Property, shares rout slams super

Investment returns go nowhere for the year

Exclusive
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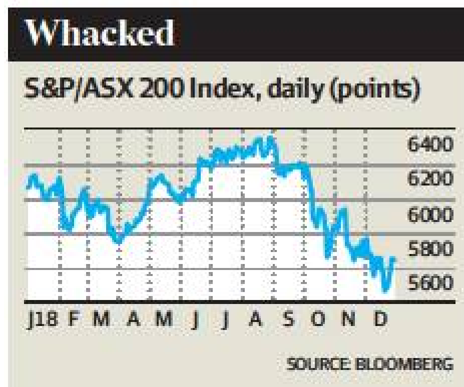
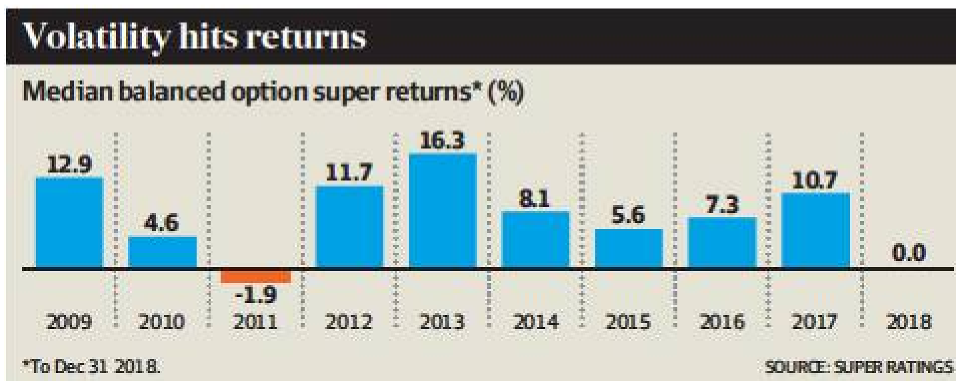


Retirees need to protect their nest egg.

Investors have suffered from a double blow to their net wealth as the sharemarket tumbled and house prices fell at a near record rate, producing flatlined superannuation returns for the year.

Data provided to The Australian Financial Review from research house SuperRatings showed the median balanced super fund posted a zero per cent return for the year to December 31. This is the lowest return since 2011 and the result was largely driven by volatility in equity markets through the back half of last year.



Investors in the median balanced super fund have enjoyed gains for the past six years, including double-digit returns for three of those years. Returns ranged from 5.6 per cent in 2015, up to 16.3 per cent in 2013.

The median balanced fund fell 1.6 per cent in December alone.

On top of this, house price data to the end of November from CoreLogic showed national house prices have fallen 4.2 per cent since peaking in October 2017. Sydney house prices have fallen 9.5 per cent and Melbourne prices have fallen 5.8 per cent since peaks in July 2017 and November 2017 respectively.

Swell Asset Management chief investment officer Lachlan Hughes said although sharemarkets behaved "strangely" last year and posted a poor result, Australian investors should maintain a long-term investment horizon.

Mr Hughes compared the 2018 market performance with the global financial crisis and said in the case of the GFC there was a fundamental problem with the global economy that triggered a correction. However, the sell-off and volatility last year was not due to an underlying problem but rather was purely sentiment driven, according to Mr Hughes.

The ASX closed the year at 5646 points, a 6.9 per cent fall from the beginning of 2018. It was the worst yearly performance in seven years, with the benchmark index hitting a two-year low in the final days of trading.

The S&P 500 had a narrow gain on the last day of trading on optimism that US President Donald Trump would move towards a trade deal with China, denting losses that have it on track for the biggest December rout since 1931.

Other markets limped to the end of a dismal year with bear markets from Japan to Germany, while China's Shanghai Composite Index was the world's worst performing market.

Mr Hughes' advice to Australian investors was to re-evaluate their investing time horizons.

''It's actually very hard to buy stock on a 12-month view,'' he said.

''If you think about it three years, four years, five years in the future, it actually becomes a very simple game.''

That game is beating the return offered by a risk-free investment, or a 10-year government bond yield, according to Mr Hughes.

''Equities only have to do better than that 2.6 per cent-2.7 per cent to be more attractive [than 10-year bonds].''

Mr Hughes believes the Australian investment environment in 2019 is not ideal, citing a federal election to be held in the first half the year as bad for investment confidence. Swell Asset Management have turned their focus overseas as a result ''we like global stocks still, we like high-quality global businesses,'' he said.

Author and financial planner Patrick Canion sympathised with those affected and echoed Mr Hughes' sentiments of looking to a longer time horizon.

''I am sure they won't be feeling all that great – but remember that feelings are usually the worst guide to creating long-term financial security,'' Mr Canion said.

He said it was best to focus on a longterm strategy with a time horizon of at least five years and to buy quality, diversified assets then ''put your portfolio away and let the markets do their job''.

Betashares chief economist David Bassanese said the US posed the biggest risk to Australian market performance in 2019. ''The biggest risk to me is still the apparent tightness of the US labour market,'' he said. Mr Bassanese said if wages growth in the US goes up, this will put inflationary pressure on the US economy and force the Federal Reserve to raise interest rates. He said another rise in interest rates would stunt global growth and the effects would flow into Australian markets.

Mr Bassanese is also concerned over whether Australian consumer spending ''falls in a heap because of house price correction''.

The most recent national account data from the Australian Bureau of Statistics showed household consumption rose 0.3 per cent in the September quarter.

However, the household savings ratio fell to 2.4 per cent over the same period, the lowest since the global financial crisis.

For those drawing down on their superannuation who may have yield as a goal, financial planner Mr Canion said this was manageable.

Mr Canion recommended having different investments for different time frames. ''If you need to access capital within a few years, have this money in cash and term deposits,'' he said.

''Even retirees need to think about protecting capital for the long term, so make sure you have exposure to shares and property – both in Australia and overseas – that will provide long-term growth.''

WITHWIRES

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Patrick Canion, financial planner