Cuffelinks
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## This Week's Top Articles



## US Government shut-down – been there, done that

## Ashley Owen

As yet another US budget crisis looms in Washington, the US Government may run out of money and be forced to close down. It will not be the first time the US Federal Government has run out of money, unable to borrow more to keep paying its bills. It has happened before - most recently in 1995 and 1996. Scary as this may sound to investors, the impact on markets of recent government shutdowns was different to what many expected.

**1980s boom financed by debt**

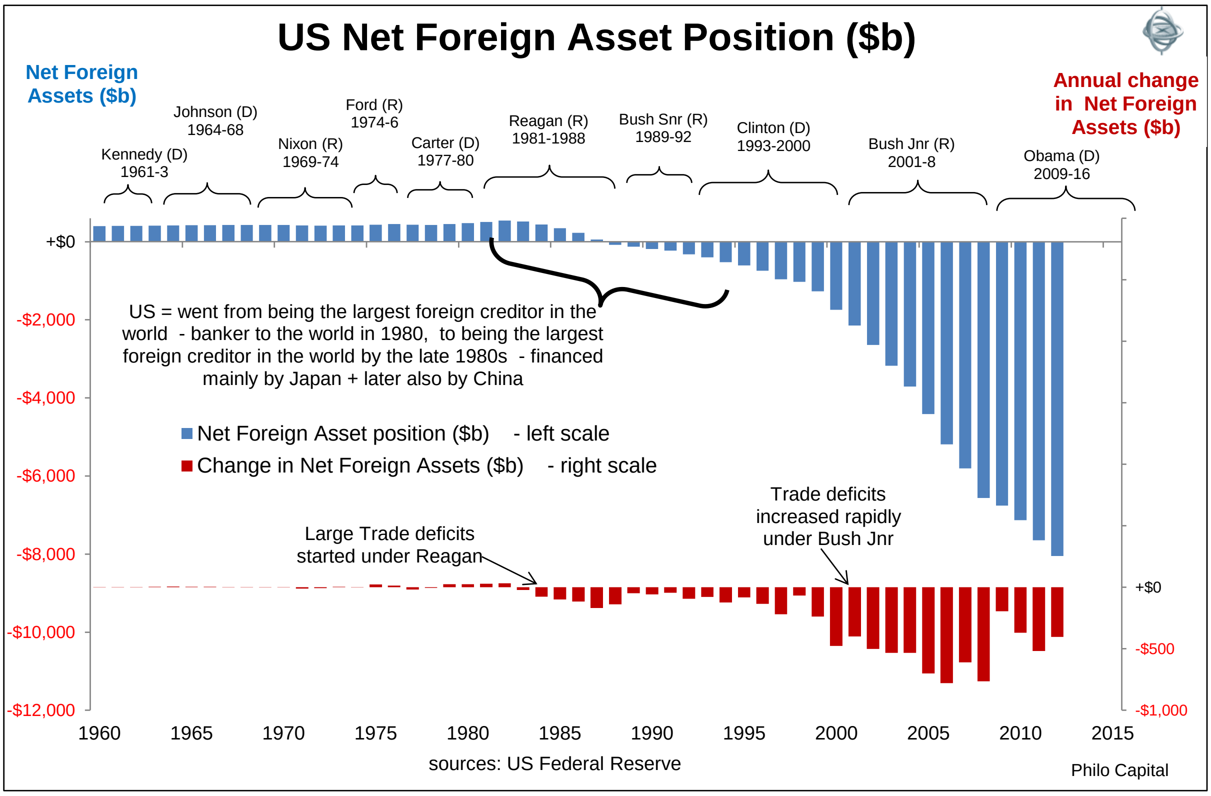
The deep financial, economic and political crises of the 1970s came to a head in 1979. The US Treasury defaulted three times on its Treasury Bills in 1979, when Congress didn't legislate in time to raise the debt ceiling – like in early August 2011, and at the end of December 2012, and again this month. But these temporary defaults on US government debt became the dawn of a brand new era of growth and prosperity for Americans. We will look at recent US Treasury defaults next week.

