

Self funded retirees encouraged to find the balance

Written by Sarah Jane Williams

Self-funded retirees encouraged to find the balance between low yield term deposits and risk



A large number of Australian self-funded retirees are feeling the impact of the RBA's recent interest rate reduction. While the reduction may be welcomed by borrowers, many investors looking for sustainable income flows are struggling to generate yields of more than 3.5 percent from term deposits and cash accounts, while others are taking on significant risk to maintain their retirement lifestyles.

Justin Epstein, Executive Director at One Investment Group, says, "Australian banks continue to announce record profits, yet the premiums offered by term deposits and promotional savings rates have dwindled. At the same time, the risk-free rate has dropped. With the cash rate at 2.25 percent, self-funded retirees may find it increasingly challenging to generate acceptable returns in the foreseeable future.

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“While most self-funded retirees are yet to appropriately diversify beyond cash and term deposits, we have seen a number of investors taking on additional credit risk, turning to higher-yielding equities and chasing shrinking returns from property assets. Unfortunately, investors can be blind-sighted by the expected returns. For instance, property geared at 65 percent might be yielding 10 percent returns – but what happens when interest rates ultimately rise or the tenants default? These investors are at risk of exposing their capital, and it is often questionable whether the sometimes marginal increase in return is justified,” says Mr Epstein.

He adds that some self-funded retirees are also considering offshore options, but with recent movements in exchange rates and the failure of many investors to create a balanced portfolio, the search for yield without attracting higher levels of risk is becoming difficult. “It is also worrying that some investors who are venturing into global markets might not be seeking adequate expertise.”

Is there a safer alternative? Mr Epstein says investors can access higher yields if they know where to look. “Many credit funds, for instance, have seen substantial inflows over the past 12 months – some in excess of 100 percent. At One Investment Group, we are involved with a number of retail credit funds, such as Laminar Group’s Laminar Opportunities Credit Fund, Realm Investment’s High Income Fund and Supervised Investment Australia’s Supervised High Yield Fund. These funds are managed by fixed income experts with access to global credit markets. These funds have historically offered investors exposure to diversified credit portfolios that pay healthy and consistent premiums to the risk-free rate.

“In the current market, self-funded retirees looking to generate sustainable income need to consider working with a best of breed manager who has the ability to actively manage and carefully construct a portfolio. Has their adviser undertaken sufficient research in

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recommending a product? Has a reasonable sample of competing products been reviewed? Does the product meet the investor's profile? Investors need to ask these questions to ensure their investment decisions are based on independent and informed advice," says Mr Epstein.

He says that Australian investors are now faced with a number of complexities. "Falling interest rates, rallying equity markets, buoyant property markets and increased access to cheap money (both foreign and domestic) have contributed to increasingly unstable conditions. Investors should remember that, while it is easy to make money in a rising market, these conditions have historically led to asset bubbles. The real test for investors is to understand how well they're protected in a falling market.

"Investors should also keep in mind that Australian banks appear to be less eager to offer more secure and substantial term deposit rates. With cash being hoarded at increasing levels, along with the recent implementation of Basel III in January, we are unlikely to see more compelling cash and term deposit rates, such as those seen over the last 5 years, for some time," says Mr Epstein.

About One Investment Group One Investment Group is a leading Australian funds management business specialising in responsible entity, trustee and custodian services, as well as fund's registration and fund's administration. Established in 2009 by Justin Epstein and Frank Tearle, One Investment Group has grown to become one of the top three responsible entity and trustee service providers within its market segment. One Investment Group has achieved organic growth year on year, servicing more than 140 funds and over \$6 billion in financial assets (across real estate, equity, mortgage, fixed income, infrastructure and credit).

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