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Are Super Returns still Super?

Recent media hype reporting major losses in local and overseas share markets, could make you think that financial Armageddon was around the corner. It's true that markets have been exceptionally volatile lately, but let's keep things in perspective. As we always advise our clients, super is a long term investment. This means you must remain focused on the long term, including the performance of your super. So let's review the facts and see how your super is tracking.

The media's impact on share markets

Whether you watch television, read the newspapers or listen to the radio, you're bound to have heard phrases such as "billions wiped off share markets" or "share market bloodbath" over the past few months.

The media is brilliant at whipping up a frenzy with a few well chosen words. You only need to look back 80 years to see how adept they are at spreading the word. What we're referring to is the 1929 share market crash. The media pounced on a rumour that a potential financial crisis was about to hit. This resulted in everyone selling their shares, withdrawing their savings from banks and, ultimately, the Great Depression was upon us – the worst recession ever recorded in the twentieth century.

Now, we're not suggesting for a moment that you ignore media reports about share market events. It's good to take this information on board and even better to take an interest in your super. However, when it comes to investing and your super, it's also wise to balance media hoopla, with some perspective. So, what are the facts?

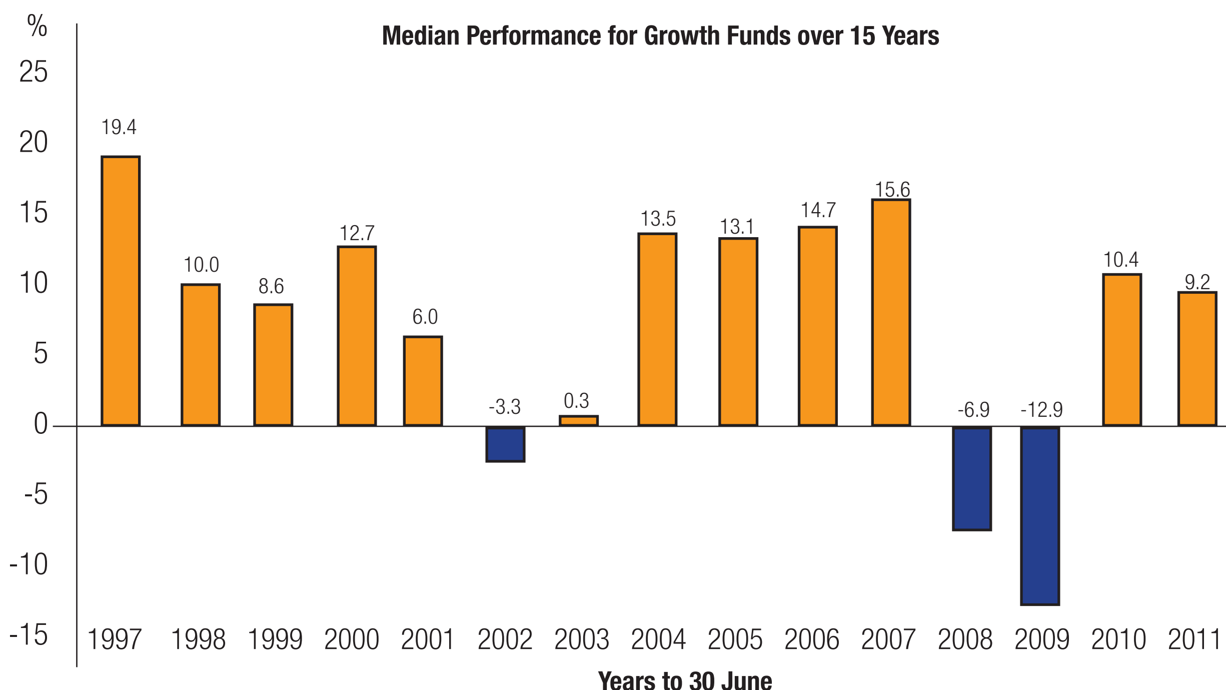
Long term super performance

Since super is a long term investment (ie more than 10 years), let's look at historical returns over the past 15 years.

The following graph shows the median performance for growth funds since 1997: In all of its simplicity, this graph is quite powerful.

First, most growth fund risk profiles include a statement like "expect a negative return once every five to six years". As you can see from the graph below, this has actually been the case.

Second, only three of the past 15 years have recorded negative performance. Two of these were back to back, due to the impact of the Global Financial Crisis – the effects of which are still not fully realised. The significance of this is that negative returns two years running is unprecedented. Negative returns have always been followed by a year of positive returns, regardless of their strength.



Source: Chant West Multi-Manager Quarterly, June 2011. Figures are net of investment fees, tax, adviser commissions and administration fees.

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This brings us to our final point. Although there have only been three cases of negative performance, these have all occurred within the last 10 years. And, 2009 returns were particularly bad. So, you could be forgiven for experiencing a few nerves over the recent volatility levels.

Is your investment strategy right for you?

If there's one thing the recent market volatility highlights, it's to ensure your investment strategy is right for you – right for your age, your retirement goals and your risk profile!

And, this is where we find a lot of our clients can get themselves into a bit of trouble. Let us explain what we mean.

What's in a name?

In case you hadn't noticed, super is full of jargon. The problem with jargon is that, if you don't understand it, you can easily make a wrong decision about your super or, if you're totally confused, no decision at all. Both are no-no's in terms of your retirement future.

So, we'd like to clarify two concepts that cause confusion with a lot of our clients.

Default fund

The default fund is the investment option into which your super contributions are paid if you don't advise your employer or AXIS otherwise. This includes your employer contributions and any personal contributions you make.

Contrary to popular opinion, the default fund is chosen by your employer. The choice of default fund is based on what your employer believes is the "best" investment option for the majority of employees in the fund. And, this choice is usually a balanced fund.

Balanced fund

Despite its name, "balanced" does not refer to an even split of 50% investment in growth assets (ie shares and property) and 50% in defensive assets (ie fixed interest and cash). It also doesn't mean that you'll achieve a medium return – neither high nor low.

"Balanced" actually refers to the fact that it invests in a relatively even mix of the four different asset classes of shares, property, fixed interest and cash.

However, if you look at all the balanced funds on the marketplace, you'll find this generally isn't the case. In fact, you'll see that their exposure to shares can range anywhere from 40% to 85%. And, this higher exposure to shares moves them out of the traditional balanced fund category and into a riskier growth fund or high growth fund category. This is where the problem lies. The higher the exposure to one asset class, the more risk you're taking of losing your money.

Ask AXIS for advice

Approximately 80% of Australians are invested in a balanced fund. That's fine if it matches your risk profile. However, if you're not sure about where your super is invested, we strongly recommend that you speak to one of our Corporate Advisers.

Remember, this advice doesn't cost you any extra. It's part of the overall service that AXIS provides to you and your employer.

AXIS assesses your personal risk profile before recommending an investment option. This ensures your financial objectives match your investment strategy and, ultimately, that your retirement goals are on track.

If you're concerned about recent market volatility or you'd like to discuss your investment strategy, please call our friendly Advisory Group or Technical Services team on (08) 9426 5800 or 1800 111 299. Alternatively, you can email us at super@axisfg.com.au

References:

1. ChantWest Media Release, Super funds consolidate with 9.2% average return, 25 July 2011.
2. Sydney Morning Herald, Super funds overbalance again as exposure to equities reaps sharemarket whirlwind, August 2011.

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Feel free to contact your advisor with any questions about this bulletin

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