



Is your SMSF adequately diversified?

SMSF trustees need to truly understand diversification and better diversify their portfolios.

The benefits of a well-diversified portfolio are numerous but the key ones that SMSF trustees should focus on are the benefits of mitigating volatility and short-term downside investment risks, preserving capital and the long-run benefits of higher overall returns. By spreading an SMSF's investments across different asset classes and markets offering different risks and returns, SMSFs can better position themselves for a secure retirement.

However, did you know that 82% of SMSF trustees believe that diversification is important but in practice many do not achieve it?

This is because half the SMSF population cite barriers to achieving diversification. The top being that it is not a primary goal for SMSF trustees, and they believe they have a lack of funds to implement it.

Furthermore, 36% of SMSF trustees say they have made a significant (10%) asset allocation change to their SMSF over the last 12 months. This demonstrates that SMSFs may not be actively restructuring their portfolio on an annual basis to respond to changing market conditions.

Another clear problem regarding diversification is the amount of SMSFs with half or more of their SMSF invested in a single investment. SMSF trustees say they primarily invest in shares to achieve diversification in their SMSF, while just a quarter say they invest in at least four asset classes to achieve this.

The bias and significant allocation to domestic SMSF equities may highlight the fact that SMSFs are not adequately diversified, especially across international markets and other asset classes.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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So what can you do?

Some of the steps you, with the help of an SMSF Specialist, can take to diversify your retirement savings and control your investments in a disciplined and planned way include:

- Ensuring there is a clear and demonstrable retirement purposes in the choices you make.
- Ensuring you have an investment objective and a strategy to achieve that objective in place.
- Reviewing your portfolio and assessing it against the objectives you have set as often as you feel is necessary.
- Minimising concentration to any one asset class.
- Ensuring your Australian share portfolio is sufficiently diversified.
- Considering the benefits of geographic diversification.
- Ensuring your cash allocation is appropriate.
- Considering the benefits of exchange traded funds, listed investment companies and other digital investment platforms that allow low cost access to different markets.

Always remember to document your actions and decisions, as well as your reasons, and keep them as a record in order to demonstrate that you have satisfied your obligations as a trustee.

Given the importance of having an appropriately diversified portfolio and its impacts on quality of life in retirement, trustees ought to consider professional assistance in managing this important aspect of an SMSF.

How can we help?

If you need assistance with diversification with your fund, please feel free to give me a call to arrange a time to meet so that we can discuss your particular circumstances in more detail, or refer to the [SMSF Association Trustee Knowledge Centre](#).