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This commentary is written by Vanguard Principal, Corporate Affairs & Market Development Robin Bowerman. The title is SMSFs dominate ETF market

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And is read by Michael Mullins

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Self-managed super funds are truly a dominant force among Exchange Traded Fund (ETF) investors.

Figures published in the Vanguard/Investment Trends 2011 Self Managed Super Funds Report released last week shows that of the 59,000 ETF investors as at May, 30,500 or almost 52 per cent were self-managed funds.

Why do SMSFs make up such a large percentage of ETF investors? This is the question that specialist investment researcher Investment Trends has sought to answer.

The main reasons given by SMSFs for their most recent ETF investments are:

1. Diversification (73 per cent of funds).
2. Low cost (50 per cent).
3. Lower risk than holding individual stocks (37 per cent).

4. Liquidity and ease of sale (35 per cent).
5. Access to specific overseas markets (33 per cent).
6. Means to provide core of share portfolio (27 per cent).
7. Trading flexibility (26 per cent).

Less common reasons for SMSFs' most recent ETF investments included transparency of underlying investments (14 per cent of funds) and ability to quickly rebalance portfolio (13 per cent).

Most of the reasons that SMSFs give for investing in ETFs appear to suggest that many fund trustees are using the products as a means to reduce risk and increase opportunities through diversification and efficient rebalancing. These are, of course, key considerations – including in highly volatile markets.

And the emphasis on the low cost of ETFs suggests investors are concentrating on factors that they can have a large degree of control over in their portfolio, including the costs. High investment management costs are really highlighted to investors when investment returns are low or negative.

And that concludes the column

SMSFs dominate ETF market

from Robin Bowerman, Principal, Corporate Affairs & Market Development at index fund manager Vanguard Investments Australia

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