



September 22, 2008 09:50pm AEST

Debunking the urban myths about members in SMSF's

Tony Negline | September 24, 2008

IT is dangerous to talk in absolute terms about self-managed super funds because they are such a personal investment structure. For example, even the name for these super funds is a matter of personal preference.

The term self-managed super fund or SMSF was dreamed up by government and has been around for about 10 years.

In the funds management industry there is a tendency to think that "SMSF" has slipped into common usage.

Perhaps the most popular search words used on the internet might be a good guide as to what people call these types of funds. Search data by Google reveals that "SMSF" is not in the list of top items of searches for superannuation issues.

Research company Investment Trends recently published the latest SMSF investor report for AMP Capital Investors. The report delivers a fascinating profile of self-managed funds and how investors use them. These reports continue to dispel many urban myths about small super fund participants as cowboys or plonkers or both. Federal minister responsible for superannuation Nick Sherry is on record as saying he is concerned about small fund trustees' knowledge.

Senator Sherry even floated the idea that mandatory education qualifications might have to be introduced for all super fund trustees.

Mark Johnston, principal of Investment Trends, believes that DIY super fund trustees are "savvier than they are given credit for".

Forty-six per cent of all small funds say they have incurred paper losses. Johnston says that further research reveals that 30 per cent of all small funds have substantial paper losses.

Yet his research shows that 66 per cent of small fund trustees say that the recent share market turbulence has not made any difference to their long-term plans.

In May, 25 per cent of respondents said they were opportunistically buying undervalued assets and 14 per cent said they were accumulating money into cash and will invest once markets calm down. But Johnston says that more recent research conducted after the June and July volatility shows that fewer funds are buying and more are holding on to cash until the market stabilises.

Johnston believes DIY super fund trustees are displaying the classic attributes of buy-and-hold investors. They have seen previous cycles and are not scared of shorter-term volatility.

One common misconception about small super funds is that they tend to hold a high level of cash. Tax office data shows that about 19 per cent of all small fund assets are held in relatively liquid assets.

Investment Trends estimates small fund cash holdings at 17 per cent of super funds (before recent turbulence it had been about 14 per cent).

Johnston estimates that small super funds have about \$11 billion of money sitting in cash from contributions made in the past 12 months that is yet to be invested.

Surprisingly, only 2 per cent of small super fund trustees are interested in products that contain gearing. Investment Trends has identified that about 20 per cent of SMSFs are interested in allowing their fund to borrow.

These funds tend to be run by younger investors who are concerned that they will not have enough money in retirement and believe that gearing might be one tool to help them achieve their objectives.

They recognise the additional volatility gearing carries but also know that they have time on their side.

In December 2004 when Investment Trends first conducted this research, they found that fewer than 30 per cent of small fund trustees used a financial planner.

By December 2005 this had increased to about 35 per cent. The most recent survey says that about half of all funds use a planner.

This is a fascinating result and Investment Trends think that this large increase is probably due to the Costello July 2007 super changes because of the large number of small funds created in the April to June 2007 period.

One should be careful with this data. The ATO say that more than 95 per cent of small funds use the services of a tax agent. Fourteen per cent of respondents to the Investment Trends survey say they rely on no one to help run their fund, including a tax agent.

Investment Trends has always asked small fund trustees what is the hardest part of running their fund.

In December 2005, 32 per cent of respondents said that "keeping track of changes in the rules and regulations". In July this year, only 6 per cent of fund trustees thought this was still the hardest part of super fund management.

Happily, 33 per cent of trustees now think there is nothing difficult about running their fund, which is a large increase from 18 per cent in May last year.

Investment Trends found that the average age of small super fund members is 50 and the average time to retirement is 12 years. This should be contrasted with another survey prepared by a different area of AMP that looked at members of corporate super funds. It showed an actual average retirement age of 60 years and eight months (down from 63 in December last year).

About 30 per cent of SMSFs are run by fully retired investors, another 30 per cent are run by small-to-medium-sized business owners and 30 per cent are run by full-time and part-time employees. Eight per cent of people classify themselves as retired but still working sometimes.

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