SMSFs Under Advice

A comparative analysis of the profile and trading behaviours of advised SMSF clients.

February 2024

In challenging trading conditions marked by rapid rate rises, inflation and geopolitical uncertainty, advised SMSF accounts have remained resilient, continuing to favour a distinct, well-diversified mix of asset classes, securities and sectors, and once again showing the hallmarks of professional investment advice.

AUSIEX is pleased to once again to share findings of our analysis SMSFs Under Advice, a comparative analysis of the profile, trading activity and holdings of advised SMSF clients.

Our analysis of a large sample of AUSIEX data examines the composition of current and new SMSF accounts across advised and self-directed (non-advised) segments for the 2022 and 2023 calendar year period. We examined the composition of advised SMSF account holdings (as at early January 2024), examining some of the recent trading behaviours and shifts across asset classes, sectors and securities against a backdrop of rising inflation, uncertainty around cash rate movements, industry-level challenges and geopolitical events.

Last years' analysis revealed overall number of SMSF accounts remained unchanged year on year, with new SMSF account numbers reversing, driven largely by lower levels of self-directed account creation. Baby Boomers in 2022 returned to prominence making up a stronger proportion of new SMSF accounts and the gender ratio for new accounts had increased to a 5 year high. Trading activity was subdued too, with volumes and value declining, and fewer SMSF accounts trading overall[1].

Advised SMSF numbers rebound

As was the case in 2022, the year which was 2023 commenced with a degree of drama. The ASX 200 (ASX: XJO) rose strongly in early January to be within touching distance of an all-time high before retreating, when the collapse of Silicon Valley Bank in the US and merger of Credit Suisse with UBS sparked widespread volatility. These events coincided with the local market dipping well below 7000 points before a steep climb back out in April following RBA's pause on rate increases (after 10 consecutive hikes) restored some equilibrium. The war in Ukraine, and later Israel's military action against Gaza, continued to play backdrop to market concerns over energy and supply chains, meaning the stock selection quality bias persisted through most of the calendar year. The interest around the appointment of a new RBA Governor around July also seemed to underline just how rate-driven the markets have

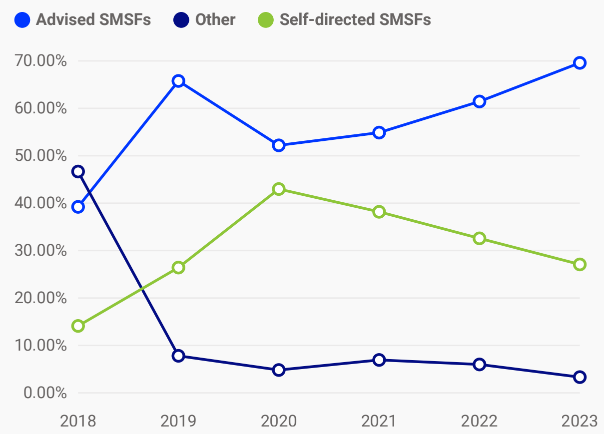
[1] SMSFs Under Advice – AUSIEX, February 2023

been in recent times, until the ASX 200 surged towards 7600 points from mid-October towards an all-time high of 7680.7 in January this year (2024).

Of potentially more direct consequence to the SMSF sector, the analysis encompassed almost 12 months since the Labor announcement (Division 296) relating to additional taxation on earnings by superannuation accounts with balances greater than $3m, estimated to impact approximately 1 in 3 SMSF accounts. Similarly, this period also saw the release of the Quality of Advice Review recommendations, with far-reaching implications to the advice sector beyond the scope of this analysis.

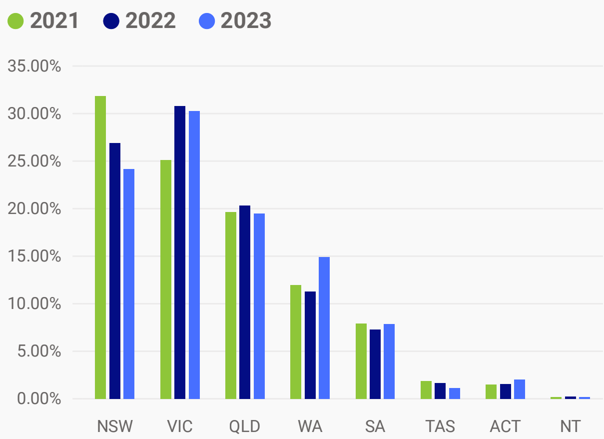
In this context, SMSF accounts have moved beyond mere resilience to resume growth, with the total number of accounts up on the prior year in the cohort sampled, driven mostly by an increase in advised SMSF accounts, although self-directed accounts were also marginally higher.

