

Cash contributions to self-managed super funds drop 22%

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Cash contributions to self-managed super funds dropped by a massive 22% during 2009-10 due to market volatility, and the outlook for the rest of the year isn't much better as SMEs suffer, a new survey from SMSF manager Multiport has found.

The news comes as investors are celebrating this morning, after the Government said it will no longer pursue a ban on art held within self-managed funds, after the Cooper Review suggested such a ban be implemented.

The survey of 1,200 SMSFs found a "significant decrease" in cash deposits from 28.8% at December 31, 2008 to 21% in March 2010.

Multiport's John McIlroy says this is due to a number of reasons, considering markets have been particularly volatile and businesses haven't been performing at their best.

"Markets are down, and people could be less willing to commit to funds, or put in savings. It could also be that SMEs aren't performing particularly well and businesses have less cash to provide. The market volatility plays into this."

However, the survey shows investors are also late-bloomers, with the average inflow of contributions doubling in the June quarter to \$14,700, with that quarter's contributions representing 34% of all deposits for the entire year.

"That's fairly common actually, because people are trying to make as much of the caps as they have time for."

But even though the Australian economy will continue to recover, McIlroy believes deposits won't give a spectacular performance in 2010-11. "I think we will still see volatility, given our market is very much dependent on what happens in the US, and the fundamentals there are not fantastic at all."

However, Multiport says there have been some areas of solid performance, including equities. SMSF trustees held in this area with asset allocations are down by 2.6% to 40% as of June 30, 2010, despite the ASX 200 Accumulation Index dropping 11% in the quarter.

"A decrease in exposure of only 2.6% to 40% at June 30, 2010 would indicate that some of the contributions received during this quarter are being invested back into equities or that funds are holding the better performing shares," McIlroy says.

He points to the 10 most commonly held stocks – BHP Billiton, Commonwealth Bank, Westpac, ANZ, National Australia Bank, Wesfarmers, Woodside Petroleum, Woolworths, Rio Tinto and Telstra.

"On average, these 10 stocks represent about 15.9% of all SMSF assets showing the reliance on the four banks and the big miners."

"These funds are fairly reliant on the big companies doing well. When the market goes into reverse like it did in the June quarter, you see an obvious result but these 10 stocks represent a balanced kind of risk profile for investors."

Fixed interest holdings increased from 11.5% to 12.4%, with property allocation increasing to 17% up from 15.8% over the past six months.

McIlroy says while the Australian sharemarket has given a poor performance overall, investors are still relying on the top 10 companies.

Property is also a big area, with SMSF's holding 12.2% of direct property, with investments in listed property trusts, managed funds and syndicates rising 1% to 4.8% during the June quarter although the ASX 200 REIT index fell 1% during the same time.

"This would indicate that SMSFs are investing in Listed Property Trusts as they have shown better returns throughout the last 12 months... these investors are typically looking at residential units and that sort of thing, which are producing good returns."

Meanwhile, self-managed fund investors are celebrating the Government's decision to abandon a Cooper review recommendation that would implement a ban on art contained in SMSFs. Investors would have been forced to sell their art collections over the next decade.

McIlroy says such a ban makes little sense, given collectibles make up only 0.05% of the total fund assets in the company's administered funds.

"Providing trustees of super funds do the right thing in relation to making sure it's insured, and so on, there's no reason why it can't be a valid inclusion. Why would you want to abandon them?"