The Australian Finance Podcast Episode Transcript

Episode: Investigating your Super options like Sherlock Holmes (balanced, ethical & DIY portfolios)
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen: Kate Campbell, welcome to this episode of the Australian Finance Podcast.

Kate: Good to be back for another awesome episode on super today, Owen.

Owen: Yup. Investigating your super options like Sherlock Holmes. We are talking about how you can weigh up which option might be right for you. So if you're thinking, "Ah, you know, I'm a slightly aggressive type of person. Maybe I can take more risks with my super." "I am more of a conservative person. I don't like the ups and downs. What option should I take?" Or you might be the type of person that says, "I don't really care about super. I just want the lowest nerve thrills option. Which one is right for me?" We're going to try and answer those questions today.

Kate, maybe you should just give us a bit of an intro to the ep and some tools that people should be aware of as we go through this conversation.

Kate: Yeah, absolutely. I thought this episode was really relevant after we spoke with Bronwyn (aka Miss Money Box) the other week and she spoke a lot about how we combine, contribute, and invest. When you're consolidating your super funds you're maybe choosing to contribute a bit extra and then invest where you're actually choosing the right investment option for you. And this episode is mostly about that investment part where there are so many options nowadays. There's more and more money flowing into super as part of the super guarantee where everyone is now getting. If you're a full-time employee, you're getting 10% from your employer. And so there's billions of dollars flowing into superannuation, so more and more choices are appearing.

Not only do you have your traditional balanced fund now which is what I think most people would be familiar with, but there are options to choose a single asset class so you could choose your super to be 100% in Australian shares or 100% in cash. There are also ethical super funds popping up whether that be a specialist provider like Australian Ethical or someone like Hostplus offering a socially aware superannuation option. The other thing we're going to discuss today is sort of about the DIY option that some of the largest super funds are offering you where you can actually pick your own shares and ETFs. It's like a light version of a self-managed super fund and you have a lot more control, but there are some higher fees and some other things to be aware of. So we will be discussing that as well.

Owen: Just on that, we've actually got an ethical investment cause. It's available on Rask education. In addition to our super cause we also have an ethical investment cause which talks about super with respect to how you can invest this according to your principles. If you care about climate change, you can invest in a positive way. If you care about burning fossil fuels, you can choose to avoid those. You could choose to do that through your super with more options. As Kate said, you can use that to your advantage. It's not just about low fees and how many shares I have versus how many bonds do I have. It's not that anymore. It echoes beyond that, and it's a great thing.

Everyone listening to this, whether you care about those types of things, whether you care about fees, whether you care about insurance, plenty of options. This is a really relevant episode. But this one in particular, what we're going to talk about, is actually the investing side of super. If you want to hear about insurance, you can go back to our previous episodes. If you want to hear about strategies, behavior and stuff, go to the episode with Miss Money Box (aka Bronwyn). If you want to know how to read your PDS, that was the last episode. Go and check that out. We did a video that explains it.

So, Kate, risk profile based portfolios. That's the kind of first talking point which is using your risk, I believe, to select an option. Explain it.

Kate: Yes. I thought we'd start here because this is what people are familiar with. It's the typical devout portfolio that if you didn't fill in the form and give it to your employer, which many of us have in the past, you would have been probably into an industry fund hopefully, maybe not. But in most cases a balanced portfolio. And that was I just pulled out the balance from AustralianSuper, but that's giving you a mix of Australian shares, international shares, a bit of private equity, a bit of property infrastructure, fixed interest in cash. That's often the standard portfolio they've got put into. And you've often got a choice between conservative, high growth, maybe a fixed interest portfolio, but they are a mix of diversified asset classes and they are very preformatted. And often you get a place into a balanced and then maybe down the track you choose, “Hey, I think I want to go into high growth or conservative.” Some of the funds offer what’s called a life stage or a lifecycle kind of super fund which might put everyone in their 20s into a high growth style. They’ll call the 1990s life stage fund or something like that, and that’s a similar, similar approach there.

Owen: Yeah, so basically if I could be so crass, I might say that oldies go in the conservative, youngies go in the growth, middle age mid-life crisis people go in the balanced one – halfway in between. That’s the life cycle option. That’s actually being slowly phased out because super funds advisers and investors have realized it’s not always one size fits all. So then we went to this more aware like conservative, defensive, balanced, growth, high growth, etc. Most people listening to this because you are educated and you are aware of where your money is, you’re going to lean towards that growth option.

These were explained to me before, basically this should be if you shop online basically saying to Coles Online or [unclear] just get me the staples. And you go in, “I like vegetables”, so it gives you the vegetable pack and that’s what you get that week. You just take the options that are given to you in your basket each week. That’s what this would be.

