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### Go it alone

By Lesley Parker  
November 1, 2006

The huge industry that has built up around financial advice and management means it's easy to lose sight of the fact that some people can - and do - manage their own investments and do it successfully.

All sorts of people with the time, money and inclination are doing it for themselves. Some get enjoyment out of it; others value a sense of control. Still others doubt the independence of financial planners and are unhappy with fund manager returns and fees.

The rise of online brokers and web-based information services over the past decade has put the tools these people need within easy reach and the bull market has given them the confidence to have a go.

David Child, formerly the head of KPMG's financial planning practice but now a director of the Australian Investors Association and founder of the Financial Connections website, says more people would be investing on their own behalf but they've been blinded with science.

"Most of what people need to do in financial planning and investment isn't rocket science, it's commonsense," he says. "Probably 98 per cent of what people need to do they can do for themselves, if they know where to go and if they've got good sources of information. The problem is they're bombarded constantly by other people telling them they can't do it."

Tom Scollon, chief analyst for Shares Bulletin, agrees. "There's a sense that, for some people, they don't have the right ... [that DIY investing] is seen to be for other people. But I think this is for the man and woman in the street."

The anecdotal evidence is that people increasingly are having a go at investing on their own behalf - whether by managing their own portfolios or by enlisting professional help for most of their investments but experimenting with the rest.

### The growth in DIY



Illustration: *by John Shakespeare*

Australia's biggest online broker, CommSec, now has 1.4 million accounts. Online information service The Intelligent Investor - by way of example - has gone from nothing to 10,000 subscribers in eight years.

The typical DIY investor is 50-plus, nearing retirement and probably has a self-managed superannuation fund. But Mark Johnston of researcher InvestmentTrends says there's an emerging group of younger DIY investors.

These investors tend to be male, 30-plus and on good incomes. "What they have in common is a high level of engagement and interest in their finances," he says.

CommSec general manager Matt Comyn sees the same trend. "Over the last 10 years, we've seen people getting into direct investing younger ... there's also more women becoming involved than you would have seen a few years ago," he says.

What's behind this interest in self-directed investing? Johnston says of the younger investors: "They tend to DIY because they don't think financial planners add value necessarily ... they don't necessarily see them as independent. I'm not saying they aren't, but that's the perception in this group - it's a common view."

At The Intelligent Investor, Steve Johnson says: "People are saying, (a) the fees they pay upset them, and (b) there are a lot of vested interests, when planners are getting commissions for the products they sell."

### **Fees you save**

According to funds researcher Morningstar, ongoing fees range from an average of 1.06 per cent for cash management to 2.14 per cent for small-cap international shares. A typical multisector fund or large-cap Australian share fund charges about 1.85 per cent.

Let's say you invest \$20,000 in a growth fund, topping that up with contributions of \$2000 a year, for 10 years. The fund has its ups and downs but achieves an average return of 8.5 per cent over that time. In this example, the management fee and contribution fee are 1.85 per cent and there's an adviser fee of 0.5 per cent.

On this basis, the Australian Securities Investment Commission's managed funds calculator tells us that of the \$53,900 that will accumulate, \$10,000 - or 18.6 per cent - will be excised in fees.

Of course, there are costs to DIY investing too, including brokerage and the price you put on your own time, but the question is whether they add up to this amount.

What's more, the growth fund will quite possibly achieve only "index"-style returns - or, worse, returns below those of the benchmark index.

According to Morningstar, as of September 30 the average three-year return of a large-cap Australian share fund was 21.6 per cent. This compares with 22.8 per cent for the S&P/ASX

200 accumulation index.

That causes some people to ask: what value did the professionals add?

Investors are supposedly paying for a manager's skill, but a study by Morningstar earlier this year concluded that it "remains a difficult task" to find a managed fund that beats a benchmark with any degree of skill - as opposed to luck.

The researcher measured skill by the consistency with which funds added value against a benchmark index, month in, month out, over a number of years. Over five years, only 8 per cent of retail Australian equities funds studied passed the skill test.

## **Be in control**

Nevertheless, not even the most ardent advocates of DIY investing believe it is for everyone, acknowledging that skilled financial planners and well-performing funds fill a need for people who don't have the time or knowledge to manage their own affairs.

"There are people who are absolutely delighted with the advice they're being given and are quite happy to carry on in that way because they'd rather potter around in the garden than potter around in finance," Child says.

"But if people are prepared to invest some time up-front, rather than invest their money up-front, they can accumulate the knowledge that ... will enable them to start making sensible selections."

