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SMSF gearing strategies on the rise

Set for 40pc growth over next year

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Tue 09 Nov 2010

A new industry report has found the use of gearing in self-managed superannuation funds (SMSFs) more than doubled over the past two years and is expected to increase by a further 40 per cent in the coming year.

The Investment Trends 2010 SMSF Borrowing Report found in April 2010, 29,000 SMSFs were employing a gearing strategy compared to a total 13,500 SMSFs that were using gearing in July 2008. The jump represents a 115 per cent increase in under two years.

In looking towards the future, 75,500 SMSFs admitted they intended to acquire assets through the use of borrowings in the next 12 months. Investment Trends calculated this to mean around 41,000 SMSFs will have a gearing product in place in the next year, representing a rise of around 41 per cent compared to current levels.

"Gearing within SMSFs is a rapidly growing niche which appeals to between a fifth and a quarter of SMSFs," Investment Trends analyst Recep Peker said.

"While only a minority of SMSFs currently use geared investments, around 7 per cent, that proportion looks set to hit double digits over the next couple of years," he added.

Of the assets SMSF members are purchasing through their gearing strategies, property remains the favourite.

Of those members already using gearing, 41 per cent have used it to invest in property with 30 per cent employing it to buy shares.

Of those people who indicated they will use gearing in the coming year, 50 per cent said they would acquire property with the borrowings and 27 per cent said they would buy shares.

Financial planners are becoming keener on recommending gearing strategies as well, with 67 per cent of respondents saying they intended to place at least one SMSF client into a borrowing product in the coming year, up from 60 per cent of positive respondents to this question in June 2009.

The online study was conducted between March and June of this year and involved 1900

SMSF trustees, 470 financial planners and 470 accountants.

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