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Pandemic won't wipe out Aussie retirement savings

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Page 1 of 1

Alistair Barker, head of portfolio construction at AustralianSuper, says the market sell-off we are experiencing is not out of the ordinary and share markets will inevitably come back.

“Over any 20-year period, we might expect four to five years where share markets have a negative annual return,” he says.

Recent data from the Australian Bureau of Statistics shows managed fund assets for the December quarter struck a record $3.9 trillion, with a big jump in superannuation assets too, reaching over $3 trillion for the first time. But they could drop back under this week’s share market turmoil and the level of superannuation contributions slowing with job losses looking likely and potentially fewer people salary sacrificing.

Barker says these periods of negative returns often occur after markets have had very positive returns.

"For example, the US stock market was up approximately 30 per cent in the 2019 calendar year. And with the recent events, markets [as at March 13] are back to where they were in the early part of the 2019,” he says.

“The coronavirus is having a similar impact to many other previous periods of uncertainty. To a large extent, financial markets have already priced a short, sharp downturn in economic activity. Likewise, financial markets are also pricing a substantial policy response from governments to support."

Market crash and recovery between 1973-2019

Depth of Fall	Started Falling	Months in Fall	Months to Recover	Recovery
-31.3%	Jan-73	20	14	Nov-75
-31.2%	Oct-07	16	45	Nov-12
-24.9%	Sep-87	2	20	Jul-89
-13.0%	May-81	10	6	Sep-82
-10.5%	Jan-94	12	4	May-95
-10.0%	Dec-01	14	7	Sep-03
-8.5%	Feb-80	1	2	May-80
-7.5%	Jul-90	2	4	Jan-91
-6.6%	Apr-84	1	2	Jul-84
-6.3%	Aug-18	4	1	Jan-19

Source: PlanPlus Global

Paul Resnik, executive director of PlanPlus Global, says that even hard market falls are followed by a recovery. And with that recovery investors’ portfolios often move higher, with many historical examples of this.

“Since 1972, a 70 per cent share and property portfolio with 30 per cent in bonds and cash has had 10 falls of over 6 per cent. (see the table below). In all 10 cases the portfolio returned to and then surpassed previous highs.

Resnik says the deepest fall of 31 per cent occurred in 1973.

"It took 20 months to bottom out and 14 months to recover," he says.

"The 1987 crash, also of 31 per cent, took 16 months to bottom out and 45 months to reach its previous balance."

Resnik says the key lesson for investors from the recent drop in market values is: "Show patience. It's worked well in the past."

Super flows may slow over short term

However, superannuation funds under management might fall with less money going into the system if employers axe jobs, as Flight Centre announced last week. Many other local and global companies will inevitably follow.

"There will be less discretionary money going super [and it] could go to cash even if it is better applied to equities," says Resnik. "It's a shame that investors don't take advantage of the lower equity prices."

According to Industry Super Australia, due to the diversity of assets in super funds' portfolios, the losses for investors are likely to be far more muted than that suggested by the headline-grabbing share market plunges being reported in the news.

"When it comes to super often the best course of action, is no action. Individuals can crystallise their losses missing out on the rebound if they switch their super to cash or other defensive assets after a downturn," says Industry Super Australia.

A lot to lose

At the last major market decline – during the global financial crisis – retirement savers who moved their money from an average balanced industry fund into cash would have missed out on investment returns of:

- $4,000 worse after three months
- $13,800 after a year
- $34,800 after five years
- $46,000 after seven years.

"People avoid selling their house during a property market slump because they are worried about making a loss, the same principle should be applied to changing your super fund or investment option immediately after a market drop," says ISA chief executive officer Bernie Dean.

He believes Industry super funds are particularly well-equipped to deal with short-term shocks to world equity markets because of their investments in infrastructure, property, cash, and other unlisted assets.

After the GFC most super funds recovered quicker than global stock markets, and the diversified asset base means funds are once again able to bounce back from this market drop, says Dean.

AustralianSuper says the situation remains uncertain, but diversification will help shelter its members.

"AustralianSuper has built diversified investment portfolios. This approach reduces the volatility that members experience so that members can remain invested through market cycles. We do this by combining a range of asset classes including shares, fixed income, cash, property, infrastructure and foreign currency," says Barker.

"Over the past two years we have decreased the risk in each our diversified investment portfolios, in part reflecting the strong returns from share markets since the crisis in 2008 until recently," he says.