Matching an index will leave super funds in your dust

TERMS OF TRADE
with GARY STONE

LAST week I pointed out that by achieving the returns of the ASX 20 Accumulation Index on the stockmarket since July 1993, your superannuation account balance would have been 70 per cent better off than achieving the median super fund return over that period.

In other words, that's a kitty of $1 million instead of $585,000.

And, by definition, half of the 300-plus industry and retail super funds would have delivered less than $585,000.

Twenty-three years ago you couldn't invest in the stockmarket index.

Now you can. You can do so through an exchange traded fund, or ETF. Simply put, this game-changing investing instrument is a fund (your industry or retail super fund is also a fund, as are other active managed funds) listed on the stock exchange.

The only purpose of an index ETF is to track and match its underlying stock market index, not beat it.

For example, owning the ASX 20 ETF is like owning a small part of each of the top 20 listed companies in Australia, now and in the future, whichever companies they may be at any time.

"Not beat the index!" I hear you exclaim. "That's aiming a bit low!"

For decades, the mantra of the fee-prone financial funds establishment has been that they can beat the stockmarket index, not just match it.

Yet evidence shows this to be quite the contrary, that over the long term the majority of the active fund establishment continues to battle to get anywhere near the returns of the mainstream stockmarket indices.

Published research by S&P Indices in their biannual SPIVA ScoreCards and Persistence Reports has been demonstrating for years that the majority of active funds the world over, including Australia, do much worse than their benchmark index.

Over time, hardly a single fund matches, let alone beats, the stockmarket. In turn, this leaves the super balances of hardworking everyday investors many hundreds of thousands of dollars worse off than what they could achieve.

The two main reasons for the financial establishment's laggard performance are their fee-fleecing nature and their culture of overdosing on diversification.

Unsuspecting everyday investors are fed jargon-jerky by the financial establishment to justify their ongoing higher fees, which ultimately contribute to their long-term underperformance.

Industry super funds charge double to seven times and retail super funds up to 14 times higher annual fees than mainstream index ETFs.

As noted US investor John Bogle said: "What happens in the fund business is the magic of compound returns is overwhelmed by the tyranny of compound costs."

Diversification into lower performing asset classes is a valid investing risk management technique for investing horizons up to seven years, or maybe 10 at a push.

But for 15 to 50-year horizons, it is not. There are better ways, but they don't demand charging higher fees.

In Australia, there are four index ETFs that track the mainstream Australian stockmarket indices. Backing one of these in the super investing stakes, an everyday investor can get a predictable first place over the long run by far more than the length of the proverbial home straight.

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