SMH Business Day

Take your time: why thinking long term pays

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A critical element of successful retirement planning is knowing what your financial objectives are and how you're going to achieve them. For Self-Managed Superannuation Fund (SMSF) members the decision that needs to be made at the outset is whether they are aiming to supplement the aged pension or supplant it altogether.

This over-riding objective will shape the investment strategy's timelines, risk appetite and portfolio attributes. Whatever its make-up, the job of the investment strategy is to achieve the desired outcomes that have been identified by SMSF members.

Timeframes play a critical role in determining the contribution that an SMSF will make to retirement. Colin Owens, Director of Marketing at financial services company Wealth Within, believes the most sustainable benefits come from long-term investment strategies.

The SMSF should be looked upon as a long-term investment vehicle with investments tailored accordingly. But long-term doesn't mean time for inactivity, he cautions.

“People do seem to understand the importance of long-term investment strategies, but unfortunately some people use that as an excuse for no action, or they are not prepared for what can happen to an investment over time,” Owen says.

“It’s important to understand the role that timelines and cycles play in investing.”

Owen recommends that trustees meet “at least” quarterly to review their investment strategy.

Tim Wedd, Director of wealth management group Crystal Wealth Partners also stresses the importance of understanding investment timeframes and objectives and to build a “coherent strategy” for the fund upfront.

“A set-and-forget investment strategy is unlikely to work very well, particularly in the current environment. Active management and oversight of your strategy plays a key role in successful investing over the long term,” Wedd says.

He recommends that SMSFs “stress test” their strategies regularly and recalibrate expectations and investment settings according to shifts in the investment environment.

Wedd says risk levels, asset classes and timeframes will be influenced by members’ ages, when they will need to access funds and how much they need from the fund.

“It’s the responsibility of members to ensure that their investment strategy is fit for purpose and that it’s designed to meet the objectives that were set out when they established their SMSF,” he says.

“If your 40 years old versus 60 years old, chances are your investment parameters are going to be very different. The risks you’re prepared to take, the question of whether you’re going to take a more or less aggressive approach to investing, will be based on those timelines and the income you need.”

But inaction – “set and forget” – is not an option for SMSFs in the post-GFC economic environment.

The economy has never fully “recovered” from the 2008 global economic meltdown and has been prone to unpredictable volatility and skittish market swings.

A portfolio of cash, term deposits and staple stocks such as banks and resources may have dropped 10-15% in the past 12 months. That is a lot of movement to leave “floating in the breeze”, Wedd says.

“Investors should look at the trends and think about asset allocation accordingly. Putting a portfolio together and sitting on it irrespective of what’s happening in the market place is not managing your portfolio,” he says.

Diversification is the long-term investor’s best friend.

The Russell Investments/ASX ‘2015 Long-Term Investing Report’ highlights the dangers of Australian investors relying on local asset classes to achieve their long-term investment goals.

The report notes that over the past 20 years, residential property and local equities provided the highest returns to Australian investors, delivering an average of 9.8% and 9.5% annually respectively. However, when measured over the past 10 years, international bonds and equities performed better than residential property and Australian equities. (After-tax preferential treatment of Australian equities still makes them very attractive.)

“Our investment strategists believe future Australian performance figures for equities will continue to grow slower than many global counterparts and the [Australian] dollar will continue to come under pressure,” the report says.

Australian residential property returns to both non-geared and geared investors continued to be strong over the long term, but returns over the past 10 years rank fourth out of the nine key asset classes compared in the report.

Russell Investments’ advice: “[I]t’s time for investors to diversify away from purely Australian equities, bonds and residential property – before they find themselves out of the game.”

Based on gross returns for the 10 years to December 2014, the top five asset classes were: global shares/hedged (7.8%), global fixed income/hedged (7.6%), Australian shares (7.1%), residential investment property (7%) and growth managed fund (6.7%).

Over the 20 years to December 2014, the top five asset classes look markedly different: residential property (9.8%), Australian shares (9.5%), global listed property/unhedged (8.9%), global fixed income/hedged (8.6%) and global shares/hedged (8.6%).

The lesson for SMSF investors: time will tell.

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