Following Ronald Reagan's landslide victory over Jimmy Carter in the November 1980 elections, Reagan, Volcker, and Thatcher led the macroeconomic revolution in the 1980s, back toward smaller government, lower tax rates, privatisation of industries and deregulation of markets. These reforms brought lower inflation, lower interest rates, lower unemployment rates, a return to economic growth and prosperity.

Or so it seemed.

The US economy may have grown strongly in the 1980s, 1990s and 2000s after the stagflation of the 1970s, but the boom was financed by a massive build-up of budget deficits, trade deficits and debt.

When Reagan came to office in 1981 the US was the biggest creditor nation – it was the banker to the world. By the end of Reagan's first term it had become a net debtor nation. By the end of his second term the US had become the world's biggest net debtor and Japan had become the biggest creditor and main banker to America. This is shown in the following chart of the US net foreign asset position.




Trade deficits increased rapidly under Reagan, were lower under Bush Senior and Clinton, but then blew out to record deficits again under Bush Junior. The trade deficits were financed by foreign investors, including a rapid build-up of foreign debt – firstly owed to the Japanese, and during the 2000s, to the Chinese.

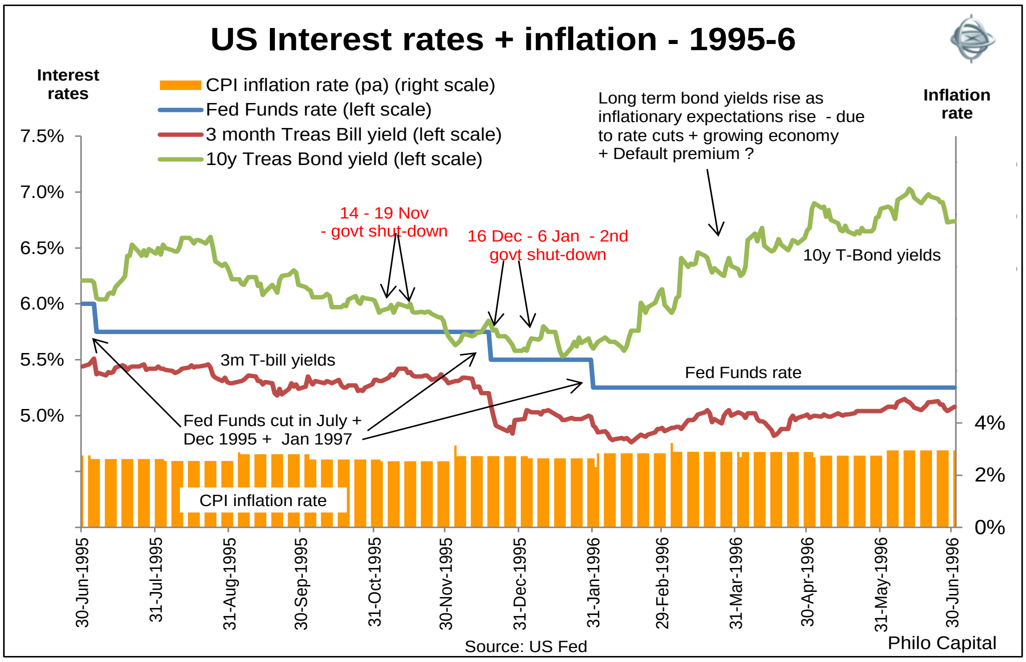
### 1995/1996 deficit crisis and government shutdown

Fifteen years of spending and borrowing binges that started under Reagan led to the next crisis: the 1995/1996 government shut-downs. The budget stand-off forced temporary shut-downs of non-essential government services for 28 days across two periods: 14 to 19 November 1995, and again from 16 December 1995 to 6 January 1996.

The crisis was a culmination of the stand-off in the 1990s between the Republican controlled Congress (led by Newt Gingrich) and Democrat President Clinton. Clinton's 1993 Deficit Reduction Act was opposed by Republicans in Congress, who wanted more cuts to welfare, mainly Medicare.

By pushing the President all the way down to the wire in 1995 and forcing a shut-down of the government, Gingrich was seen by the public as going too far in putting political point-scoring ahead of America's credit standing in the world. Gingrich's loss of public support effectively ended his political career.

