cash and term deposits, with holdings rising to $157.7 billion, up from $155.7 billion.

SMSFs' Australian property investments, including residential and non-residential property, rose to a fresh high of $87.9 billion, up from $86.9 billion. Their total net assets fell to $571.8 billion in the June quarter from $582.4 billion in the March quarter.

Paul Resnik, co-founder of FinaMetrica, said the SMSF asset numbers highlight a risky allocation, dominated by growth assets such as local property and shares, allocations potentially out of line with the risk tolerance of most SMSF trustees.

"SMSFs need to ensure they achieve greater asset diversity with their portfolios and a greater awareness of their ability to tolerate investment risk. While one third of SMSFs are invested in Australian shares, SMSFs invested just $1.8 billion in international shares in the June 2015 quarter. While this figure may underrepresent the true amount, SMSFs' offshore investments are still minor compared to their home investments," Mr Resnik said.

"SMSFs would be prudent to consider how they can diminish their Australian equities risk and rebalance their portfolios to incorporate greater offshore diversification and an overall lesser exposure to equities. If the Australian dollar continues to fall, investors could see even greater gains from holding unhedged offshore investments, whether bonds, shares or alternative assets.

"Moreover, SMSFs are still piling money into cash investments despite historically low returns. This is a temptation that needs to be resisted for all investors as share markets fall. Over the long term, cash does not protect against the ravaging effects of inflation and build wealth. Even the big superanuation funds are piling into cash, with recent ABS Managaed Funds June quarter data revealing Australian pension funds boosted their cash deposits to $266.6 billion in the June 2015 quarter, up from $260.3 billion a year earlier."

Mr Resnik said 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.

“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 their needs. The cost of our risk tolerance test has been deeply discounted to $5 from $55 for Australian consumers until 31 October 2015 as FinaMetrica is committed to helping consumers make better financial decisions during these challenging market conditions,” Mr Resnik said.

“The 25-question test takes just 10 to 15 minutes to complete. SMSF investors will then immediately be able to see their risk profile report, which is intended to help them be better understand themselves and the investments that suit their risk appetite. Click here to take your test.

“Don’t delay because whether you invest for yourself or you’re in a couple, it’s important to understand your appetite for risk and how different you are from your partner. For couples with a SMSF, the investment needs and risk appetites of both partners need to be separately assessed by advisors before a suitable financial plan for the couple can be finalised.

“It's also not unusual, for example, for females in couples to be several years younger than their male partners. This presents a significant challenge about how to communicate and advise a couple when the female not only has a lower tolerance for risk but she needs her investments to last longer. Financial advisors can’t ignore this,” 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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