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SMSFs' Vulnerability To Aussie Shares Exposed By Official Data

SYDNEY (December 18, 2015) – FinaMetrica, the global risk and suitability expert, says the self-managed superannuation fund (SMSF) sector in Australia has experienced a drop in total assets during the September quarter of this year following a sharp fall in Australian share prices, highlighting SMSFs' vulnerability to a local market correction.

SMSF net assets fell 3.2% to \$557.2 billion in the September quarter of 2015, down from \$575.4 billion in the June quarter. SMSF Australian share holdings plunged 8.8% to \$167 billion, down from \$183.2 billion in the June quarter and down from as high as \$195 billion in the March quarter of this year. Local equity market holdings, however, still represent about 30%, of all SMSF assets.

“Yet while close to one third of SMSFs are invested in Australian shares, SMSFs had invested just \$1.8 billion in international shares in the September 2015 quarter if you can believe the ATO numbers,” said FinaMetrica director and co-founder Paul Resnik.

“That allocation has fallen from \$2.1 billion in the March 2015 quarter, and is now at its lowest level since the December 2012 quarter despite the fact that share markets in many developed countries have outperformed the Australian share market this year.”

In contrast, SMSFs' holdings of cash and term deposits rose to another fresh record of \$156.4 billion in the September quarter, up from \$155.6 billion in the June quarter, with cash investments now representing 28% of SMSF assets.

“Most SMSFs need to reassess their asset allocations to address an excess of risk in their portfolios associated with very high allocations to Australian shares. As we can see with the equity market correction in September, SMSFs' portfolios dropped in value after a sharp fall in share prices.

“Many SMSF portfolios arguably need greater protection against local equity market volatility and they can get this through a greater unhedged exposure to international shares whereby any fall in the Australian dollar would help to cushion local equity market losses,” Mr Resnik said.

“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,” he said.

“If the Australian dollar continues to fall, then we could see even further gains to investors holding international shares. Given the nation’s terms of trade is quickly falling, this will likely weigh on the local dollar next year.”

Mr Resnik said SMSF investors needed to have their risk tolerance measured by financial advisers in order to better understand which investments suited their needs. Many investors also needed advice on diversifying their investment risks away from local assets.

“Risk profiling and, in particular, the accurate assessing of risk tolerance is a basic step towards identifying suitable investments. A good risk tolerance test will take as little as 10 minutes to complete yet the benefits are numerous. People are far more likely to stick to their financial plan through market highs and lows if they are comfortable with the risk levels they have taken and understand at the outset their financial plan, and the risks it entails.

“My new years’ message to SMSFs is to make sure you or your adviser has undertaken a robust, defensible risk profiling process that protects your interests. Don't be surprised by the next market downturn. It's far better to know now the risks in your portfolio and whether you can in fact live with your asset allocation.”

About FinaMetrica

Advisors rely on FinaMetrica’s award-winning risk profiling process to help clients stay invested and achieve their financial goals by delivering suitable investment advice. Launched in 1998 and proven through market cycles, FinaMetrica is used by thousands of leading advisors around the globe to scientifically assess their clients’ risk tolerance, incorporate those assessments into the financial planning process and frame expectations more realistically. Almost a million FinaMetrica risk tolerance tests have been completed to date. For further details visit www.riskprofiling.com

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