The following chart shows US interest rates and inflation during the 12 months from July 1995 to June 1996.

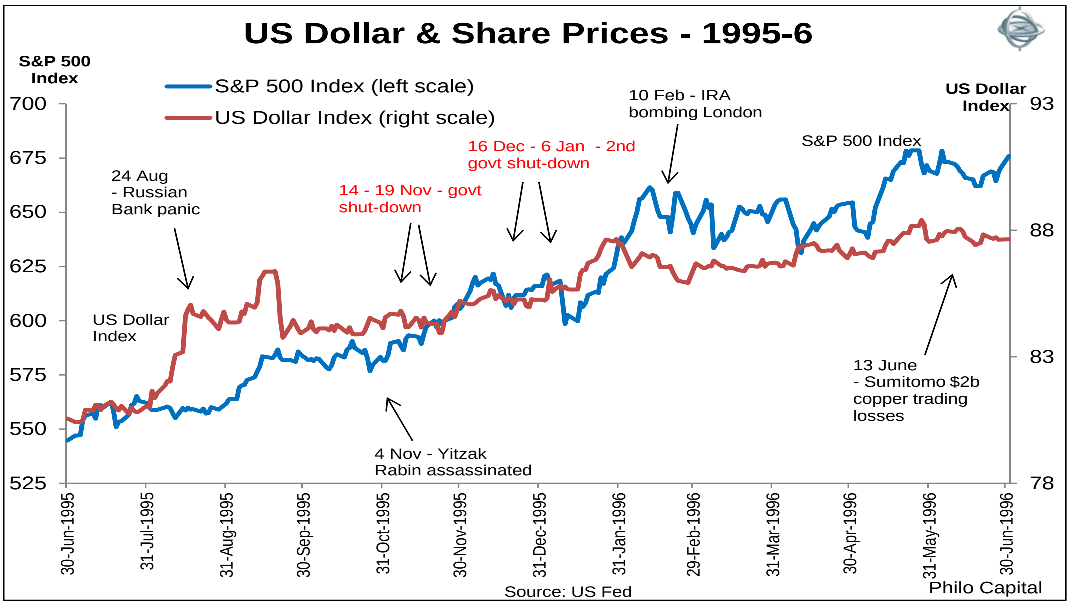



The Fed reduced the Fed Funds target rate three times from July 1995 and January 1996, following the seven rate hikes between February 1994 (which had triggered the 1994 bond market crisis) and February 1995. Short term rates were drifting down during the second half of 1995 and did not spike upward when the government shut-downs occurred, as might be expected in the event of a cash shortage. Rates stabilised at around 4% during 1996, and the Fed did not cut rates again in that cycle.

Long term bond yields were on the way down following the 1994 rate hikes, but started to rise again from January 1996 following the shut-down crisis. There are several likely reasons for the rises in bond yields. The first is that inflationary expectations were rising – with inflation still running at 3% while the Fed was cutting rates and the economy was also growing relatively strongly.

Second, it is possible that the increase in bond yields also started to factor in a credit default premium since clearly shutting down the government was not a long term solution to the deficit/debt crisis. However a stronger argument is that it reflected higher inflationary expectations as a result of Clinton's perceived victory over Gingrich in the PR war, meaning there was likely to be less pressure to balance budgets in future and more latitude to keep running expansionary deficits.

The next chart shows the US dollar index (trade weighted basket) and the S&P 500 index over the same period.




The US dollar surged during the Russian bank crisis in August 1995 and then kept strengthening during the budget stand-off and even during the government shutdowns. **Far from panicking in the crisis, investors kept buying US dollars and US shares.** Over the 12 month period the US dollar gained 10% and the S&P 500 index put on a decidedly bullish 20%.

President Obama and the Republicans in Congress today are keen to not repeat the errors of gamesmanship in the 1995/1956 shut-down crisis. Painful as the shut-downs were at the time for staff and suppliers, markets ignored them and kept on booming. However the crisis did act as shock therapy for the President and Congress and it stunned both sides into constructive dialogue and action.

