

Australian superannuation overweight equities

6 September 2011 | by Tim Stewart



Australian superannuation funds have an overweight allocation to equities when compared with similar markets around the world, according to Vanguard head of corporate affairs and market development Robin Bowerman.

During the run-up to its peak in 2008, the most recent bull market in Australian equities saw portfolios creep up from a 60/40 equities/fixed interest asset allocation to a 75 per cent allocation to equities, Bowerman said.



"It was probably as much to do with the performance of markets as with anything else," he said.

"People like returns, but when you go through 10-year periods or more when markets are subdued or flat, you need to have that balance."

It might be fairly easy to convince investors to adopt a more conservative asset allocation to equities in the current economic climate, but it is much harder to persuade people to keep their equities exposure at a sensible level when markets are going up, Bowerman said.

"You need to be a bit careful that people don't end up doing the right thing for the wrong reasons," he added.

But Bowerman had plenty of praise for Australia's superannuation system as well. An unintended consequence of the system, he said, was that the vast majority of Australians were in well-diversified default funds that effectively took a 'dollar-cost average' approach to investing.

"Eighty-five per cent of people are in default funds with a diversified portfolio. So as they continue to contribute, they're buying assets at low prices, and as markets continue to grow again, they'll get the benefit of that ... It's a great way of taking the timing question out of the equation," Bowerman said.

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