Fig 1: New SMSF Accounts Created by Segment - Trend



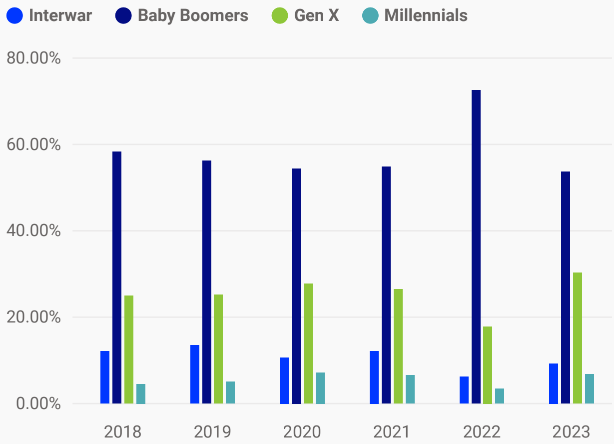
The proportional growth in new advised SMSF accounts rose again in 2023 (Source: AUSIEX)

Fig 2: New SMSF Accounts Created by State - Year on Year



The larger eastern-seaboard states' share of new SMSF accounts all fell in 2023 whilst WA grew strongly (Source: AUSIEX).

Fig 3: New Advised SMSF Accounts by Generation (2018-2023)



The proportion of new Advised SMSF accounts administered for Generation X clients has reached its highest level since 2018, whilst millennial accounts rebounded (Source: AUSIEX).

Fig 4: New SMSF Accounts by Generation & Gender

		Advised		Self Directed	
		2022	2023	2022	2023
Baby Boomers	Female	14.03%	12.08%	10.44%	11.04%
	Male	**42.01%**	**42.69%**	**33.28%**	**39.79%**
Gen X	Female	7.48%	6.20%	8.48%	6.88%
	Male	**18.79%**	**22.69%**	**27.08%**	**26.88%**
Interwar	Female	4.00%	2.69%	3.10%	2.08%
	Male	7.14%	7.02%	9.46%	6.04%
Millennial	Female	**0.94%**	**1.80%**	**2.28%**	**1.88%**
	Male	5.61%	4.82%	5.87%	5.42%

Gen X males increased their share of overall advised SMSF accounts created, whilst Millennial females also saw a positive year on year change. (Source: AUSIEX)

[1] SMSFs Under Advice – AUSIEX, February 2023

New advised SMSF accounts rise

As was the case in 2022 however, the AUSIEX data sample of new SMSF accounts created in 2023 tells a markedly different story. Overall, new SMSF accounts created fell 5.49% across both advised and self-directed segments together. However, on closer examination this was largely driven by a significant fall in the rate of account creation for self-directed SMSFs, with new advised SMSF account numbers actually growing 4.14% over the year. In addition, they accounted for approximately 71.97% of total new accounts created in the year, up from 66.21% in 2022, suggesting that investors continue to see the value and are actively seeking out adviser support.

Looking specifically at the drivers of advised SMSF new account growth, an intergenerational theme emerges. Whilst the proportional share of new advised SMSF accounts administered for Baby Boomers increased 2.11% in number year on year, we saw a possible changing of the guard with Generation X share increasing 14.10%. Supporting this hypothesis, although significantly fewer in numerical terms, new Advised Millennial SMSF account numbers also increased 3.85% year on year.

In stark contrast, the number of new accounts created for self-directed SMSF investors Generation X, Millennials and the Interwar generation all fell sharply raising the possibility that they are now being serviced 'through the mainstream superannuation system or alternatively via advisers. The time and effort and costs associated with self-administering an SMSF may be being re-evaluated.

