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SMSFs need managed funds for capital preservation: Cor Capital

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Self-managed superannuation funds (SMSFs) will be increasingly attracted to fund managers that can offer capital preservation post COVID-19, as well as good advice, according to Cor Capital.

Davin Hood, Cor Capital managing director, said there was evidence SMSFs would not enjoy the strong tailwind of equity market returns in the next decade, as well as cash and bond yields being at historic lows, so SMSFs would place a premium on preserving their capital.

"This focus will apply particularly to those SMSFs that are in retirement (nearly 50%) or those nearing retirement and can ill afford to put their retirement nest eggs at risk," Hood said.

Hood said failing to get good advice either because of its rising cost, which had been accentuated by the ongoing exit of advisers, or a misplaced confidence in their ability to make the right investment decisions were the top reasons for disappointing investment returns.

"Further, in the past decade, and despite historically low interest rates in recent years, these SMSFs have been 'protected' by their investment in fully franked ASX shares," Hood said.

"It's our contention that investors should not expect a similar performance from equity markets in the coming decade, and that dividend income is also likely to be constrained, at least for the next few years.

"Put simply, the traditional 60/40 type portfolios (60% growth/40% defensive) that many SMSFs rely on will, in all likelihood, fail to meet their investment objectives in the coming years."

US research house Dalbar published quantitative analysis of investor behaviour which showed individual investors consistently underperformed mutual funds because of poor decisions on when to buy, sell or switch out of mutual funds.

"SMSFs, which, by law, must have an investment strategy, are still prone to make poor, short-term decisions, or, alternatively, are so locked into their strategy that they fail to make tactical decisions that can enhance their fund's performance," Hood said.

“Large institutions have the wherewithal to use different investment strategies to improve returns, such as defensive option strategies.

“But these strategies take SMSFs into territory they often don’t understand and certainly don’t embrace.”

According to FE Analytics, over the last 12 months the Cor Capital fund returned 5.56% compared to the absolute return sector average of 0.35%.

Performance of the Cor Capital fund over 12 months versus sector