

SMSFs: Getting savvier, or just well-advised?

Posted by: Kristen Paech in *Untagged* on Sep 14, 2008

Many in the industry will have you believe that most self-managed super fund (SMSF) investors lack the basic education necessary to run such a fund, and leave most of their assets to languish in cash, blissfully unaware of the damage it's doing to their long term wealth.

The government is in the midst of a review into the sector after an Australian Taxation Office (ATO) survey found 21 per cent of participating SMSF trustees had 'low' or 'low to medium' knowledge of their obligations, and 30 per cent could not explain what the 'sole purpose test' was.

The survey also found 15 per cent of trustees did not have an investment strategy, while another 25 per cent were unaware of the restrictions on the type of assets that could be acquired from related parties.

Some superannuation industry associations have since called for mandatory education requirements for all trustees, the notion being that many lack the financial know-how, or assets, to warrant setting up an SMSF.

But new research raises some questions over the validity of such arguments. Contrary to popular opinion, the AMP Capital/Investment Trends 2008 SMSF Investor Report found 66 per cent of SMSF investors plan to maintain their long term investment strategy following the recent market volatility.

A further 25 per cent said they were 'buying undervalued assets now on an opportunistic basis', while 14 per cent plan to accumulate cash and invest once markets calmed down.

While almost half of respondents had been adversely impacted by the share market downturn, 46 per cent had incurred paper losses only, because they had not sold the assets.

Do these findings sound like the characteristics of a typical retail investor, who buys on the high and sells on the low, or fairly sensible approaches based on a sound understanding of long term investing?

It must be noted at this point that half of those surveyed use a financial planner or specialist superannuation consultant (which Investment Trends has identified as being financial planners who specialise in SMSFs), up from only a third when the survey began four years ago.

The increase to 49 per cent remains on par with the 2007 findings, with last year's surge attributed in part to Simpler Super, which spurred demand for superannuation advice.

Due to their age demographic - 89 per cent are over 40, and 68 per cent are over 50 - Mark Johnston, principal at Investment Trends, says SMSFs are also generally buy and hold investors, so fluctuations in stock prices don't matter as much when the investor has no intention of selling the assets.

Interestingly, while SMSF investors currently have almost \$11 billion in 'excess' cash waiting to be invested, Johnston says the typical cash allocation is not as high as many people believe it to be.

Whereas the ATO puts the proportion of cash held in SMSFs at around 19 per cent, Investment Trends says it's more like 17 per cent, and claims that measuring cash ratios from tax returns skews the result somewhat, since inflows into cash tend to be high around June 30.

"SMSFs cash balances have risen (from 14 per cent to 17 per cent) but there is this perception out there that it's one third or half [of total assets] and that's just not correct," Johnston says.

However he admits there is more invested in cash now than there has been for "quite a while", with many SMSFs holding a large amount of cash 'left over' from last year's Simpler Super inflows.

More than half of respondents (57 per cent) still had contributions to their SMSF over the last 12 months held in cash because they hadn't yet had time to choose their investments, coupled with the subsequent market volatility.

Blue chip shares remain the number one favourite with SMSF investors, with 61 per cent intending to invest in the asset class over the next 12 months, followed by high yielding shares (25 per cent), resource stocks (21 per cent), term deposits (19 per cent) and managed funds (17 per cent).

According to the Australian Prudential Regulation Authority, SMSF assets grew by \$29 billion (11 per cent) to \$286.1 billion in the year to March 2008. APRA reports there were 387,656 SMSFs during the period, a net increase of 12 per cent.

The AMP Capital/Investment Trends survey covered 2545 SMSF investors.