Looking even deeper into generation and gender segments, we can see Generation X males having the highest proportional growth year on year (from 18.79% to 22.69%), with Millennial females alongside Baby Boomer males the only cohorts showing growth. Baby Boomers continued to make up some 41.88% of total new SMSF accounts across advised and self-directed segments, very much the core profile of SMSFs as to be expected.

Examining the proportion of new SMSF accounts by state (Figure 2), as in 2022 we saw Victoria continue to lead new account growth, with Western Australia contributing strongly.

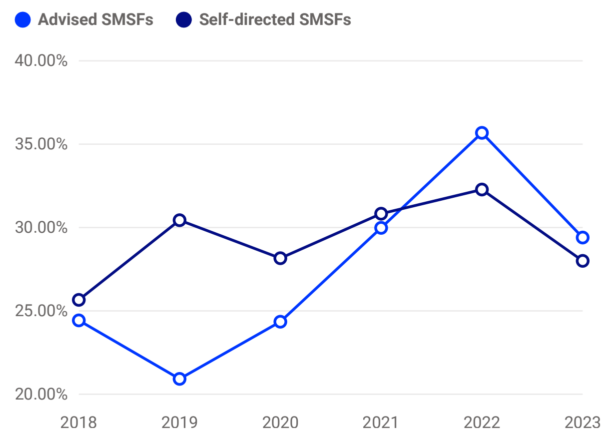
Gender and SMSFs

The overall gender ratio (the ratio of females to males) of all SMSF accounts in the sampled cohort in January 2023 was 23.3%. By contrast, the gender ratio for advised SMSFs was 21.9%[2], while for self-directed SMSF accounts it was 25.46%. When we make the comparison against non-SMSF accounts (both advised and self-directed accounts) with a gender ratio of 52.7% we get a clearer sense of the gender skew for SMSF accounts overall.

For a 5-year period, we saw growth in the gender ratio of new advised SMSF accounts created from 24.43% in 2018 to 35.68% in 2022. In 2023 however we have seen that ratio retreat to 29.4% (Figure 5), though not at a level we believe suggests the longer-term trend may be reversing.

With regard to trading activity, 2023 saw female SMSF accounts increase their trading year on year while male SMSF account trading volume actually fell. Female SMSF accounts comprised 17.84% of total trades by advised SMSF accounts (14.55% for self-directed SMSF accounts). Female SMSF accounts traded less than males in 2023, were also less bullish, having a stronger sell-side bias than

Fig 5: Gender Ratio Trend for New SMSF Accounts



The gender ratio of newly created SMSF accounts fell year on year, returning to 2022 levels (Source: AUSIEX).

[2] Based on the gender of the primary account holder (where data was available).

males of the same cohort, had a larger average trade size than males and trader fewer security types.

Analysing holdings for female advised SMSFs over the year to the end of 2023, we saw the proportion of holdings accounted for by female primary account owners increase from 18.70% to 19.57%. Female advised SMSFs also had higher average monthly holdings through 2023 and 2023.

Advised SMSFs keep trading through uncertain conditions

With factors such as inflation and cost of living playing a key role in markets in 2023, it should not come as a great surprise that overall trading volumes were subdued, as investors took refuge in quality and income generating assets as they waited for more direction from the markets. This was particularly evident on the side of self-directed SMSFs but what was somewhat surprising was that trade volumes (number of trades) for advised SMSFs increased a modest 1.4%, suggesting advised SMSFs remained very active in their monitoring and portfolio management approach.

Supporting this view, traded value by advised SMSFs increased an outsized 6.03%. Advised SMSFs were also not perturbed by market conditions as were self-directed SMSFs, with net traded value for the year strongly positive meaning more FUM entered advised SMSF portfolios via trading (as opposed to asset price growth) than left on an annual basis.

Diversification remains a marker of professional advice

SMSF accounts again comprised near 30% of total holdings as at December 2023, unchanged from 2022, with approximately 50% of those holdings managed by an advisor. Comparing total holdings in December 2023 with December in the prior year we saw total holdings for advised SMSFs remain unchanged, while holdings in self-directed SMSF holdings were 4.88% down.