Kate: This is what most Australians are using. This is the standard option that’s been around the longest. I think this approach is very simple for people. It’s really easy to understand. You can go on and look at the product page. Okay, it might take you a while to get to know the Product Disclosure Statement which we talked about in our last episode. But you can go through the product page for the balanced or the growth fund and have a look at the asset allocation and go, “Oh yeah, I kind of understand Australian shares and property. I kind of understand how that portfolio is put together.” They’re usually very well diversified. Even the balanced funds are quite diversified. You get quite a large mix of asset classes and it’s quite easy to monitor. You don’t have to make too many decisions. If you pick high growth, you can leave it for a while as long as you picked the low fee fund and you’re really happy with that approach. Yeah, it’s not something you have to touch on a regular basis. You don’t have to think too deeply about it on a daily, monthly basis.

Owen: AustralianSuper is the biggest super fund in Australia based on the number of people. But I think also the number, the amount of money that it invested. I feel like that’s a great little bit of Search Engine Optimization (SEO) - AustralianSuper. What are people going to be Googling? Australia and super. That’s the name of our fund. And they have just captured so much of the world in terms of who is actually getting into it. And within AustralianSuper the balanced option is also extremely popular because it is the easiest thing to choose. Balance, right? Sounds like it’s about right.

So, you said, super easy to understand if I make one choice and keep your [unclear] off it. Okay. But you might not want this option to be the analogy with like a basket of shopping before. You might not want this option if for example you want more control, you like to pick your investments, or you have a particular view. So you’re like, “I want to invest in more shares than bonds." The balanced option says, "I have to have x amount of bonds. I don't think I need that much." So then you can move on to the next one which is an asset based portfolio. This is the one that we were just talking about off air which is not new but it is something that is more prominent now I would say. You see more funds the ability to have that next level of flexibility.

Kate: Yes. With the asset class based portfolios, some of the smaller funds just don't have the capacity to offer that kind of thing. If you look at one of the newest super funds or some of the more boutique ones, they'll just offer those standard risk profile based so you might just say conservative, balanced, and growth if it's a small super fund. But if we're looking at someone like AustralianSuper, they do have options where you can put your super 100% in cash, or 100% in international shares, or 100% in property. And so you can make that decision there that I only want my superannuation invested in this one single asset class.

Owen: Yes. This is something that I did during COVID last year. I moved out of the pre-mixed options from my superfund and I actually went into an allocation that was more aggressive. It's basically 100% shifts. It was a mix between Australian and international shares. You could just be literally, if you had a pie it would be like slicing it in two and saying, this half is vegetarian, this half is meat. That's basically what I went when I went, "This half is Australian shares, this half is international shares. That's all I want. Can you do that for me?" You might pay a little bit extra when you cut a pizza in half. You tend to pay a bit extra for the half and half. In this super, you do too. You pay a little bit more. But once you're in it, it's probably depending on your situation. It may be more appropriate for you. For me, I was like, "To be honest I was going to invest more in shares. Now is probably the time to do it." So that made sense for me. You've got a few things here that you put in the notes which are great. You might not want to have, to be honest, I do think it would be a mistake for most people to have 100% Australian shares. But at least if you're going to do shares, at least diversify a bit away from just one strategy.

Kate: Yeah. But you can understand why they don't use asset based portfolios as that default option because you don't want to just funnel everybody into 100% international shares because people do have a whole range of circumstances. And most people do benefit from a more diversified approach especially as they get closer to retirement. Having a 100% in one single asset class is probably not a great idea.

Owen: Yeah. When we kind of break up what you can invest in, it's typically the big super funds that break it up. This is an international share strategy and this is an Australian share strategy. To me, in my mind, they are kind of the same in terms of what you're getting. You're getting potential growth but you're also getting more risks. If you have both of those things, you're getting potential returns, sure, but you're also getting risks. You're getting lots of risks. That's why in traditional finance theory. All the crap that you learn at uni. They say do not do that because, even if they are different things, if they do the same thing at the same time, you're not really spreading your risk. You have the same thing just in a different way. That's why not many people have this type of strategy.

But one of the great finance forefathers, Harry Markowitz, once asked because he invented this. I think it was a Nobel Prize for calculating what a portfolio should have in it. One day he was interviewed, I know there was more context to this. But one of the things that he was asked is, “How do you invest your money?” And he goes, “Well, I think about if stocks fail I would want more bonds. And if stocks went up I would want more stocks so I just ended up doing 50/50.” This is such a simple example of even though we have all these things, sometimes it does pay to keep it simple. So this might be the option for you.

But we can even go another step which we’ll get to in a moment. But there is one more thing we want to talk about before we get to DIY super which can be a risk for some people. What’s the next one, Kate?

Kate: Yes. On that asset based you might choose not to have that because it does lack diversification and you might have to more actively monitor it, and you’re adding risk on top of risk. If you’ve already chosen a high risk diversified portfolio as we mentioned the previous one, choosing 100% international shares even ups that risk level. So that’s something if you go off the standard path, you do have to keep that in mind that you’re doing something a bit different there and you’re potentially increasing the risk level of your super fund.

