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MEDIA RELEASE

SMSFs should consider risks of holding too much cash

Sydney, 24 January 2014 – Australian self-managed superannuation funds (SMSFs) can take action to avoid poor real returns on cash investments, which represent nearly 30 per cent of all SMSF assets, according to Arian Neiron, Managing Director of Market Vectors Australia.

SMSFs invested $154.1 billion in cash and term deposits as at September 30, 2013. That represents 29% of all SMSF assets, which were valued at $531.5 billion in the September quarter of 2013, according to data from the Australian Taxation Office (ATO).

"SMSFs should consider diversifying their investments with ETFs in 2014 to build their wealth over time, rather than seeing the value of their cash eroded by tax and inflation," Mr Neiron said.

"With interest rates falling to the lowest in years, and Australia's inflation rate rising in recent times, the real returns on cash are falling. Australia's inflation rate surprised the market in the final quarter of 2013, climbing to 2.7%, up from 2.2% in the December 2012 quarter. The sharp fall in the Australian dollar is expected to keep upward pressure on inflation through 2014," he said.

"As well as term deposit investments, SMSFs have a wide range of listed investment options, such as ETFs, which can be used as a long term growth strategy or to gain short-to-medium term equity market exposure while deciding where to put funds longer term," Mr Neiron said.

The ATO data also revealed SMSFs had invested $171.8 billion in listed shares, or 32.3% of all SMSF assets as at September 30, 2013.

"The Australian market is deeply concentrated with the top five securities accounting for almost 40% of the market. This concentration is also reflected in SMSF portfolios," he said. "Historically, SMSFs have invested in only a small number of shares, favouring large-cap companies. The result is increased concentration risk through lack of diversification. This approach can lead to a risk profile that is actually higher than many trustees realise. An ETF can offer diversified exposure across a range of markets, companies and sectors, which SMSFs may overlook, but may reduce overall equity risk in their portfolios," Mr Neiron said.

"For example, if a trustee of an SMSF wants to get exposure to the Australian banks, but doesn't know which ones to choose, they could get a diversified exposure to all the banks by investing in the Market Vectors Australian Banks ETF (ASX code: MVB)," Mr Neiron said.

"If an SMSF wants exposure to property securities, rather than taking on high concentration risk by investing in one or two property trusts, they could invest in Market Vectors Australian Property ETF (ASX code: MVA), a purpose-built ETF offering a diversified exposure to a minimum of ten A-REIT securities, and caps any one security's weighting at 10% to ensure no one security dominates.

"In addition, our Resources ETF (ASX code: MVR) and Emerging Resources ETF (ASX code: MVE) offer SMSFs the opportunity to invest in both large and small Australian resource companies offering excellent growth potential and exposure to mid and small-cap companies which are often ignored by SMSF investors given the huge focus on BHP Billiton and Rio Tinto. MVR and MVE provide SMSFs with direct exposure to a minimum of 20 Australian resources companies," Mr Neiron said.

Market Vectors Australian sector ETFs are based on indices specifically developed by Market Vectors Index Solutions (MVIS), the index company of Van Eck Global, the tenth largest ETF issuer in the world, and the parent company of Market Vectors Australia.

"What sets our Australian sector ETFs apart is the rigorously designed methodology and rules governing the construction of the underlying indices. Each Australian sector ETF is based on a Market Vectors purpose-built pure play index, which seeks to provide better liquidity, tradability and diversification while reducing stock concentration issues that are typical of traditional sector indices on which many other ETFs are based," Mr Neiron said.

ENDS

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