

News & Commentary

Cautious self managed superannuation investors build a 'wall of cash' over \$100 billion mark

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Sydney, 1 September 2011: The Vanguard / Investment Trends Self Managed Super Funds (SMSF) Report*, released today, tells a clear story of a lack of confidence in future market directions within the self managed fund sector, according to Robin Bowerman, Head of Corporate Affairs and Market Development from Vanguard Investments.

"Given recent market volatility that's not surprising, but you worry about investors trying to time markets rather than staying on course with a long-term asset allocation plan."

The survey found that the so-called 'wall of cash' held by Self Managed Super Funds (SMSFs) has increased markedly as wary investors say they are waiting for the return of more favourable market conditions before reallocating funds to growth assets.

Mark Johnston, Principal of Investment Trends, said "this report shows total cash and cash products held by SMSFs in Australia has grown by \$40 billion since May 2009 to \$113 billion."

The survey also identified the level of 'excess cash' held by SMSFs, defined as funds that would normally have been invested in other investments/assets, but were being held in cash due to recent market volatility.

As overall cash holdings jumped significantly over the last couple of years, excess cash holdings has remained relatively stable in terms of value at \$39 billion. Excess cash now represents 35 per cent of SMSFs' total cash holdings, down from 53 per cent in May 2009.

"Behavioral finance studies consistently highlight that investors driven by short-term emotional influences will often buy when markets are high and sell out when they are low," said Mr Bowerman.

"A more conservative asset allocation may be absolutely right for an investor's circumstances, however it is vital for investors to remember that a diversified, low cost approach to investing that maintains market exposure during turbulent trading days and looks past the short term volatility has the greatest opportunity of investment success," he said.

He referred to long term return figures to illustrate the point.

"When you look at 20-year rolling returns since the 1950s using monthly data**, the median annual Australian share market return is 12.9 per cent. The worst 20-year return for the share market was 8.4 per cent per annum, in the 20 years to the end of February 2009."

This means that SMSF trustees turning more to cash and term deposits are consciously or otherwise taking a pessimistic outlook on the future growth of our economy and major Australian companies.

"Obviously we have experienced a lot of short term market volatility, and there is uncertainty about where the markets are going next. Recent events, however, should reinforce the view that investors are concerned about many things that simply are not within their control such as geopolitical affairs, markets and economies."

The nationwide Vanguard / Investment Trends survey of more than 3,000 SMSF trustees showed that SMSF investor concern has been tracking more or less to the market movements. The sideways movement of the market since 2009

peppered with a number of corrections has caused investor concern levels to remain high. At the same time, SMSF investors' growth expectations of the Australian All Ordinaries Index has moderated – from a rise of 11 per cent over 12 months expected in 2009 to a rise of just 7 per cent over 12 months expected in 2011.

While SMSFs' total allocation to direct shares grew from 37 to 40 per cent year on year, cash and cash products jumped from 21 to 26 per cent of total SMSF assets in the same period. 152,000 SMSFs made substantial changes to their asset allocation in the last year, of which 115,000 (76 per cent) said a reason was to be more defensive.

The reasons for changing asset allocation to a more defensive approach included:

- Selling assets for cash.
- Adopting a more defensive stance.
- Leaving cash contributions in cash.
- Negative outlook on the property market.
- Negative outlook on Australian shares.
- Negative outlook on overseas shares.

"We found that the main triggers for SMSFs to invest their excess cash will be a return of confidence; improved market conditions; or better economic outlook. This, coupled with other findings from the Vanguard / Investment Trends SMSF Report, paint a picture of a nervous and wary market. For Vanguard, the message is clearly about taking a longer term view, having a well-diversified portfolio to suit your risk profile and keeping costs as low as possible," Mr Bowerman said.

*Vanguard aims to assist investors and advisers make the best possible investment decisions by providing educational material, research and commentary. Vanguard has co-branded the release of the key findings of the SMSF research report however the research was done independently of Vanguard by Investment Trends. The research methodology, intellectual property and findings are exclusively the property and responsibility of Investment Trends.

**20 Year data prepared by Andex Charts Pty Ltd.



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