THE LONG SLOW CRASH OF '08

Super funds heading for record falls

Tim Blue

SUPER funds inextricably caught in frenzied selling on world share markets in the past two days are headed for the biggest losses in decades, with no immediate let-up in sight.

A catastrophic 8 per cent plunge in the Australian share market yesterday wiped away small gains of August and early September, and sent funds well on their way to losses of 7 per cent on a rolling 12-month basis in mainstream balanced funds and more, according to latest estimates.

Investment and Financial Services Association deputy chief executive John O'Shaughnessy said: "If you are in a panic, get advice. This is not the time to be selling out of super or a managed fund; all you would do is crystallise losses."

Falling stock markets and sinking super funds have left financial advisers aghast, and running to their calculators. All-growth funds invested exclusively in shares are down more than 20 per cent over the past 12 months; high-growth funds with some property assets are down 16 per cent.

Retirement plans for many are on hold, as the contagion works through global markets. A survey released yesterday by financial consultancy Mercer found one in four older workers were expected to delay retirement because of shrinking superannuation.

Warren Chant, principal of research house Chant West, said yesterday that, although losses were clear, a sense of perspective was important.

"Remember that this follows an unusually long and strong bull market which ended in late 2007," Mr Chant said. "Some — but certainly not all — of those bull market gains have been eroded."

Adelaide-based financial adviser Theo Marinis said yesterday super was being unfairly condemned as a dud investment.

"It is not super itself but the investment markets that have fallen, starting with US property," Mr Marinis said.

Many big super funds have seen the storm clouds and moved heavily towards cash in the past 12 months. The chief executive of the $29 billion AustralianSuper, Ian Silk, told a luncheon in Sydney last week that his fund's total equities exposure had slipped from 60 per cent to 50 per cent over the past year, as trustees directed almost all of the net $3 billion of new inflows to cash.

The chief executive of the $3 billion Australian Government Employees Super Trust, Michael Seton, said the amount of cash in his fund had grown from $100 million to $500 million in the past year.

Easing the pain on some super fund earnings has been the falling Australian dollar against the US dollar, as it means that US asset earnings will be boosted when translated into Australian dollars.

Advisers suggest that older retirees should still consider using super, since it is taxed at only 15 per cent and often less, compared with higher personal rates of taxation. Transition to retirement plans is still recommended, as it is a way to reduce tax paid on income and super investments and, in doing so, allow more dollars to be saved into super. "This works regardless of which way markets are moving at the time, because tax is consistent," Mr Marinis said. "The extra funds saved into your super are buying new units at (currently) reduced prices."

Other strategies for self-funded retirees to consider include re-ordering your finances to qualify for Centrelink benefits. Alternatively, self-funded investors who have seen their portfolios fall may now be eligible for some Centrelink support if they have fallen below the relevant Centrelink thresholds.

Paul Zwi, head of equity research at Centric Wealth, believes investors should not lose sight of the long-term picture.

"There will be opportunities in oversold stocks," he said. "More weakness is expected short term, but stronger demand and weaker commodity currencies could promote a resources recovery in the medium term."

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