As a result, a compromise balanced budget bill was passed in August 1997, aimed at balancing the budget by 2002. In fact the goal was achieved earlier than expected, thanks to the booming dot-com economy that delivered better than expected tax revenues and lower than expected welfare costs.

To this day, Republicans and Democrats both claim credit for the 1998-2000 surpluses, and they are both partially correct – it was the bi-partisan co-operation that was forged by the shock therapy of the shut-down crisis that produced the result.

Clinton is the only President since Nixon (Republican) in 1973 to achieve a budget surplus. Not only that, there were three surplus years in a row – 1998, 1999 and 2000 - a feat not seen since the Kennedy/Johnson (Democrat) surpluses of the early-mid 1960s.

To sum up, the government shutdown crisis of 1995 and 1996 was shrugged off by markets and served as shock therapy that forced both parties to the negotiating table to come up with by-partisan action that resulted in a rapid return to surplus. Bi-partisan action is what is sorely needed in Washington to solve the current crisis, but it has largely disappeared during the Obama administration.

Perhaps a government shutdown or debt default will provide the necessary catalyst once again as it did in the past.

*Ashley Owen is Joint Chief Executive Officer of Philo Capital Advisers and a director and adviser to Third Link Growth Fund.*

# Expect disappointment as values become stretched

## Roger Montgomery

It has been a good year in the Australian equity market. As we come to the end of the September 2013 quarter, the ASX300 Accumulation Index has increased by 24% over 12 months - a rate that is more than double the long term annual average of about 11%.

A natural response for many investors is to feel that they should allocate more capital to the market, to avoid missing out on the gains others are enjoying, and this is certainly a mindset that we have noticed recently. With short-term interest rates at record lows, there is no shortage of people who have become frustrated with the returns on cash, and are electing to move money into equities as their term deposits mature.

However, this line of thought often leads to decisions that are contrary to those a disciplined investment process would follow. When share prices are rising faster than corporate earnings, it is almost certain that the value available in the market is declining, and ultimately, value is a crucial driver of long term investment performance.

Not surprisingly, an analysis of historical returns shows that when the ASX Index has an unusually good year, the following year is more likely to be below average. This doesn't always happen of course, but a good run last year is usually a sign that the odds have shifted against you. Our analyses suggest that when the market has performed as well as it has over the past year, the prospects for the year ahead are perhaps 1% dimmer than the 11% average.

When quickly-rising share prices get ahead of underlying values, we may be able to improve our assessment of future prospects if we ignore the share price and try to understand where underlying value sits. If the valuations were very good to begin with, then a year of rising prices may be no cause for alarm.

There are a couple of simple measures that we can look to in assessing value for the market as a whole. In the Australian market, historical analysis indicates that average P/E multiples and dividend yields have provided a useful aggregate value benchmark and an indicator of future return prospects. Let's consider each of these.

In the case of dividend yields, the average for the All Ordinaries over several decades is around 4%, based on IRESS data. Currently the market sits quite close to this level, at around 4.1%, so on this measure, prospects for the year ahead are no less favourable than they might normally be. However, recall that investors have been demanding yield in recent times, and in many cases boards of directors have responded with increased payout ratios. Dividend yield may not be an accurate reflection of the underlying earnings capacity of the businesses, and it may be wise to be cautious in using it as a yardstick for value.

Turning to P/E ratios, the long run average for the All Ordinaries (again, based on IRESS data) lies at around 15x. Currently, the market sits at 17x, some 10-15% higher. This suggests that following the strong run recently, the market may now have moved to the slightly expensive side. At this level, our analysis indicates that the prospects for the year ahead may be around 2% less favourable than the 11% norm.

These reductions of 1-2% per year may seem small, and well worth accepting in the context of cash rates that are sitting close to the rate of inflation – and we'd probably have to agree with that. The real question is whether equities offer a sufficient risk premium. If the market offered reasonable value at the start of the recent run, it may have some way to go before pricing becomes a significant issue.

However, if the market continues to perform strongly, it will almost certainly be sowing the seeds for disappointment some way down the track, and investors need to guard against becoming ever more positive as valuations become increasingly tenuous.