And DIY is not an absolute, he says. "It's one case where you can actually be 'a little bit pregnant'," he says, keeping some funds under professional advice and building experience by managing some money yourself.

Scollon says it's hard to pin a successful DIY investor down to a "type", but what's required is a steady approach.

Given men's predominance in self-directed investing, "funnily enough, women make very good investors", he says. "They're much more clinical in their approach, they are less likely to be swayed by sales hype, by the latest speccy [speculative] stock."

The ideal is somewhere between the sort of person who over-analyses or is frozen into inaction by fear and the person who could be described as a gambler, he says.

His advice is to start by being an "investor" who buys and holds rather than a "trader" who turns over stocks frequently. Buy one or two stocks at a time, buy quality, buy during market pullbacks and, he says, have a risk management plan - know when to cut your losses on a stock and sell.

## **What you need**

It would be quite easy to spend a lot of money on expensive investment seminars and trading software, but Sean Dostal, managing director of investment "shop" [moneybags.com.au](http://moneybags.com.au), says

there are cost-efficient ways of arming yourself with knowledge and tools.

Dostal says there are very good, free courses on the ASX website. Alternatively, you should be able to find a good-quality home study course for less than \$500.

The moneybags website includes "learning paths" of suggested reading and courses, arranged according to an investor's existing knowledge and experience.

Online brokers such as CommSec also have online and face-to-face education, along with useful services such as equities research.

Child cautions that you shouldn't need trading software - costing hundreds or even thousands of dollars - if you're taking a conservative, buy-and-hold approach.

Many DIY advisers suggest honing your skills by "paper trading" with a dummy portfolio, something you can do with the ASX Sharemarket Game.

With the raft of courses, books, investment newsletters and trading software out there, how do you sift the wheat from the chaff?

Patrick Ganley, general manager of web-based investment advice service Fat Prophets, says the people behind investment newsletters should have an Australian Financial Services Licence. Fat Prophets also makes it a practice to publish each month independently verified performance statistics relating to its advice.

Dostal says the old adage stands: If it looks too good to be true, it probably is. "If [the marketing] says 'spend five minutes a day to make a million' then I'd question that product.

"Another thing to look at are the motives of the promoter. A lot of [products] are promoted by people whose aim is not to educate you but to sell you real estate in Queensland."

Forget the pretty packaging, he says, and understand that a high price tag isn't necessarily an indication of quality. For moneybags.com.au, it comes down to the right balance of quality and price.

"We get approaches by 10 companies a month wanting to list their products on our site and only one or two of them will pass the test," Dostal says.

### **How to construct a low-risk portfolio**

Start talking about do-it-yourself investing and the counter-argument will almost inevitably be "diversification".

Fund managers, in particular, argue that ordinary people with limited resources can't afford to go it alone, that they need to pool their money with other investors to own a sufficiently diverse range of stocks to spread their risk.

But proponents of self-directed investing say the extent to which diversification is needed is

sometimes overstated.

Yes, fund managers under pressure to report outstanding results every three months may invest in hundreds of stocks at a time. But people shouldn't feel shut out of the market just because they can't diversify to that extent. Ordinary investors who "buy and hold" well-chosen stocks don't have to go to these lengths, they say. "Diversification is fine, it's important," says David Child of Financial Connections. "It's a favourite of the professional - it allows them to spread their risk. But diversification for the sake of diversification has no value. Diversification into an investment that's worse than the one you already own doesn't make any sense."

CommSec's head of quantitative research, Ron Bewley, has looked at diversification and found that it is possible to pick "too many" stocks. Beyond about 15 stocks, the performance of a portfolio rapidly diminishes, he says.

His team modelled a range of scenarios, randomly selecting different-sized portfolios - eight stocks, say, then 20 stocks, then two stocks - and looked at the volatility of these portfolios.

"What we found was that you rapidly diversify away most of your risk," he says. "In an average scenario, by the time you get eight to 15 stocks you've actually done almost all that you're going to achieve. If you're looking at the stocks in the top 100, and to some extent the top 200, we found that that takes away most of the risk you have."

Of course, you wouldn't want those eight to 15 stocks to be all mining stocks or all pharmaceutical stocks, he says. Sectoral balance is required as well.

"We're talking about eight to 15 biggish stocks across different sectors in a reasonable proportion. If you choose that proportion well, you've got quite a low-risk portfolio."

A portfolio of a dozen stocks, for instance, might be spread across three to five key sectors (CommSec undertakes quarterly research into which sectors).