When we drill down further into asset class allocations (Figure 8), we see advised SMSFs show a preference for a broader range of asset classes, most notably for Exchange Traded Funds (ETFs), relative to self-directed SMSFs, as advisers seek diversification against risk and seek to remove volatility from portfolios.

Examining sector allocations (Figure 7) for domestic equities, we again see a strong preference for Financials and Materials stocks, with both advised and self-directed SMSFs allocating more to Financials over the year. Almost 9 in 10 and just over 7 in 10 advised SMSFs allocated to Financials and Materials sectors respectively, showing strong conviction in those sectors. Where we do see a difference between the two segments is in advised SMSFs' larger allocations to Healthcare and Consumer Staples, whilst self-directed SMSFs held a greater proportion in materials stocks. Overall however, observing the proportions across each sector we see a greater diversification across sectors relative to self-directed SMSFs.

The top holdings for advised SMSF accounts in the sampled cohort provides a glimpse into how advisers are positioning portfolios towards quality in the current environment. In summary, as in 2022, we saw the top 10 comprised mainly of leading income-generating Financial and Material stocks. Overall, there was little difference between self-directed advised SMSF portfolios in terms of the composition of the top 10.

However, where there is some difference is in the top securities ranked by the proportion of total SMSF accounts which hold them.

As in 2022, advised SMSFs appeared to have far more. 'commonality' and conviction in specific stocks (a higher proportion of overall accounts are holding each specific stock) relative to self-directed SMSFs which appear to hold a more diverse range of stocks.

[3] Total value of buy trades less sell trades.

Fig 6: % Holdings by Asset Class - Advised v Self-Directed

	Year	Equities	ETFs	Hybrids	ETMFs	AREITs/LICs/LITs	Other
Advised	2023	57.34%	25.34%	6.61%	4.86%	5.35%	0.50%
	2022	56.93%	22.23%	6.37%	5.10%	8.92%	0.45%
Self-Directed	2023	86.53%	6.58%	2.07%	0.77%	3.63%	0.42%
	2022	84.51%	5.78%	2.02%	0.74%	6.59%	0.36%

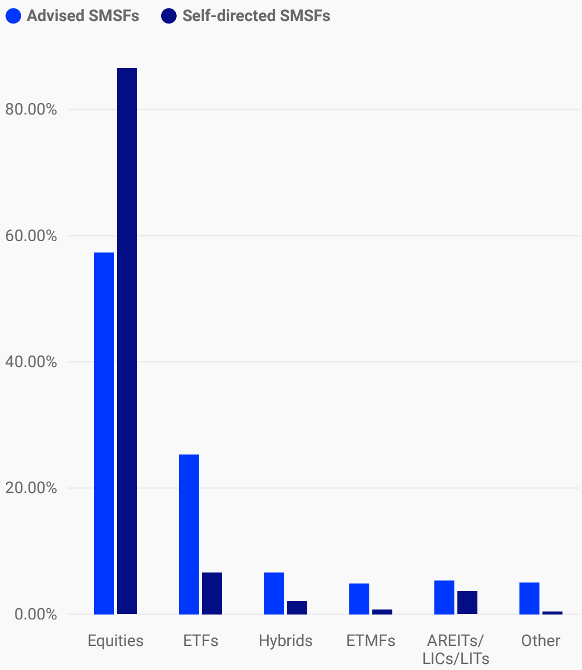
Advised SMSFs are more diversified across asset classes in comparison with their self-directed counterparts and diversification away from ordinary domestic equities continued in favour of ETFs. (Source Data: AUSIEX, Feb 2022).