Investors tend to manage their exposure to equities with one eye in the rear view mirror, and this has a significant impact on their investment returns over the long run. The effect of systematically investing more when the market has become expensive, and less when the market has become cheap, can bake in a level of underperformance that compounds over time.

Having a disciplined approach to valuation, and selling shares when the crowd is cheering them on can be very difficult to do – but in the long run the benefits are real.

*Roger Montgomery is the founder and Chief Investment Officer at The Montgomery Fund, and author of the bestseller, 'Value.able'.*

# A pause for reflection

## Fiona Reynolds

After many years in the hurly burly of Australia's rapidly evolving superannuation system, seven months in the UK have given me an opportunity to 'catch my breath' and listen to a diverse range of viewpoints from international funds and managers. Visits to the US, Europe and Asia meeting various PRI stakeholders has given me a wider perspective of international developments and a better understanding of where Australia is placed on the global stage.

**Recognition of strong retirement incomes system**

Throughout my travels, the key strengths of Australia's retirement incomes system are both widely recognised and a model for emulation. An early start on universal mandating of employee contributions, strong regulatory and governance systems, a robust mutual sector, healthy competition at the consumer level, a public policy focus on outcomes and intermediation over commercial interests, and continued development of expertise in funds management, place the Australian model in a league of its own.

For a young country with a retirement incomes system still decades away from maturity, there is widespread recognition of what has been conceived and achieved in just 30 years. Our peers also admire that Australia has both the political foresight and means to increase its savings pool to 12% by 2020 while other countries wrestle with deep and pressing economic challenges.

Australia's steady ascent through international league tables in national savings and adroit sidestepping of the GFC is also admired. Local funds are now amongst the world's largest and enjoy increasing international exposure. The growing profile in funds management, particularly infrastructure is also being noted.

**Focus on sustainability and fiduciary duty**

What is puzzling to many of our international friends however is the continuing and polarising domestic debate about climate change. Despite some local beliefs to the contrary, the world has moved on. For many funds, debate and discussion often centres on sustainability risks and fiduciary duty, understanding the international trend towards carbon pricing and the impact this will have on returns and asset values, and assessing carbon exposure in various portfolios and asset classes over the longer term.

Economic volatility, improvements to global investment governance to reduce the risks of instability and achieving sustained returns for members overlay with climate concerns. As a recent report from AXA Investment Managers noted, over the next 10 years, ESG considerations, socially responsible investment and impact investment are set to spread more deeply from equities portfolios to property, infrastructure, and other asset classes.

So it is with some trepidation that I have watched the apparent hardening of out-dated attitudes in the run up to our national election, and subsequently.

From the flexibility of Opposition, the launch of emissions trading trials in China in June and the commencement of the South Korean trading scheme in 2015 can safely be sidelined, as can the existing market based emissions schemes in New Zealand and California. For a newly elected Government taking office this month in the world's 12th largest economy, the reality of our major Pacific Rim trading partners in pricing carbon cannot be ignored.

Also on the domestic front, recent confirmation of a 'Son of Wallace' inquiry into financial services, creeping ominously in scope to include superannuation, raises the unwanted spectre of ongoing regulatory instability. The sometimes obsessive focus on the mutual fund sector and its successful model of member-focused governance fuels suspicion that under the guise of competition a giant 'land grab' to benefit established and powerful vested interests is part of an unseen future agenda.

It must be remembered that the fundamental public policy objective of Australia's superannuation system is not competition but maximising member's retirement benefits. The nation's future demography that first drove the establishment of our universal system from the late 1980s has not changed.

Encouragingly, flexibility and member choice now exist, as the rapid growth in the SMSF sector demonstrates. A healthy and competitive market dynamic with multiple players at a consumer and retail level has been created. This sits in sharp contrast to the increased concentration and market domination that has been hallmark of our banking sector and other parts of the financial services industry in the last two decades.

**The longer view**

As Australia's savings pool grows well into its second trillion, macro reforms aimed at increasing the internal efficiency of investment markets and raising the proportion of capital allocated to productive investments over short term trading, speculation and arbitrage are worth pursuing by any new government.

Aside from the national dividend this would generate, measures that ameliorate volatility and over-concentration on financial engineering align with the desire for longer term thinking around capital utilisation amongst institutional investors and responsible corporations.

