Antipodean Advisory

Antipodean Private Pty Ltd
133 Alexander Street
Crows Nest NSW 2065
Phone: 1300 101 250
Mobile: 0438 893 571
Email: michael@antipodeanadvisory.com
Web: www.antipodeanadvisory.com

Investment strategies for your super

Your super returns may be doing ok, but could they be better? Being actively involved in how and where your super is invested, could make a real difference to your retirement savings over the long-term. This article considers four examples of investment strategies for your super.

The importance of diversification
Before we discuss the various investment strategies, it's important to highlight the significance of diversification. Like any type of investment, spreading your super across different types of investment options, can help to build a strong portfolio and manage risk.

Why? Because if you were to invest all of your super into one asset class such as property, your investment may suffer a loss if the property market was to fall in value. However, if you spread your money across multiple assets, you may have a different result.

Investment strategy type 1: Growth
If you don't think you'll be accessing your super for at least 10 years or more, a growth strategy may work for you as a longer timeframe may help an investment portfolio withstand volatility while aiming for returns.

A growth strategy that follows a higher risk, higher return approach tends to have a larger focus on assets that are exposed to capital appreciation. That is, investing in assets which are expected to grow at a higher rate than the industry or overall market.

For instance, this may involve an investment of around 70-85 per cent in shares or property with the rest in fixed interest and cash-based investments.

Historically, over any 20-year period, a growth strategy has delivered better returns than more conservative portfolios which would mainly be invested in fixed interest and cash. However, over a short-term period, you may experience significant losses as a result of market volatility.

Another key benefit of a growth strategy is that by making greater returns on your investment, your savings are more likely to keep up with the rising cost of living. This is arguably important because over time inflation may reduce the value of your retirement savings, which could make it difficult to maintain your standard of living when you're retired.

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Investment strategy type 2: Balanced
Similar to a growth strategy, if you aren't planning to access your super anytime soon, opting for a balanced investment portfolio may be another option.

This strategy is aimed at balancing risk and return so your portfolio has enough risk to provide reasonable returns, but not enough to cause significant losses.

A balanced strategy typically involves investing around 60-70 per cent in shares or property, with the rest in fixed interest and cash-based investments.

Investment strategy type 3: Conservative
A safe or conservative strategy follows a lower risk, lower return approach so it's really about preserving the value of your investment portfolio. While there may be less risk of losing money, a downside could be that your returns may not keep up with inflation. For example, this could involve investing around 20-30 per cent of your super in shares and property, with the rest in fixed interest and cash-based investments.

Investment strategy type 4: Ethical and sustainable
You may choose not to invest in certain companies based on ethical grounds. For example, taking a stance against investing in firearms. This approach is called ethical or socially responsible investing. There is also sustainable investing which goes beyond incorporating just ethical and social factors. That is, it approaches investing from an environmental and governance lens too. Some super funds now offer this, so if these factors are important to you, speak to your super fund for more details.

Review your investment approach
You may want to review your current investment approach with your super fund or SMSF to consider how it aligns with your goals and risk comfort.

Source: BT