Fig 7: Domestic Equities Sector Allocations (% of Total Holdings)

	Advised SMSF		Self-Directed SMSF	
	2022	2023	2022	2023
Financials	33.72%	34.21%	35.17%	35.82%
Materials	17.53%	17.11%	22.43%	20.68%
Health Care	12.24%	12.24%	7.64%	7.68%
Other	10.87%	10.72%	10.36%	10.60%
Consumer Staple	8.23%	8.04%	5.78%	6.16%
Energy	6.53%	5.26%	6.77%	6.68%
Communication Services	4.19%	3.41%	3.38%	3.17%
Consumer Discretionary	3.39%	2.95%	3.27%	3.43%
Industrials	3.10%	2.90%	2.17%	2.34%
Information Technology	2.59%	2.47%	2.45%	2.87%
Utilities	0.58%	0.56%	0.47%	0.48%
Real Estate	0.14%	0.13%	0.12%	0.09%

Advised SMSFs were overweight on healthcare and consumer staples in comparison with Self-directed SMSFs 'Analysis uses AUSIEX sector classifications. (Source: AUSIEX).. (Source: AUSIEX)

Fig 8: % Holdings by Asset Class - Advised v Self-Directed



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Spotlight on ETFs

Advised SMSFs remain heavier users of ETFs relative to their self-directed counterparts.

The diversity of ETFs currently available is not only allowing advisers to build desired client exposures more efficiently but also gain access to international markets. This was evident in the ETF strategies employed by advised SMSF accounts in 2023 where global equity ETFs, US specific exposures and global strategy ETFs were in relatively higher usage compared with non-SMSF non-advised (retail) clients. This suggests advised SMSF accounts may be utilising ETFs as a tool for gaining international exposures via local listed markets.

When we look specifically at top ETF holdings for advised and self-directed SMSF accounts we see a preference towards leading managers and broad equity indexes, with the 'quality' bias again visible. While it is also generally the case for self-directed SMSF accounts, as one notable difference we see higher concentration in some well known tickers such as Vanguard Australian Shares Index (ASX: VAS), while the ETF selection was generally more diverse for advised SMSFs.

There is certainly a narrative in recent times that ETFs are favoured by younger generations, and our analysis also seems to bear this out in general. As is clear from the data below, SMSFs overall also showed a stronger preference for ETFs across all generations in 2023 compared with non-SMSF accounts, with a notable exception being advised Generation X SMSFs, which had a lower allocation to ETFs than non-SMSF investors of the same generational cohort. This may suggest a preference by for direct investments (and a high level of conviction in those stocks) and/or an aversion to (high) management expense ratios for this key cohort.

Fig 9: Top 10 ETF Holdings by Value

Advised SMSFs		Self-Directed SMSFs	
Security Code	% of Holdings	Security Code	% of Holdings
VAS	5.64%	VAS	16.34%
IVV	4.62%	STW	7.76%
VGS	4.48%	IVV	6.21%
IOO	4.38%	VTS	5.60%
VAP	4.29%	NDQ	5.34%
STW	4.11%	VGS	5.05%
VGAD	4.02%	VHY	4.74%
QUAL	3.74%	IOO	3.39%
VEU	3.47%	IOZ	2.24%
MVW	3.43%	AAA	1.93%

Whilst there was some commonality in terms of holdings between advised and self-directed SMSF accounts, there were notable differences in security selection and the level of concentration in specific holdings. (Source: AUSIEX)

Fig 10: Advised SMSF Top ETF Trading Strategies by Traded Value

Advised SMSFs		Non-SMSF Self-Directed Accounts	
Strategy	% of Holdings	Strategy	% of Holdings
Equity - Australia	18.27%	Equity - Australia	33.24%
Equity - Global	13.09%	Equity - USA	17.39%
Equity - Global Strategy	13.07%	Equity - Global	10.29%
Equity - USA	11.09%	Equity - Global Strategy	7.29%
Fixed Income - Australian Dollar	9.41%	Equity - Australia Strategy	7.29%
Equity - Australia Strategy	6.71%	Equity - Global Sectors	5.98%
Equity - Global Sectors	5.76%	Mixed Asset	5.44%
Property - Australia	5.56%	Fixed Income - Australian Dollar	2.70%
Fixed Income - Global	3.14%	Property - Australia	1.63%
Mixed Asset	2.26%	Cash	1.34%

The top strategies associated ETF holdings used by advised SMSF accounts show a greater diversity than is evident for self-directed non-SMSF accounts. (Source: AUSIEX)