The next is an ethical overlay portfolio. I say that because I’ve been looking at lots of the different super funds and they are all calling it slightly different names. They might call it a socially aware approach, or the environmental, or the socio responsible, or the ESG portfolio, so you have to look. Most of the large superfunds are offering at least one of these options. And then you’ve got companies like Future Super and Australian Ethical that are offering multiple options that are specifically focused on ethical/environmental, social governance, ESG style investing.

Owen: Yeah. For many of the listeners, you will know that we actually have that ethical investing cause which I referred to before. In it we’ve done a bunch of videos and ways to think about investing with an ESG overlay or having a full blown ethical strategy. I’m trying to find the numbers that we had. But it comes from one of the super funds which I think is Future Super which basically compares the benefits from a carbon emissions perspective, becoming a vegan, and actually just investing your super in an ethical choosing the ethical option. You can go back and listen to that podcast that we did around ESG investing.

But more and more we are seeing this come into investing, and I think there are a few reasons. One, people want the option. So super funds are being forced to offer something even if it’s not their specialty to say, “Yeah, we measure carbon emissions.”, “We don’t invest in things that have human rights violations.”, or whatever. They may not believe it but at least they are trying to offer it. Whereas, you get a full blown ethical funds like AustralianSuper, or Australian Ethical, or Future Super, or something like that, you might pay a little bit more in certain respects, but you have the full option there. I know AustralianSuper has this socially aware. I believe Rest Super has an option, Hostplus. All the big ones. They have an option for this.

Kate: Yeah, more and more choices. I think that will just keep growing. I think some of the largest super funds will start offering maybe a balanced socially aware and a growth socially aware. They'll start offering more choices. It's been interesting even over the last year or so there's been some interesting court cases where maybe uni students or young people have actually taken their super funds to court because they haven't been thinking about environmental impacts like climate change is part of their investment strategy. I think it will be interesting to watch more of these issues play a part in the overall investment strategy for super funds and where they are putting the money for the next 40-50 years. Because they are managing billions of dollars rather than just all the ethical people that have this point of view can go into this one specific fund. I think these issues will be taken more into account in the overall investment mandate for the super funds.

Owen: Yeah, and that's the thing that's interesting. I think I remember you saying I'm going to court. A lot of these super funds from our research did a half-baked job, to be honest, around their options. They are kind of like, "Yeah, seems like everyone wants to do this thing called ESG or ethical investment. We'll try and do something so that we'll not lose too many members." And then you ask them to explain why they are invested in some company that's probably not considered ethical by the majority of people, and they can't explain it.

I think the key here is that you can bolt it on and have it as an overlay. It's like a strategy. Or you can go [unclear] ethical investment company or ethical super that actually deals with this. One of the things to keep in mind is you might have higher fees. And even if you can't select an option, it might not align perfectly. So you might say, "Well, I don't think coal mining is ethical." And then you see in the ethical strategy there actually is a company that might do some type of coal mining. That's probably an extreme example, but, you get the idea. It might not be perfect. Your compass and their compass might not line up perfectly.

Kate: Yeah, and I think that's the same issue as we've spoken with different ethical ETFs where they use maybe a filter or they have a specific set of rules. And so many companies that might not specifically align with your values do end up in that ETF or super fund just because they have to set some rules, some filters. Not everything will equal use. I think possibly if that is the case, maybe the next option we discuss might be of interest.

Owen: Yeah, and this is DIY in your investment portfolio for super. And so when we say DIY, we don't mean that you basically get the money in a brokerage account. That's not what it is. It's like that but it's not that. This is where you have… I've got my AustralianSuper app actually opened right here. I can say that I want to, it says, "Get in the driver's seat with our self-managed investment option." Don't confuse that with self-managed super. You are self-managing it, your super, but it's not the same thing. This is like the light version of a self-managed super fund.

Kate: Like we're [unclear]

Owen: Yeah, [unclear] You can see here, here is an example from AustralianSuper. You can invest in any shares, Australian shares that are in the ASX 300, so the top 300 largest shares. You can't go right down the bottom and buy some speculative thing that you heard from a mate at a BBQ.

Kate: Yeah. No rockets in there.

Owen: No rockets. No, there wouldn't be. From our membership, there wouldn't be any of those inside a member direct option. You can buy exchange traded funds. You can buy this in investment companies which both of us have talked about. You can even put some of your money in time deposits. So it gives you more flexibility. You do pay for it though, so you do pay. That's how you've got 5 or 10 years investment experience, you might say, "Hey, maybe that's a good option for me because I don't want [unclear] my super fund because I don't want to have to deal with auditors, and accountants, and financial advisors, and the ATO. I don't want to file 4 tax returns from my super fund. I want to just keep it simple but I also want to differentiate between not owning Commonwealth Bank and owning Westpac or something like that in an investment portfolio.

