

Wealthy Wealthy & Wise



Ord Minnett Buderim

Where To Invest?

One of the larger administrators of Self Managed Super Funds, Multiport, recently analysed their client base to investigate where SMSF's are investing their money. The data analysed was at 31-Dec-2008, so it is quite current.

As you would expect, there have been some big changes in the last twelve months. The results show that 29% was in held in cash and short term deposits, 10% in fixed interest, 32% in Australian shares, 8% in international shares, 18% in property & 3% in other assets. This compares to 13% in cash and short term deposits, 12% in fixed interest, 35% in Australian shares, 14% in international shares, 22% in property & 4% in other assets at the same time in 2007.

It is clear that there is currently a greater concentration in cash and less in shares and property than there was twelve months ago. The reduction in exposure to growth assets has probably occurred naturally by market prices reducing. Also new contributions have probably been waiting on the sidelines in cash, rather than being immediately invested. It would also be partly due to trustees cashing out their investments, however the proportion of assets held in shares is still significant.

The numbers would suggest that most SMSF trustees have not exited their holdings in Australian shares. This is perhaps due to the more experienced type of investor who operates a SMSF. The top ten shareholdings were BHP, Westpac, Commonwealth Bank, National Bank, Woodside Petroleum, ANZ, Telstra, Woolworths, Wesfarmers, and the ASX. Two stocks to have exited the top ten holdings are Rio Tinto and Macquarie Group, no doubt due to their substantial price falls.

Surprisingly, there has been a very large increase in the allocation to



direct property. While partly this has been due to the collapse of the listed property trust sector, part of it has also been due to direct property being viewed as a safe haven. In reality this has probably been the worst move possible, as many direct property funds have closed up for redemptions, and investors' funds are no longer liquid. To make matters worse, new investors would be buying in at prices that have not yet reflected the downward revaluations occurring in the real world.

It is no surprise to Ord Minnett that there has also been a big drop in the use of managed funds in the last twelve months, with exposure to that type of investment falling from 36% to 20%. We have long been a proponent of direct investments at the expense of managed funds and we have extensively documented the reasons for this in the past. In summary, cost, control, liquidity, transparency and certainty of income are the main reasons. Again, the more sophisticated SMSF trustee is always likely to use direct investments more widely.

So where to in 2009? We believe as cash rates fall, returns to investors from cash and fixed interest will become unacceptable. At some stage during the year, SMSF trustees will start to take on additional risk and invest in the sharemarket. Some evidence of a stabilising economy may be necessary for this to commence, although traditionally the sharemarket starts to rally some six to nine months ahead of an actual economic recovery. If this sharemarket recovery does eventuate, then SMSF's with quality holdings in top 50 stocks should be better placed, to do very well.

Call Ords Buderim on 5430-4444 if you need assistance with your superannuation and retirement planning.

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