Australian Financial Review

- **SPECIAL REPORTS**: SMSFs
- Mar 22 2016 at 6:15 PM
- Updated Mar 22 2016 at 6:15 PM

Investment strategies for SMSFs needs to be more active

by **Gayle Bryant**

While a buy-and-hold approach to portfolios has served many SMSF investors well for years, an increase in market volatility means the strategy needs to be reconsidered.

CMC chief market strategist Michael McCarthy says in 2015 buy-and-hold strategies largely failed to deliver satisfactory returns. "Instead, the rewards went to active investors – those willing to buy when prices fell and sell when prices rose," he says. An annual survey of its SMSF clients showed an increase in diversification, with the average number of shares in an SMSF portfolio rising from four in 2014 to 11.5 in 2015.

"Although 2015 showed improvement, the narrowness of portfolios remains a significant issue," McCarthy says. "The big four banks, Telstra and BHP continue to dominate and while this has generally proved successful, a more challenging investment environment in 2015 drove changes in the lower two-thirds of the top 20 SMSF holdings."

McCarthy says overall, SMSF investors will need to pay more attention to the market, particularly given the conflicting actions of central banks. "When everyone was pumping up the market by putting funds in and stimulating their economies it was fairly clear that shares would be supported," he says. "But with the Fed now tightening and others lifting their games it is a much more complex environment and we're expecting this will lead to further increases in volatility."

SPECULATIVE ELEMENT

Glenn Calder, senior adviser with Viridian Advisory, says his SMSF clients have found that the speculative element that comes into markets when they are frothy has disappeared.

"Our SMSF clients have recognised that risk and when it's priced accordingly in a volatile market can mean you can really get hurt hard," he says. "Whereas the old story of having a wide diversified portfolio may be boring but it's true."

Calder says heavy exposure to one stock has been poor and having total exposure to single assets has been a problem as well. "Things like term deposits have become investment poison over the past couple of years and probably forced people into other assets," he says.

Understanding risk is important, Calder says. "For a long time people probably mispriced risk as we had a lot of stability in the world but we now have negative interest rates in countries and people don't know how to deal with it because we've never been in this situation before," he says. "In the last four or five years we've been selling call options over a large part of our clients' portfolios just to generate a little bit more cash flow. That's derisked some of those holdings."

ETFS POPULAR

One asset class Calder is finding his clients are more interested in is ETFs, which he says goes back to risk exposure. "We're a big fan in getting the diversification right," he says. "We see a lot of portfolios where investors say they're well diversified as they have all the banks. When you look at the risk exposure it's really concentrated so an ETF gives a low-cost way of entering into markets that are moving into different cycles."

Calder says in terms of trading investors need to be a little bit more nimble than in the past. "If you see a large rise in a particular stock you have to be prepared to take a little bit off the table because in higher levels of volatility it can disappear quickly," he says.

Crystal Wealth partner John McIlroy agrees SMSF investors need to be more active these days. "SMSF investors typically have a lot of cash and term deposits, bank stocks and resources stocks," he says. "But such a portfolio would have dropped 10 or 15 per cent in the last 12 months. So if you're not being active you may have had a substantially negative result in the last year."

DAYS OF SITTING TIGHT OVER

McIlroy says the times of putting a portfolio together and sitting on it forever are well and truly finished. "There is too much volatility and too much happening in the markets to hope that strategy is going to be successful," he says. "Investors don't necessarily have to pay attention to the day-to-day movements, which are 2 or 3 per cent up or down, but should try and look at trends and think about asset allocation."

He says if an investor has say, 30 per cent allocation to Australian shares, then they need to continually question whether they should remain at that percentage. "And ask 'should I continue to be invested where I am given the outlook?' And if the outlook isn't great maybe pull it back from time to time," he says.

Meanwhile, Calder says SMSF investors can be blasé about their investments or not as involved as they would have been in their own business. "We would say to clients when you retire, your superannuation is your business," he says. "You must be interested in it, you must be actively involved and you must be educated on it."

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