

# Are you comparing apples with apples?



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## If you have money invested in superannuation, chances are you have experienced nothing like the kind of financial conditions we have seen over the past twelve months.

The pain of experiencing poor returns can be exacerbated if an individual feels they have performed even worse than others courtesy of the fund or funds they have invested in.

Consequently, the large number of fund performance surveys, particularly as quoted in the press, get a lot of people talking about relative performance. There's nothing wrong with this, provided you know the limitations of these surveys, and can interpret the results.

Here then, is a list of five traps for the unwary when it comes to interpreting performance surveys.

### 1. Compare apples with apples

There is little value in comparing funds that have vastly different objectives, risk profiles and hence asset allocations and using the performance differential to judge the quality of the fund or its managers.

In poor markets, such as the environment experienced over the past year, funds with higher exposures to growth assets (shares and property) are inevitably going to fare much worse than more defensive funds. In boom times, defensive funds are going to lag behind considerably. Even comparing two funds that are both described as 'balanced' can be very misleading.

**Depending on the survey and the particular manager, a balanced fund could have anywhere between 50 per cent and 75 per cent in growth assets.**

### 2. Liquidity matters

The lion's share of the quoted difference between the performance of funds reflects neither commissions nor superior investment expertise.

The assets managed by some funds are predominately liquid, i.e. they are in publicly traded securities such as equities and bonds. The prices of these securities are set in active markets, and these prices are used to construct *daily* unit prices.

Consequently, unit prices and quoted performance figures of these funds will reflect the performance of the markets they are exposed to, for good or for ill.

On the reverse of this, many other funds, including most of the current top performers, have substantial exposures to unlisted investments in property, infrastructure, or other alternative investments, that may be valued *infrequently*.

Due to the infrequent valuation, the quoted performance figures may not be reflective of the true state of the market at any one time.

### 3. Sleeping at night versus chasing high performance

It's important to pick an investment strategy for your superannuation that suits you – your age, financial goals and appetite for risk. Everybody is different. A more conservative fund that is currently top of the league tables may not be right for your long-term needs if you're looking for long-term growth.

**And make no mistake; sharemarkets are still going to be the most likely source of long-term growth.**

The converse is also true: when the economic boom was still going on, how many people were attracted to a high risk strategy that might have been top of the tables

then, only to find that it was much higher risk than they were really comfortable with? Why chase high risk, if you can't sleep at night when times get tough?

#### 4. Are the fees really that high?

Conventional wisdom suggests that some funds have significantly higher fees than others, and this difference reflects commissions paid to financial advisers as well as administration costs.

Plum funds are repriced every three years to ensure they remain competitive. Furthermore, Plum does not pay commissions to advisers.

Professional advice is valuable. It can stop people making irrational decisions about their money, ensure that they have a plan for meeting their financial goals (including how much money they'll need in retirement) and navigate them on their financial journey through life.

**Remember:** You have access to *Momentum Financial Advice* as part of your corporate super arrangement. Your initial consultation is available at no cost to you and the service is available on a capped, fee-for-service basis for superannuation and investment advice i.e. no commissions are paid!

Any fees charged are agreed in consultation with your financial adviser before your specific financial goals are examined.

#### 5. Past performance really is no guide to future performance

At the end of every prospectus, product disclosure statement, investment presentation or newsletter, you'll see this statement or something very close to it. Investment managers and super funds do not put it there for amusement or because the Australian Securities and Investments Commission (ASIC) tell us it's required – it's there because it's true.

Even when a survey compares funds of similar risk profile, asset allocation, and liquidity, based on a fair assessment of the relative costs, last year's star performers often end up as today's bottom dwellers, and today's stars could just as easily be at the bottom of the ladder within the next few years.

***Changing funds based on past performance has been shown time and again to be a dangerous game. Too many investors typically exit an underperforming fund or investment before its performance improves, and get into high performers before they start to slide.***

Whether we like to admit it or not, for most of us, superannuation is our longest term asset. Even if you're 70 today, the chances are that you're still going to be investing for 10 years or more. If you're in your 30s, you have many decades of investing ahead of you. Does it really make sense to judge such an investment based on how it's fared over 12 months?

If you wish to speak to a financial adviser or a Plum Member Services Consultant, please call **1300 55 7586**.

Alternatively, for the latest on the investment markets go to [www.plum.com.au](http://www.plum.com.au) and visit the *Investor market watch* section.

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