Internationally, pension and mutual funds looking well into this new century see sustainability and environmental risks emerging in a range of investment considerations. Externalities are increasingly being brought to book in both the boardroom and balance sheet, sometimes abruptly, as global insurers and re-insurers will attest. The challenges are profound, for funds and managers everywhere. Australian funds and trustees, asset consultants and managers face a delicate balancing act in assessing sustainability risks and value drivers over their traditional investment horizons and beyond.

Looking to the 2020s and 2030s is no longer a blue sky exercise in a multi-trillion system: it is a necessity. For the new Government, sailing resolutely and indefinitely against international winds on climate and carbon may not be the best approach.

Australia's retirement incomes system has been buffeted by international events and a rigorous period of reform. A forward legislative and regulatory framework out to almost 2020 that increases transparency and streamlining and reduces unwarranted intermediation is now in place. It is time to adapt to the changes in the pipeline and a measured consideration across the industry of the new environmental, social and governance (ESG) tools and thinking.

A new responsibility also comes with government. Coalition voices in favour of moderation, national interest and a traditionally cautious approach to radical change in the direction of retirement policy need to be both heard and supported.

It is the industry's task to reach out and find those voices.

*Fiona Reynolds is the Managing Director of the United Nations-supported Principles for Responsible Investment Initiative (PRI), appointed in February 2013. She is the former CEO of the Australian Institute of Superannuation Trustees (AIST).*

# We're not like Buffett, but we can learn from him

## Harry Chemay

More words have been written about Warren Buffett than any other investor in history. Why do we adore hearing about him so much? Is it his folksy nature? His man-of-the-people demeanour? His ability to make the world of investing seem less daunting? Or is it because his wealth has come from 'playing the share market', as any of us can now do with a decent internet connection and some spare cash or our own superannuation fund?

I believe the reason he is so idolised in Australia is our ability to relate to him as an individual. Maybe it's because he lives in an average house and drives an average car. Or maybe it's because he doesn't sound like a normal 'finance guru'. Our affinity is further enhanced by our love of a punt, of placing a bet that might pay off big. Whatever the reason, Warren Buffett has a level of credibility most people in the public eye can only dream about, and will never obtain.

The thought of getting rich punting on the share market has great appeal, especially when compared to the work required to build wealth by putting sweat equity into our careers or businesses. We look at Buffett and think to ourselves, "He's a billionaire from punting the share market, and he has the ruffled looks and laconic nature of Granduncle Bill who left school aged 16. How hard can this share investing caper be?"

So just how different is Buffett from you, me and Granduncle Bill?

1. He started early. Warren Buffett's dad owned a stockbroking firm. That helps. Young Warren is reputed to have bought his first shares aged eleven and was a seasoned investor by 15. At 15, I was more interested in working on my cover drive than on covered call strategies.

2. He's seriously smart. Buffett obtained a Master of Science in Economics degree from the Ivy League Columbia University in 1951. His lecturers included Benjamin Graham and David Dodd, who would later collaborate on *Security Analysis* and the more approachable *The Intelligent Investor*, two investment texts treated with an almost holy reverence by advocates of value investing. Buffett is their star graduate. He is just as competent reviewing financial statements as he is using investment formulae to compound or discount money through time.

3. He started his investment operation essentially as a private fund structure which morphed into a public investment conglomerate only much later. His first investment vehicle, launched in 1956, was a limited partnership called, unsurprisingly, Buffett Partnership. This legal structure allowed Buffett, as General Partner, to pool the contributions of a small number of wealthy passive investors (Limited Partners) and invest on their behalf. More importantly this 'sophisticated investor only' structure meant he did not have to lodge portfolio position filings with the Securities & Exchange Commission in his early years.

   Scrutiny of his decisions from the regulator and third parties was thus significantly lower than for retail mutual (managed) funds. This advantage, combined with his penchant for taking influencing stakes in companies, allowed Buffett to operate more like a private equity manager than a traditional share fund manager, particularly before Berkshire Hathaway became his investment vehicle of choice during the seventies. One cannot therefore compare Buffett's track record with that of a typical mutual share fund, given the degrees of freedom Buffett has enjoyed that a normal manager would not be allowed. It's akin to comparing apples with pineapples. Sounds similar, but very different in nature.

