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EQT RELEASE

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SMSF may be unhealthy if over-exposed

Reports about severe problems caused to some self-managed superannuation fund (SMSF) members by the lack of government compensation for SMSFs that invested in Trio funds such as the Astarra Strategic Fund suggest that some SMSF trustees are putting too many eggs in too few baskets, says Mr Phil Galagher, head of wealth management at EQT.

“No SMSF should be so exposed to any one collective investment or asset manager that a collapse or complete lack of performance will cause major financial problems for the trustees such as the loss of the major part of their savings.

“Anyone who has concerns about being over-invested any one fund or single asset should seek advice and, if necessary, get a second opinion.

“Medical second opinions are accepted as a sensible approach in health management and there is no reason why SMSF trustees shouldn’t do the same when looking after their financial health.

“Obviously, there is little any one person can do to prevent a major collapse of a total asset class, but no SMSF, or indeed investor, should have hugely significant amounts with one fund manager or any one investment, unless they completely understand the risks they are taking and are willing to go along with them.

“Diversification is essential in risk management and the Trio story says why. It is a message that needs to be brought home to every SMSF trustee,” he said.

Mr Galagher said that any SMSF trustee whose adviser had in the past recommended investing more than 10 percent of total capital with any one asset manager or managed fund, especially with an unknown manager or a collective investment with an exotic strategy, should consider getting independent advice from someone else.

“This doesn’t mean that an SMSF shouldn’t have a large amount invested in a particular asset class such as equities, but it shouldn’t be all in one fund or tied up in one stock.

“By having less than, say, 10 percent exposed in any one fund, stock or manager, they are spreading risk and have less exposure to possible fraud or incompetence and less risk of losing a large percentage of their money.

“Losing 10 percent of your retirement savings through collapse or fraud is always going to hurt, but nowhere near the agony of losing 50 percent or even 100 percent of your life savings.

“The recent government compensation deal for Trio investors that excluded SMSFs highlights the need for trustees to take care where their money ends up.

“Trustees need to stay mindful of the risks of putting all, or most, of their eggs in one basket.

“I’m not advocating that SMSFs should have dozens of managed funds, especially as many have a high proportion of their growth assets in direct shares or property. It’s a question of not having 50 percent of your investments in one managed fund or one listed equity.

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“This is especially true for trustees who are in, or close to, retirement and the argument is just as valid for trustees in this category who have most of their retirement savings tied up in direct property.

“A prolonged period when an investment property is not producing rent, or requires ongoing and costly repairs, can mean problems in paying pension and does not provide peace of mind.

“They must also have contingency plans in place if they have a sudden need for capital – selling an investment property may take time and releasing all its value when only a relatively small part of it is needed in capital might be costly.

“Diversification is still the best protection against major losses of retirement savings,” he said.