Thumbs up for separately managed accounts in DIY funds

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Financial planners appear to be increasingly recommending that clients with do-it-yourself superannuation funds use separately managed accounts as an alternative investment to managed funds.

Separately managed accounts (SMA) have only recently started to gain in popularity in Australia as improvements in technology allow providers to offer them at a lower cost than the traditional managed fund.

Historically, financial planners have tended to offer managed funds because of their ease to access and ability to outsource investment decisions to some of the country’s best fund managers.

But a survey by research group Investment Trends shows that 45 per cent of financial advisers said they would recommend separately managed accounts to trustees with self-managed schemes, a 13 per cent increase on the result last year.

Investment Trends analyst Recep Peker said the findings signal that more planners are seeing SMAs as being suitable for SMSFs.

“SMAs are playing a greater role in the businesses of financial planners who recommend them.”

SMAs are essentially a managed fund but they allow investors to retain ownership of the underlying shares in the fund, whereas in a traditional managed fund the shares are held by the manager and the investor owns units in the fund.

Ownership of the underlying stocks in an SMA means investors also get the benefit of dividends and franking credits. Stock picking is generally done by financial advisers whereas with managed funds, again that is left up to the fund manager.

The survey also found that planners who use the investment structure have 16 per cent of their funds under advice in SMAs, up from 12 per cent in May 2010. These planners expected the proportion of their funds under advice in SMAs to nearly double by 2014.

But despite an increase in planners recommending SMAs as being suitable for DIY funds, overall adoption increased only marginally from 17 per cent in 2010 to 18 per cent this year.

“This may sound low, but the current environment is very tough,” said Mr Peker. “The comparable rate for exchange traded funds – a product clients typically find easier to understand – was just one in nine.”

The survey results were highlighted in the 2011 Separately Managed Accounts (SMA) Report, which interviewed more than 900 financial planners between April and May of this year.

The Australian Financial Review

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