What can we learn from Buffett? Whilst we clearly can't all invest like Warren Buffett, below are some behavioural clues as to what makes him so unique. Tuning into these may just make you a better investor.

**Turn off the noise**

If you can't help but take note of the latest market update to find out if you are richer or poorer than yesterday, you are most definitely not like Warren Buffett. The stream of finance news that now so pervades our daily lives Buffett would mostly regard as irrelevant noise. Part of his success comes from basing himself in Omaha, Nebraska and not on Wall Street, thereby removing himself from the global locus of investment noise. It's the equivalent of Australia's richest share investor choosing to operate from Devonport, Tasmania.

**Building financial security requires great self-control**

Investing is saving dressed up in fancy attire. At its core is the deferment of immediate gratification for a (hoped for) higher level of gratification in the future. This deferment of pleasure is psychologically challenging, requiring a degree of emotional control that is hard for most to maintain. It is here that Buffett has us all covered. His self-control in living modestly and deferring consumption by reinvesting dividends is legendary, as is his investment horizon in being far beyond what most individual investors would consider the long term.

**Five years is not the long term, try 15 for starters**

Whilst we scrutinise the latest returns from our super fund, investment manager or share portfolio, Buffett looks at investment performance across multiple years, not quarters. Who has that kind of time to waste in building wealth, right? Well, Buffett is now 83. He did not become a household name (at least not in Australia) until well into his sixties. And he started his first investment partnership before he turned 28.

To paraphrase Buffett himself, by adopting a very long investment horizon he can more confidently treat the share market as a weighing machine that should, in time, correctly weigh its constituent companies by their true market worth, rather than as a talent show voting machine gyrating excitedly around the short term popularity of hot stocks or sectors. Few have his ascetic-like discipline when it comes to focussing on the distant future rather than the here-and-now.

Putting Warren Buffet's long-term approach into perspective, when he started the Buffett Partnership, Menzies was in the Lodge, Eisenhower was in the White House and a man-made object had yet to orbit our planet. He is the antithesis of every get-rich-quick investment scheme spruiker you might ever come across.

So which of Buffett's technical or personality characteristics could you genuinely incorporate into your investment decision making process, given your unique blend of investment skills and behavioural traits?

*Harry Chemay is a consultant to superannuation funds on issues relating to retirement. He was previously an Associate at Mercer and a Certified Financial Planner.*

## Managed funds reign over noisy neighbours, the SMSFs

## Graham Hand

In 2008, Shiek Mansour bin Zayed Al Nahyan, estimated worth one trillion dollars and brother of the ruler of Abu Dhabi, bought the football club Manchester City, and threw his wealth into attracting some of the best players in the world. Manchester United had dominated English football for almost two decades, and their manager, Sir Alex Ferguson, responded by calling City a '**small club**' and '**noisy neighbours**'. But in the quiet of his office, Sir Alex knew that City was now a significant threat.

In many ways, the managed funds industry currently feels the same way about SMSFs as Sir Alex did about City. Like a bulging trophy cabinet, there is now one trillion dollars invested in managed funds in Australia (super and non-super), double the $500 billion held in SMSFs, despite all the headlines that the noisy neighbour attracts. Those other attention-seekers, noisy minnows ETFs, hold only $8 billion, while CBA/Colonial First State alone manages $116 billion in funds.

So the large retail and industry superannuation funds are safe in the knowledge that they are the existing powerhouses of investment and super in Australia, and SMSFs are still the smaller, noisy neighbours. There is as much in the large retail platforms alone as the total in SMSFs. You can be assured that the bonuses being paid throughout the managed fund industry following the strong rise in the sharemarket in 2012/2013 are far from reflecting an industry under siege. From this position of strength, they are trying to respond to the heavily-publicised popularity of SMSFs.

