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Lessons from super fund investment strategy rules

Anybody interested in growing and protecting retirement wealth can learn important lessons from the investment strategy rules of super funds.

Trustees of super funds large or small, including Self-Managed Super Funds (SMSFs), are required by regulation to put in place an investment strategy that meets certain guidelines. Interestingly, these regulations contain powerful and sensible messages for all investors.

Risk/return

Trustees are required to consider what an acceptable level of risk is and expected level of return when investing, taking into account the member's risk profile, proximity to retirement and any other relevant circumstances. This should be reviewed on a regular basis as the members' needs change. Where members of an SMSF have different risk profiles, the trustee may hold separate pools of assets to ensure the funds are invested appropriately for all members.

Having your own risk profile, which may change throughout your different life stages, is vital for you and your financial adviser to understand when making investment decisions in line with your financial goals. Allocating a greater portion of your assets to riskier investments offers the chance of higher returns but has to be compared against the increase in volatility and variation of potential returns.

Even if you're not an SMSF member it's still important to consider your risk profile when you are saving for your retirement, how far you are from retirement and what your retirement goals are. This will help you to plan the targeted return and the risks you are willing to take from the investments you're making to fund your retirement – whether via your super fund or outside super (eg. an investment property).

Diversification

Speaking of risk, there is an inherent risk in a lack of diversification. Trustees of super funds are required to regularly consider whether the fund's investments are adequately diversified. Diversification is a strategy of spreading your money across different asset classes, industries, market sectors, or potentially geographic locations. Diversification of asset classes helps to manage risk if one specific asset class performs poorly, for instances when the share market drops, your return in term deposits may increase due to higher interest rate. Diversification of industries and market sectors within a specific asset class is also an effective way of managing market risk, for instance when the mining industry suffers from lower overseas demand, the tourism industry may be booming due to increased international tourists. Or sometimes when one country's economy drops, another country's rises, so the diversification by geographic locations can help to take advantage of such movements.

Liquidity: How easy it is to get to your money?

SMSFs in particular must have the correct levels of liquidity to be able to fund its ongoing operating costs. If all your investment monies are wrapped up in a property and its maintenance costs, you may find yourself struggling with other SMSF costs such as accounting, administration, reporting, financial advice, and lodgement etc. Liquidity is just as important if you don't have an SMSF but are saving for retirement. How much can you afford to keep in superannuation (where it's generally locked up until after you retire) and how much should be invested outside of superannuation? You also need to consider how much should you keep in cash, and how much in other, less liquid, asset classes.

Your financial adviser may have already talked through these issues with you, but they are always valuable to keep in mind.

Insurance

The final investment strategy requirement is for the SMSF trustee to have at least considered whether they have adequate levels of life and disability insurance for their members. If the person that is considered the main 'bread winner' or who cares for their dependents, suffers a serious illness or dies, any sound financial plan can easily come undone without insurance.

Continue to speak with your financial adviser about whether your personal insurance matches your current needs.

What does it all mean to me?

Having a carefully considered, purposeful investment strategy, is a powerful idea. You and your financial adviser have probably already done this in some way, but the process of considering and transcribing thoughts around insurance, risk and asset allocation will likely be of great personal use. It will help reflect and record your changing investment attitudes during various life stages.

Such a strategy may help you to have richer conversations with your financial adviser, could increase your own awareness about your investment reasons and goals, and should help your financial adviser make tailored recommendations.

Speak to us for more information

If you would like to know more, talk to your Count financial adviser. They can give you more detailed information on the best approach for your situation.

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