informed investor

evolution road wealth management

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Welcome to our latest edition of the Informed Investor newsletter.

As always, should you have any questions or would like some further information, please get in touch and we'll be happy to help.

SMSFs and your retirement horizon

Self-Managed Super Fund (SMSF) trustees often ask themselves, "What is the right mix of investments for my SMSF?" It's a very common question, and one that will need to consider individual preference and the time until retirement.

The answer will not be the same for everyone, even for members within the same SMSF.

The 'right' mix will be based on things like tolerance to investment risk and various other factors such as the cash flow needs of the SMSF and the investment mix of assets held by members outside of the SMSF. First and foremost the mix of the investments within the SMSF must be in line with the SMSF's investment strategy. This is developed and reviewed by the trustees of the SMSF, and stipulates what types of assets the SMSF is allowed to invest in and over what timeframe.

Here we look at what to consider when deciding on the right mix of investments for your SMSF as you countdown the years to retirement.

40 years to go

Someone with a 40-year investment timeframe is likely to be at the accumulation stage of their SMSF. This person may generally have a higher appetite for investment risk (when compared to someone with a 10-year investment timeframe). This means they may invest larger parts of their SMSF in growth orientated assets such as shares and property. These assets generally have a higher rate of return over the long-term compared to defensive assets such as cash and term deposits.

It is always important to be mindful of the "sleep at night factor."Just because the funds are locked into super for 40 years in the SMSF with plenty of time to recover from market downturns, it does not mean that when we do have a significant market downturn (and especially if for an extended period of time) that everyone will have the solid nerves to "ride the waves" of the investment market.

However, for those that are prepared to take more short-medium term risk in exchange for the potential for greater long-term return, the 40-year horizon might afford the opportunity (especially if there are multiple members in the SMSF). When the SMSF has amassed a decent sized balance, this could potentially be used as a deposit to purchase a commercial or residential property while borrowing within the SMSF can fund the rest of the purchase.

30 years to go

Someone with a 30-year investment timeframe (typically 50 years+) is likely to be at the wealth preservation phase. They generally have more working years behind them than ahead of them. They still need growth in their SMSF as they may potentially be retired for 30+ years and need an asset base to sustain them. At the same time,

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they do not have the same timeframes as they did previously to recoup large investment losses if there is a significant market downturn and they plan on retiring in the next few years. This is a stage where there needs to be a delicate balance between growth assets to address longevity risk (the risk of outliving your retirement savings) while having enough defensive and liquid assets (such as cash and bonds) to mitigate any potential capital losses from a market downturn and provide a regular income in retirement.

20 years to go

Someone with a 20-year investment time frame (typically 60 years of age+) is generally in the pension phase of their SMSF. They are looking for the asset base within their SMSF to provide them with regular and reliable income. Other issues may present themselves during this age. A member of an SMSF may become incapacitated and may need to liquidate assets of the SMSF to pay for large lump sum medical expenses or fund a bond to enter an aged care facility. Or it could be that it is the member's goal to utilise the SMSF to maintain lifestyle in retirement whilst leaving behind a legacy for loved ones.

At this stage it's really important to have liquidity, especially if instant and unexpected access to funds is required to fund large outlays such as a bond for aged care. Furthermore, given that members are expected to draw down income in regular intervals, this can become problematic when it comes to holding direct real estate.

All in all there is no one 'right' mix of assets when it comes to investing at different life stages for members of an SMSF. The right mix for you will not necessarily be the right mix for someone in similar circumstances. The right mix for you will be based on your unique circumstances, financial goals, investment timeframes, and your psychology towards investing and money.

Source: BT.

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