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More go it alone with super

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Reckon you can do better than the average fund manager? Fed up with paying high fees for ordinary returns? Or perhaps you just think your savings could be put to better use than the standard bland diversified portfolio?

Chances are you already have, or are considering, setting up a self-managed superannuation fund. In a market where the big funds are now billion-dollar enterprises, the small army of investors choosing to go it alone is often overlooked. But collectively it is a force to be reckoned with. Of the \$1.08 trillion invested in super in June this year, it was self-managed funds – not the higher-profile industry or retail funds – that had the lion's share. According to the Australian Prudential Regulation Authority, self-managed funds held \$332 billion in the kitty, or just under 31 per cent. More than 410,000 self-managed funds exist, holding the retirement savings of more than 770,000 people.

Reasons vary about why so many investors choose to manage their nest egg, but control is chief among them. Self-managed fund investors typically want greater flexibility and the opportunity to take a more active role in their savings strategy.

A survey of more than 1600 self-managed funds by [AMP Capital Investors](#) and **Investment Trends** shows these go-it-alone investors have been making full use of this flexibility through the financial downturn. While many public funds have been criticised for not changing their investment strategy as markets fell (perhaps unfairly criticised, in some cases, as many funds are legally limited in how much they can move in and out of different asset classes), more than a third of self-managed funds (36 per cent) made substantial changes to their asset allocation in the past 12 months, up from 27 per cent the year before. Not surprisingly, the bulk of funds that made changes – 55 per cent – adopted a more defensive position.

Just under one-third of funds sold assets at a loss; most chose to hold on to their investments rather than sell when markets were down. This ability to choose to ride out the storm is not readily available to investors in public funds where fund managers decide what to hold and sell. The upshot was that 40 per cent of funds said they posted a positive return in the 12 months to May, and fewer than 10 per cent said they would need to delay retirement or make extra payments because of the financial crisis.

These funds have now built up a tidy war chest to take advantage of market opportunities that come up. According to the research, cash reserves of self-managed funds reached \$34 billion in 2009, more than triple the \$11 billion held in 2008.

There is a valid argument, of course, that by becoming more defensive some funds will have missed out on the extraordinary recovery in investment markets over the past six months. This week the researcher SuperRatings reported the median balanced super fund had returned a stunning 14.3 per cent over the past six months, bringing losses for the past 12 months down to 7.9 per cent.

But encouragingly, one-third of funds said they would be looking to buy undervalued assets (if there are many left) in the coming year – suggesting these funds are not planning to sit on their hands.

Further insight into self-managed funds was provided this week by the Tax Office's latest report which showed that almost 29,000 new funds were set up last year and the number of fund members increased by 50,000.

The Tax Office's figures confirm the view that self-managed funds are often more conservative. In June the Tax Office estimated self-managed funds had about \$100 billion (or almost a third of their assets) in cash and term deposits, versus \$92 billion in listed shares and \$659 million in overseas shares.

Self-managed funds had just under \$46 billion (about 14 per cent of their assets) in property – with the bulk of that (\$34 billion) in non-residential investments. They held \$25 billion in listed trusts, \$28 billion in unlisted trusts, and \$17 billion in managed investments.

One statistic that may concern the regulator (and potentially the committee reviewing the super industry) is the persistence of funds managing a small pool of assets. No one seems able to agree on how much money you need to make running a fund worthwhile, but the fact that about 15 per cent of funds had less than \$100,000 in assets in 2007-08 suggests many investors are paying through the nose for a fund they probably don't need.

Just under half the funds had assets of \$200,000 to \$1 million, although more than a quarter had assets in excess of

that. Those high balances lifted the average fund assets to \$456,000 – which explains why self-managed funds are such as magnet for marketers.

One in four fund members had an income of less than \$20,000 (which probably includes a fair swag of retirees) and almost one in five earn more than \$100,000. The largest concentration of members were pre-retirees aged between 45 and 64.

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