

Funds gear up

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Self-managed funds may be conservative in their investments, keeping 41 per cent of their investments in Australian shares, mostly in top stocks, but the use of gearing by these funds has doubled in two years.

Those are the results of two recent surveys on DIY super fund investment, the *2010 SMSF Borrowing Report* produced by Investment Trends and the *Multiport SMSF Investment Patterns Survey*, derived from the aggregated figures of the 1350 funds administered by Multiport.

One change of note evident from the Multiport figures is that by the end of the December quarter, Australian shares took up 41.4 per cent of the total portfolios of the Multiport funds, compared with 42.6 per cent in the previous December, although with a distinct dip in that figure during the year.

Most of the difference was made up by a shift into fixed interest investments, which grew from 10.8 per cent of total DIY portfolios to 11.8 per cent.

Multiport chief executive, John McIlroy, says that overall these funds are conservative in their approach, with the big change being the gradual return to shares after the global financial crisis.

The Australian shares held by the funds were mostly major blue chips, with BHP Billiton the most popular, followed by the banks – the Commonwealth Bank, Westpac, ANZ and National Australia Bank.

The report notes that SMSF's holdings in top 10 stocks represent 16.3 per cent of all fund assets, indicating a heavy reliance on the four banks and the big miners.

The Multiport report also notes that investment in international shares was 7.1 per cent of the total portfolio in December, or about 0.5 percentage point below the proportion held in June.

With much of the recent talk in this area about funds leveraging up to buy property, as they are now permitted to do, direct investment in property increased by about 0.4 percentage points to 12.4 per cent. Another 3.3 per cent was in the likes of listed property products.

McIlroy says that with funds being able to leverage up in that area he expects more movement in direct property investment.

As for payments into the funds, the Multiport figures show a distinct surge in payments in the June quarters of 2009 and 2010, with an average of more than \$30,000 being contributed to funds in the June 2009 quarter, in order to beat changes to the DIY regime.

The Investment Trends borrowing report, based on online surveys of fund trustees, financial planners and accountants last year, found that only a minority of funds – about 7 per cent – use gearing.

But the number of funds using gearing had more than doubled in the past two years, with further increases expected, and the proportion of funds using gearing was expected to get to 10 per cent in the next two years.

Investment Trends analyst Recep Peker says financial planners and accountants “are both increasingly likely to recommend geared products to their SMSF clients”.

However, the survey also shows that despite advisers being more likely to recommend gearing, and all but a tiny proportion of SMSF investors aware that they can use gearing, many fund trustees remain resistant. Of the trustees surveyed, 54 per cent declared they were unlikely to use geared products.

Of those using gearing, or likely to over the next 12 months, those who prefer to gear into property outnumber those who prefer to gear into shares by two to one.

“Given the higher costs of entering the Australian property market, compared to shares, this trend is reflected by an increase in the average planned loan size, which rose from \$190,000 in May 2009 to \$280,000 in April 2010,” says Peker.

“Despite this increase, SMSFs remain fairly conservative in their approach to gearing, with the preferred loan-to-value ratio falling to 40 per cent, down from 44 per cent in 2009.”

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