"Yes, a lot of fund managers have a lot more stocks," Bewley says. "But they have a mandate to track very closely to the [benchmark]. An individual doesn't have that mandate, because a wise investor will be investing for the long term, [they will] ride out the waves. But the fund manager has to report every quarter."

If you choose good stocks and you pick a smaller number, you have a chance of outperforming the index significantly, he says.

"In fact, our recommendations, which are very conservative, have outperformed the index since we started three years ago by 2 to 6 per cent," he says.

"Of course, you can be unlucky in any investment - risk is the name of the game in all investment activities. But if you follow the simple rules we are suggesting, and hold for a reasonable length of time, then you should be fine."

## **Tools of the trade - be informed**

## **Research and analysis**

Stocks research is available from full-service brokers, investment newsletters and discount brokers. Also, read newspapers and annual reports.

## **Live ASX Data**

Your broker and services such as Bourse Data.

## **Broking**

See the ASX list of brokers at:

<http://www.asx.com.au/resources/brokers/index.htm>

## **Books**

The current bestseller on [www.moneybags.com.au](http://www.moneybags.com.au) is:

*Top Stocks 2007*, Martin Roth (John Wiley & Sons, RRP \$29.95/discount price \$23.95)

Moneybags' recommended reading for people moving to direct investing includes:

*Starting out in Shares: The ASX Way*, by the ASX (John Wiley & Sons, \$34.95)

## **Courses**

ASX Education <http://www.asx.com.au/investor/education/index.htm>

Moneybags bestsellers:

*Call UP, Put DOWN* board game (\$199)

Guppy Traders Seminar Series (\$84 each or seven CDs for \$340)

Moneybags' recommended courses:

Bullseye Investment System (\$240)

Shares Made Simple (\$697)

## **Software**

(Charting, market scanning, portfolio management)

Moneybags bestsellers:

EzyProfessional (\$729.50)

BullCharts (\$795)

Brokers such as CommSec also have watchlist, share alert and charting tools.

## **Newsletters**

Fat Prophets <http://www.fatprophets.com.au>

Huntleys' Newsletters <http://www.aspecthuntley.com.au>

The Intelligent Investor <http://www.intelligentinvestor.com.au>

Shares Bulletin <http://www.sharesbulletin.com.au>

### **Websites**

ASIC managed funds calculator <http://www.fido.gov.au>

Australian Shareholders Association <http://www.asa.asn.au>

Australian Investors Association <http://www.investors.asn.au>

Financial Connections <http://www.fcx.com.au>

The Rivkin Report <http://www.rivkin.com.au>

Moneybags.com.au [www.moneybags.com.au](http://www.moneybags.com.au)

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**Media Release**

**14 November 2006**

**SMSF Trends - Grey leads the way**

The latest survey of Self-Managed Super Funds, conducted for IFSA by Investment Trends, has found that 12% more SMSF investors are retired or semi retired than in the December 2005 survey. The research found:

- A small increase in the number of SMSF investors over 55, to 49% of all SMSF investors
- A 12% increase in number already retired/semi retired (to 27%)
- Investors not yet retired are now an average of 10 years from retirement (versus 8 years in last survey)
- 27% have personal income averaging \$80,000 or more (a 2% fall)

'Control' remains the most popular reason cited by 54% of SMSF investors when asked why they set up their fund. The latest survey has also revealed a marked increase in the number of people establishing an SMSF at the suggestion of a financial planner, while those doing so after consulting an accountant are continuing to decline. This is part of a longer term trend in the SMSF sector.

Accountants are still nominated by 53% of people as the most popular source of assistance with a further 27% saying that they used the services of a financial planner for advice and assistance in running their fund. 16% said that they use both, which is a 5% increase over 2005.

"The latest findings show that the SMSF sector remains heavily reliant on professional advice and services to help run their funds, with 78% of funds reporting that they pay an accountant and/or financial planner", said IFSA Deputy CEO, John O'Shaughnessy.

"Other significant findings were a fall in the number of SMSFs with a total balance of less than \$100,000, along with a 9% fall in the number of people citing 'consolidation' of multiple super funds as a motivating factor to establish an SMSF.

"While the DIY aspect of SMSF's is appealing, in reality, the majority of people tend to have a DIFM (do it for me) fund and pay for advice and associated compliance services." Mr O'Shaughnessy concluded.

Mark Johnston, Principal of Investment Trends, concluded: "The average SMSF investor is feeling relaxed and confident after several years of strong performance. Those managing their own investment decisions now feel even more secure in their own judgement, and those using advisers to help them decide are positive about the advice they've received."

