# Winning strategies for beating the share market

Many planners focus their advice around the biggest 20 listed companies, says Anton Tagliaferro of Investors Mutual. **Louie Douvis**

by **John Wasiliev**

Accumulating super can be achieved in two ways: making tax-concessional contributions and earning tax-concessional earnings from investments made by these contributions.

With Parliament about to impose big restrictions on contribution entitlements, this leaves earning investment income as the new focus that will become increasingly important for self-managed superannuation funds (SMSFs).
For almost the entire time SMSFs have been in existence, the principal growth strategy has centred around maximizing contributions.

Whether the contributions have been pre-tax or after-tax amounts, every year they have represented a major proportion of the multi-billion-dollar annual growth experienced by SMSFs.

The most spectacular growth occurred a decade ago when SMSFs attracted a $77 billion flood of funds in 06-07, when $56 billion of member contributions preceded the introduction of limits on non-concessional (or after-tax) contributions.

These limits are about to be further restricted in this year's super changes.

## Wasted opportunity

Being able to make large contributions has made generating tax-concessional investment earnings a simpler exercise: something that won't be as easy from 2017 for SMSFs that haven't reached a size where investment earnings can make a big difference.

Not earning the best investment returns possible from the limited rights to make contributions will in future be regarded as a wasted opportunity.

It'll be seen as a missed opportunity because these days’ share investors should be able to achieve at least a market return from managed fund products like index funds and exchange traded index funds.

For example, the SPDR S&P/ASX200 exchange traded fund earned 11.4 per cent in the 2015-16 financial year, including a dividend of just under 4 per cent. Did your Australian share portfolio earn this?

There's a widely held view that because SMSFs concentrate their share investing activities in the Australian sharemarket's largest 20 companies, most will usually find beating the share market a major challenge. There is an S&P/ASX 20 exchange traded fund (ETF) offered by Blackrock Investment Management iShares funds division that returned just over 3 per cent in 2015-16.

It's a challenge that confronts not only SMSF member-trustees who do their own share investing using a "big 20" approach, but also funds advised by many financial planners who give share investing advice.

## Focus too narrow

Why planners are worth mentioning, reckons share investment fund manager Anton Tagliaferro, investment director of Investors Mutual Ltd, is because many of them also appear to focus their advice around the biggest 20. What many often recommend as a share portfolio for their SMSF clients, he says, is concentrated on half a dozen "big 20" stocks.

The reason they recommend the biggest 20 – which includes the major banks, Telstra, the big retailers (especially Woolworths) and the big resources companies – is their franked dividends.

Awareness that a "big 20" focused strategy is pursued by many SMSFs, says Tagliaferro, emerged when Investors Mutual noted a couple of years ago it was losing business for its Australian shares managed funds from SMSFs using advisers.

A significant number of advisers who were investing in IML's share unit trusts decided to become direct share advisers on behalf of their SMSF clients.

Rather than try to persuade them to change their minds, IML established a sharemarket listed managed fund, QV Equities Ltd, that invests outside the biggest 20 ASX companies.

## Ex-20 reach

It did this to draw attention to the fact that a portfolio of shares outside the biggest 20 is more likely to outperform not only a "big 20" portfolio but also a top 200 and a top 300 portfolio that includes the biggest 20 companies.

The latest one-year performance for the $260 million QV Equities fund is 17.8 per cent. The fund has a diversified portfolio of shares in about 45 companies that are mainly growth-focused, which suggests it is more likely to suit an SMSF in the accumulation phase.

QV Equities is one of a growing band of so called ex-20 share funds being offered to investors. What they have in common is managers who claim their funds are capable of beating the market.

That said, another reason to introduce ex-20 managed funds is to provide diversification for an SMSF share portfolio that concentrates on the top 20.

Two steps are required before adding an ex-20 fund to an SMSF. Know your own portfolio – especially how it is performing – and then understand how an ex-20 fund can add diversification. This means knowing the manager's investment selection and portfolio approach.

The IML approach to ex-20 share investing, says Tagliaferro, is buying into companies where its research shows they have a competitive advantage over those in similar businesses. It likes to invest in companies that are number one or two in their industry. It also like companies with recurring and predictable earnings that grow over time.

## Good management

This expectation means it is not big in the resources sector where investment earnings are not reliable. Companies with good management are also preferred. It likes management that comes across as honest and able to deliver on promises (like turning around underperforming assets).

Its portfolio includes building products manufacturer Fletcher Building, packaging group company PACT Group Holding, health and safety goods supplier Ansell and building fixtures and fitting company GWA Group Holdings.

The QV fund, says Tagliaferro, aims to deliver returns to investors through a growing share price rather than by trading shares. It is prepared to be patient and hold on to investments it likes when the market may experience some volatility.

This strategy therefore seeks to avoid the short-termism that can overtake share markets at times. What is interesting about share markets now is that while modest economic growth should suggest investment earnings might be hard to come by, record low interest rates are buoying the prices of assets capable of producing income, including shares.

Equity markets are rising, Tagliaferro says, because they are attracting a wall of money chasing the yields they offer. It's a good reason for SMSFs to stick with a diversified share portfolio.

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