Fig 11: % of Total Holdings by Asset Class - SMSF v Non-SMSF Accounts

	Baby Boomer		Gen X		Gen Z		Interwar		Millenial	
Asset Class	Non-SMSF	SMSF	Non-SMSF	SMSF	Non-SMSF	SMSF	Non-SMSF	SMSF	Non-SMSF	SMSF
Ordinary	83.26%	69.96%	58.84%	64.98%	65.67%	44.98%	84.45%	78.97%	71.52%	60.88%
Exchange Traded Fund Units	8.64%	17.04%	29.20%	23.60%	29.04%	52.08%	6.80%	9.17%	22.24%	29.87%
AREITS/LICs/LITs	3.28%	4.63%	4.37%	4.07%	2.44%	0.00%	3.62%	4.90%	2.45%	3.40%
Hybrids	3.13%	4.88%	4.49%	3.33%	1.03%	2.94%	2.83%	4.62%	1.28%	1.43%
ETMFs	1.31%	3.04%	2.22%	3.29%	1.26%	0.00%	1.06%	2.06%	1.32%	3.65%
Other	0.39%	0.46%	0.87%	0.73%	0.56%	0.00%	1.23%	0.29%	1.18%	0.77%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Ordinary shares (Domestic) were the predominant asset class across all generations, although SMSF accounts and older generations in general showed higher relative preference towards ETFs. (Source: AUSIEX)

Towards 2024 and beyond

Recent data prepared by the Australian Taxation Office (ATO) revealed that as at September 2023 there were over 610,000[4] SMSFs comprising 1.1 million members holding $876 billion in assets, and representing approximately one quarter of the estimated $3.56[5] trillion in superannuation wealth.

What this serves to show is that the 'DIY nest egg' remains popular and highly relevant in Australia's wealth management landscape. And with recent data from February 2024[6] showing a 4.1% performance margin over APRA funds for 2021-2022, it is somewhat easy to understand why.

Headwinds do exist, however. The uncertainty relating to the $3m superannuation cap, how the Quality of Advice Review findings may alter the advice landscape, the potential 'over-valuation' risks of a local market near all time highs and a looming US election are in focus. The unpredicability of interest rates as central banks grapple with the gordian knot of inflation and cost of living remains. We would argue however, that these are the conditions in which the in which the advised value proposition is most clearly visible is most clearly visible.

Out of this analysis we see opportunities for SMSF advisers to continue to benefit from positioning towards female trustees across all generations, whilst at the same time looking to strengthen their proposition towards males which the data suggest have a preference for the self-directed SMSF model. This may prompt consideration of a hybrid 'assisted' advice model which provides greater control to more 'hands on' trustees, without undermining the value of advice, administration and governance. Using ETFs as part of a strategy to engage and serve younger investors may also assist.

In the context of the intergenerational wealth transfer which AUSIEX believe is accelerating rapidly[7], the opportunity to engage with younger generations, in particular Gen X who are in their peak earning years but also at or approaching the statistical average age for inheritance, remains a strategic and high-value one.

From our vantage, with the complexity stemming from professional management of a diversified SMSF, we also see the need for continued investment in technology and process to drive operational and trading efficiencies within SMSF advisory practices. This not only serves to enable SMSF advisers to continue providing the strong investment discipline we believe is evident from the data to benefit current trustees, but also to put more clients within the realms of what the SMSF advice practice can profitably service.

For more information about AUSIEX trading and technology solutions including our new International Markets and Portfolio Reporting Services, please contact your Business Development Manager or email salesteam@ausiex.com.au.

Award winning excellence

AUSIEX is proud to be recognised within the industry through awards such as the 2022 and 2021 Advisers' Choice Award for Australian Shares at the SMSF Service Provider Awards, as well as Platform Provider of the Year at the SMSF Adviser Awards. These achievements are only made possible through the continued support and close partnerships AUSIEX has with their clients.

Owned by multi-national trading technology powerhouse Nomura Research Institute (NRI), AUSIEX specialises in equities execution, clearing and settlement services for the wholesale market, and currently supports over 4600+ advisers.

[4] Self-Managed Super Funds: A Statistical Overview 2021-2022
[5] Australian Prudential Regulation Authority (APRA) – September 2023
[6] International Centre for Financial Studies
[7] On the precipice of change (AUSIEX 2023)

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