**Reasons for establishment:**

- 54% of SMSF investors cited 'control' as main reason for establishing an SMSF
- 39% (up 10%) established due to a financial planner's suggestion
- 27% (down 6%) established due to an accountant's suggestion
- 32% (down 4%) established due to poor performance from existing super fund

**Investment Portfolios:**

- 41% of SMSF's hold property of some kind, which is a 19% fall since the last survey was conducted in 2005.
- The average SMSF share portfolio is now \$250,000, a \$70,000 increase which in part reflects the strong performance of equity markets.

SMSF's with managed funds now have an average holding of \$165,000, which is a

\$45,000 increase since last survey.

**For further information please call Emma Grainge, Senior Policy Manager,  
Marketing and Distribution on 0407 469 114**

***A copy of the November 2006 Investment Trends/IFSA Self Managed Super  
Funds Report can be downloaded from the IFSA website at [www.ifsa.com.au](http://www.ifsa.com.au)***

 **SMSF Investment Trends Survey November 2006 - 257.51 KB**

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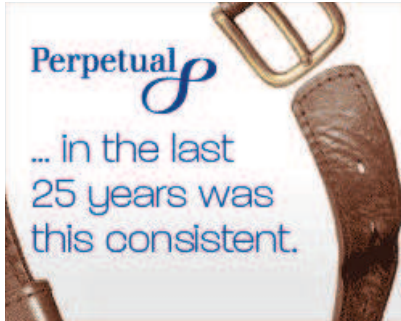
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News

## Planners instigating more SMSFs than accountants – survey

Liam Egan

Financial planners are now involved in instigating more self-managed super funds (SMSFs) than accountants, according to a new Investment and Financial Services Association (IFSA)/Investment Trends survey of the sector.



However, the survey, 'SMSF Trends', also found that both planners and accountants were generally falling in number as the instigators of SMSFs.

The survey of 2,775 SMSF members found that planners had established 35 per cent of SMSFs since 2002, compared to 23 per cent for accountants.

By contrast, 36 per cent of respondents who set up a SMSF before 1999 claimed to have done so mainly on the advice of an accountant.

These figures related only to the role of accountants as instigators, with the majority of SMSFs still being set up with the assistance of an accountant.

Accountants were still more widely used for ongoing SMSF advice than planners, used by 53 per cent of respondents, compared to 27 per cent for planners, and 13 per cent for stockbrokers.

IFSA chief executive Richard Gilbert said the decline in the role of accountants as instigators of SMSFs reflected the increased regulatory scrutiny of accounting advice in this sector.

He added that the fall in the use of planners and accountants collectively as instigators was consistent with another survey result that investors found it easier to launch SMSFs.

"This reflects a broader trend in the market, with SMSFs increasingly being established at the behest of investors, rather than at an adviser's suggestion," he said.

The survey also found that SMSFs were now the second largest category of super behind retail super.

As of March 2006, the survey found SMSFs held \$208 billion in super assets, up 26 per cent on the assets figure as of March 2005.

15 November 2006

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## Grey brigade hits SMSFs

15th November 2006.

Investors of self-managed superannuation funds (SMSF) are ageing, with more investors retired or semi-retired than 12 months ago.

An Investment Trends survey of 2,775 investors commissioned by the Investment and Financial Services Association (IFSA) revealed 49 per cent of SMSF investors are now over 55, with a 12 per cent increase in the number already retired or semi-retired.

Twenty-seven per cent have personal income ranging \$80,000 or more – a drop of 2 per cent.

The number of investors using a financial planner and an accountant in running their fund rose by 5 per cent. More people still use accountants to run their fund (53 per cent), but the numbers are declining, while those using financial planners (27 per cent) continue to rise.

IFSA Deputy CEO John O'Shaughnessy said the findings show that the sector relies heavily on professional services to run their fund, with 78 per cent paying an accountant or a financial planner.

"While the DIY aspect of SMSF's is appealing, in reality, the majority of people tend to have a 'do it for me' fund and pay for advice and associated compliance services," he said.

More than half of SMSF investors cited 'control' as the main reason for establishing a fund. Thirty-nine per cent did so from the suggestion of a financial planner – an increase of 10 per cent.

Self-managed super funds are now the second largest segment of the market behind retail super and grew 26 per cent in the last year.

The IFSA said this is fuelled by an increased establishment rate and strong asset appreciation in property and shares.



By **Madeleine Collins**

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