



Self-managed funds discover a hedge

But the providers and brokers warn that DIY fund trustees must be very clear on how it works before taking the plunge, writes **Michael Laurence.**

Just the mention of CFDs is likely to trigger a wide range of opinions, for and against. Mention CFDs in the same breath as self-managed super funds and the conversations could become intense.

For instance, some CFD providers and brokers regard self-managed superannuation funds as a great, largely untapped market for their products as a means to effectively hedge, rather than gear, equity portfolios.

However, some CFD providers believe because of the high risks involved if naive fund trustees use CFDs to heavily gear portfolios, they have no place in self-managed funds.

At initial glance, DIY super funds appear to offer tremendous potential for CFD providers within the limitations set by the Australian Taxation Office, as regulator of these funds. (The ATO has published its view that funds are not prohibited under superannuation

So long as your portfolio tracked the index, this strategy is easier to execute.

charge is not given over fund assets.)

The numbers are breathtaking. There are 395,000 self-managed funds with \$348 billion in assets and an average of more than \$800,000 in each fund. And fund numbers rose by more than 30,000 in the past 12 months alone.

Further, Mark Johnston, principal of investment researcher Investment Trends, expects this above-average establishment rate to continue through 2009. Johnston says the latest growth is driven, in part, by

officer, says a decision was made not to open any more accounts for self-managed. "We do not see it as an area of growth for us," he says.

Szabo says the "vast majority of IG Markets' overall clients are for trading, not for hedging. In his view, the only role for a self-managed fund is for hedging.

"It is impossible for us to determine whether a fund is using CFDs for hedging or not," Szabo says. "It's easier for us not to get involved."

Ken Chapman, general manager of new markets for the Australian Securities Exchange, agrees. "Self-managed funds should use CFDs for short-term speculation but emphasises that hedging can be very useful for hedging.

Chapman says a fund should not fully hedge, say, 100% in a particular company (sell) 1000 CFDs in the same company. The hedge is a perfect match; it is a pure hedge. If the price fell, he explains, the hedge would be fully offset by