What else? Is there anything else to add there?

Kate: Yeah, you are trading your own path there within the framework that is set so you can't do anything too crazy because they won't let you invest in any specky stocks. But it does give you a lot more control and flexibility. I mean, Owen and I don't personally use this. I think based off the fees I was seeing on some of the sites, you would definitely have to have quite a bid in your super to make it worth it. If you've only got $10,000 or $20,000, the fees are going to exceed any value you're going to get from it. But if you've got a larger super balance, you really enjoy investing, you like the active approach but you just don't want the hassle of setting up a self-managed super fund and the fees involved then it could be an option. But I think it's worth keeping in mind there are those higher fees as I mentioned, and it also is going to require time and knowledge to manage. If you're just going to pick like a vanguard ETF in this, you might as well probably be in one of the other options for the lower fees. It does require a bit more expertise to make it worth those higher fees with this option.

Owen: Yeah. I'm sure you're on the screen here. Sorry listeners, you can't see this. I was showing Kate and Monique what you get in the member direct option for AustralianSuper. We are not advocating for this fellow. This is just an example. I don't use it. It says, "It provides at no extra cost UBS Research…" That's an investment bank. "Company [unclear] from Morningstar. Commentary on investors from Cuffelinks…" That's a financial news website. I think it's owned by Morningstar now. "… and ASX data from Morningstar as well." "… and you will need to open a cash transaction account to start investing and fees may apply." And so that's basically a good primer of what you get. It's pretty much like a brokerage account. Keep in mind that's not really a brokerage account. You are pretty limited but it gives you more control. Let's say you're a Rask member and you like some of our investment ideas. You might be inclined to buy one of those in your super option. But I would say just keep in mind that super is typically not the type of thing you want to mock around with. I say that as an investor, as a professional investor. I would say to most people you can afford to have two strategies in your life. You could have one that's just for super. It's like a real low cost, just let it go, and that's the core of your portfolio. Just let it grow for 50 years. But then outside of super that's where you can try and make those tactical decisions with your money around, "Okay, I don't want [unclear] I'm 65." Or, "I'm going to try and build up some money outside of super in case the rules change. I'm going to take a bit more risk." You can have hands off one and one that you're hands on with. That works. I know a lot of people that do hands on to both, but just keep that in mind. You know, we are talking about this option. This is a super. It's serious stuff. So if you're not experienced in investing, it's probably not advisable. Causes for causes as you were saying.

Kate: Oh yes. So overall there are more options to keep in mind. I think a lot of people probably haven't heard of possibly that DIY approach or some of the others. That's worth exploring if you are interested in looking at different super options. But I think just some key questions when you're guiding your research to look at. Firstly, definitely having a look at the new mySuper comparison tool within the myGov site. That's also a good place to find out if you've got any lost super accounts floating around which is always good to find that super because you'll be paying fees on different accounts. And also looking if you're happy where your funds are currently invested and if this makes sense for you for the next few decades.

Owen: Go back. If you haven't listened to the Miss Money Box episode, that's a great place to start. That's the fundamentals. We talked about combining, contributing, and then choosing your investments, then we talked about PDS. Once you've combined everything, okay, now is the decision which super fund. Do I still stay with this super fund or do I get a new one? How do I do that? You can do that through myGov like you said.

And then we talked about investing. Chances are for the next 40 years you're going to change your investment strategy a few times. That's okay. But just each time make an informed decision. So start with combining. Then figure out which super fund you actually want to go with keeping in mind that you may have insurance in there and the fees and then think about ways to invest it.

We've got a bunch of links in the show notes. You'll have links to the DIY options of AustralianSuper just so you can see it as an example. Keep in mind that Hostplus, Rest, many of these other funds will provide a similar option. Then we've got links to Australian Ethical as we also got ethical cause on investing which is great and the super cause. So plenty to go with, a really important topic.

Kate, can't believe we kept it. Well, below 30 minutes is pretty good for us.

Kate: Yeah. I think it's just really important after listening to this three super episodes in the last month or so, just as long as you too want action to make your super just a little bit better than it was yesterday whether that's reading through a Product Disclosure Statement for the first time, or comparing a super fund on mySuper, or combining a few old super funds. At least doing something is better than nothing when it comes to your super. And one small action can really change the difference in your retirement. It can mean the difference between having a really basic retirement or maybe being able to travel to Thailand every year.

Owen: Thailand, interesting.

Kate: Not now but hopefully in 40 years.

Owen: Thailand, Vietnam. I like Vietnamese food. Okay, wonderful. Well, Kate, as always thanks for joining me in this episode.

Kate: Thanks for listening.