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TREADING WITH CAUTION

By [Janine Mace](#) on 16 August 2010 [0 comments](#) 54 views

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While the avenues investors are using to place their money in assets may be shifting in the wake of the global financial crisis (GFC), the assets they are choosing are not changing anywhere near as quickly.

Cash still remains king, and investors are moving slowly when it comes to reinvesting into other asset classes and more complex vehicles.

A big chunk of Australians' wealth still remains parked in cash, according to Investment Trends director, Mark Johnston.

"There is \$34 billion in excess cash sitting on the sidelines and that is just among SMSF [self-managed super fund] investors," he says.

"The cash war chest we saw accumulated during the GFC hasn't shrunk much, but it is not growing either. Investors have begun to invest again, but there is still quite a bit left in there."

This trend was highlighted in the latest Multiport SMSF Asset Allocation Survey, conducted in May 2010, which found SMSFs still had 21 per cent of their assets in cash and short-term deposits. Although this is down from the 28.8 per cent they held in December 2008, it still reflects some hesitation about reinvesting into other assets.

It also reflects the enhanced appeal of conservative, cash-based investments in a volatile investment environment. As the report notes: "Increases in domestic interest rates and competition for deposits should appeal to SMSF trustees looking for a more conservative investment position given the recent volatility of sharemarkets."

However, there are moves towards reinvesting in other assets, particularly at the top end of the market.

The recent Investment Trends/Centric Wealth High Net Worth Investor Report found only 14 per cent of high-net-worth (HNW) investors were still accumulating cash while waiting for volatility to recede, versus 40 per cent in December 2008. Half (52 per cent) said they were buying undervalued assets on an opportunistic basis, compared to 42 per cent in 2008.

Further down the wealth spectrum, the trend is not as pronounced, with the latest IFSA/CoreData Investor Sentiment Survey (July 2010) finding 63.5 per cent of investors are unlikely to invest new money into their existing investments in the next three months.

Simple is best

When they do start to re-enter other assets, it is likely to be in straightforward vehicles that allow investors to keep a very close eye on their money.

According to Simon Robinson, senior private wealth adviser at Wilson HTM Private Asset Management, simplicity is key in the current market.

"The past 12-18 months has brought the focus back on keeping things simple," he says.

"Investors are rethinking the appropriateness of the financial instruments they are using, and increasingly the focus is on preservation of capital."

Johnston believes it is likely to be some time before complex investment structures and alternative assets start to see significant inflows. "The range of investments has begun to expand again, but it is still

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nowhere near what it was.”

The assets implicated in the more dramatic crashes and GFC-induced problems are likely to suffer most. “[The assets that are] definitely out of favour post-GFC include agribusiness and mortgage trusts,” he says.

Market volatility is also making life tough for assets other than cash. While interest in equity markets slowly began rebuilding in the second half of 2009, Sayers says it has fallen away again with the return of strong market volatility in the first half of 2010.

“At the macro level, we saw massive interest in August/September/October 2009 in equities trading as it was felt the GFC was over,” he says.

“However, the massive level of trading and new account acquisition has slowed as uncertainty has increased dramatically. The European bank situation and uncertainty over the mining tax and the election have given people cause to pause. The equity market as a whole has been very quiet for the past three to four months.

“We are still seeing high levels of interest in opening up accounts, but not in trading at the moment,” Sayers says.

Drift away from managed funds

As investors return, they seem less inclined to head back into managed funds.

According to Johnston, changes in the market are likely to see other investment vehicles grow in popularity. His research indicates advisers are planning to increase their use of direct equities, index products and exchange-traded funds (ETFs).

“The proportion of money going into direct equities has been increasing at the expense of managed funds,” he explains.

Some of this is due to advisers moving towards asset based fee-for-service business models, together with investor disenchantment about the managed funds industry and a desire to stay close to their assets.

This is making life difficult for managed fund providers.

“Investors are more discerning about where they allocate their money. They want to understand better where funds are allocating their money and be able to assess their risk and the indirect fee levels,” Robinson says.

“We are seeing a ruthless reallocation of capital to better performing managers and funds.”

Sayers agrees managed funds are finding life more testing. “There is greater scrutiny on the cost line for managed funds,” he says.

“People are likely to increasingly focus on the cost of rebalancing trades and whether the costs are for professional expertise and are really adding value, or they are just for administration.”

With inflows to managed funds slowing, direct shares seem to be the big beneficiaries. For example, the Multiport report found SMSFs are shifting towards holding their equities allocations directly. It found at 31 March 2010, SMSFs had 36.2 per cent of their total Australian equities exposure in direct shares (compared to 22.6 per cent in December 2008), while only 6.4 per cent was in managed funds (compared to 9.3 per cent in December 2008).

Despite the decline in inflows, Sayers believes there is still a clear role for managed funds. “They will just need to work harder to justify their costs and what value they are bringing to the customer.”

Robinson agrees managed funds are unlikely to disappear just yet. “There will always be a place for funds and investment managers and for direct equities,” he says.

“They are a different set of services and products for a different set of customers.”

Next big thing

The big beneficiary of the shift away from managed funds is likely to be ETFs.

“We are seeing increasing numbers of online share traders and ETF users. The ETF story is a very interesting one and growth is increasing,” Johnston says.



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The Investment Trends research indicates the number of Australian ETF users is increasing exponentially, growing from around 9,000 in December 2006 to 19,000 in December 2008, with numbers hitting 39,000 by December 2009.

According to Johnston, ETF users are predominantly self-directed investors, with eight in 10 saying an adviser was not involved in the decision to use an ETF. However, this is changing. In a study at the end of 2009, 30 per cent of advisers said they planned to begin using ETFs.

Sayers agrees their popularity is growing. "ETFs are increasing in popularity and are growing strongly. There is more money in ETFs than in LICs [listed investment companies] and they have really taken off in the past 12 months," he explains.

"LICs are bigger than ETFs, then there are options and [contracts for difference] which are tiny."

Sayers believes the popularity of ETFs reflects the benefits they can provide. "People typically went into managed funds to get the benefits of diversification, but now ETFs are providing that at a reduced cost," he says.

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