Shocking how few take responsibility for their investments

TERMS OF TRADE

with GARY STONE

EVERYBODY is an investor, whether you acknowledge it or not, through your mandatory contributions to superannuation, whether to a self-managed or any other kind of fund.

It makes sense that you learn to take responsibility for your investments, whether you manage your fund or not.

Because ultimately everybody is responsible for the final outcome of their investments many years down the track, even if the management of their nest egg is ‘outsourced’ to an industry or retail super fund.

In my dealings across two decades with everyday investors, it has surprised me how few actually measure the ongoing performance of their investments, super or otherwise, compared to a benchmark that represents the available performance over any given period.

The popular benchmark to use in Australia is the ASX 200 Accumulation Index, which represents investing in Australian stocks and reinvesting all dividends, but not reinvesting franking credits.

Other indices could be used too, such as the ASX 20, ASX 50 or ASX 300.

Reasons why people don’t measure the performance of their investments mainly boil down to not knowing how or not wanting to find out.

People seem to be happy to apply a gut feel for what an acceptable return is. This is simply not good enough and certainly is not taking responsibility.

Those who do measure typically do so when recent quarterly or annual super fund returns are published in the mainstream media.

They then project the comparative quarterly short-term performance to determine how their multi-decade choice of investments may perform in the future.

This is akin to measuring how well the Australian cricket team has done over the prior 11¼ minutes to determine their overall performance in a Test match.

It will probably surprise you to hear that not a single industry or retail super fund, of which there are over 300 to choose from, has got within cooee of the performance of the ASX 20 Accumulation Index, using July 1993 as the relative starting point.

This provides perspective and probability. Perspective that short-term performance is not that important provided the investment principles are sound.

And that the highest probable way of assuring the best, or close to the best, performance over the long term is to simply invest in the stockmarket index.

Over this period, achieving the ASX 20 Accumulation Index return would have resulted in some 70 per cent more lump sum than achieving the median super fund return — that is, $1 million instead of $585,000.

By definition, 50 per cent of the 300-plus industry and retail super funds would have delivered even worse outcomes. Which one are you in and how has it performed?

Why the massive underperformance? Excessive fees and excessive diversification for long-term investing. Not taking responsibility can cost you hundreds of thousands of dollars.

Twenty-three years ago you couldn’t invest in the stockmarket index but now you can. Tune in next week to find out how and why.

GARY STONE IS FOUNDER OF SHARE WEALTH SYSTEMS