In the 12 months to 30 June 2013 in superannuation assets, industry funds grew by 21% and retail funds by 13.7%, while SMSFs increased by 15.4%. Industry funds continue to attract a massive following, despite the greater product innovation in the retail market. According to Deloittes, retail funds will even overtake SMSFs as the largest segment in super:

"Our projections indicate that the total retail fund sector (that is a combination of retail employer-sponsored and retail personal) will take over from SMSFs as the largest market segment in 2019 and reach almost $2.5 trillion in assets in 2030."

Useful insights into how the managed fund industry continues to thrive and how investors are thinking can be found in the Morningstar Australian Asset Flows report for June 2013, released last week. Some of the highlights are:

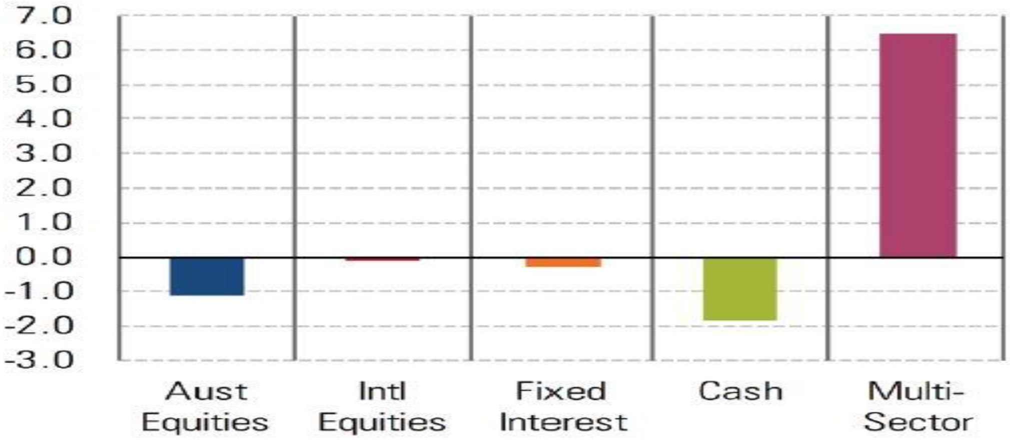
- Total managed funds in the June 2013 quarter rose $12.6 billion to a record high of almost one trillion, a 32% recovery from the $760 billion of early 2009. Global equities did especially well, although most of this was due to market movements rather than new flows.

**Chart 1 – Total Assets Under Management ($bn)**


- In the June 2013 quarter, the expectation of rising interest rates led to outflows from global bond funds, but the total number of -$218 million disguised a major leakage from passively-managed bond funds (-$839 million), suggesting investors have realised that they do not offer protection when rates rise. Actively-managed bond funds did well. There was a rotation out of hedged global funds into unhedged, as investors looked to gain from a declining Aussie dollar.

- While there are winners and losers among fund managers and asset classes, there is one segment of the market which shows why managed funds remain a powerhouse: multisector funds. These are the default funds into which millions of dollars of compulsory superannuation flows every day, offered by industry funds and the majority of tied advisers sitting in bank branches throughout the country. Multisector funds dominated flows, raising $6.4 billion in the quarter, with AustralianSuper a massive $1.1 billion alone. AMP took $700 million, although some of this was non-super.

**Chart 18 – Flow by Asset Class ($bn)**[1]
June Quarter 2013




- Multisector funds will always be a bulwark against SMSFs. Regardless of the intentions of the FOFA legislation and Best Interests Duty, the financial adviser employed by CBA in its Parramatta branch, sitting in front of a 50-year-old electrician with $100,000 in super and designing a retirement plan, will reach for the familiar safety of Colonial First State's platform and its multisector fund. No SMSFs, ETFs, SMAs or external products on the table here.

- The other distinguishing feature of multisector funds is that they do not involve discretionary decisions. They are the funds of the relatively disengaged, who choose a fund or have it chosen for them, and leave it. An estimated 85% of multisector money is superannuation.

- There are 16,000 active managed funds in Australia, and the popularity of individual fund managers ebbs and flows. Putting aside the multisector offers of the major platform providers and their own products, the fund manager winners at the moment are Magellan in active global equities; State Street in global index equities; Alphinity, Bennelong, Investors Mutual and Pengana in Aussie equities; and Kapstream and Perennial in Aussie bonds.

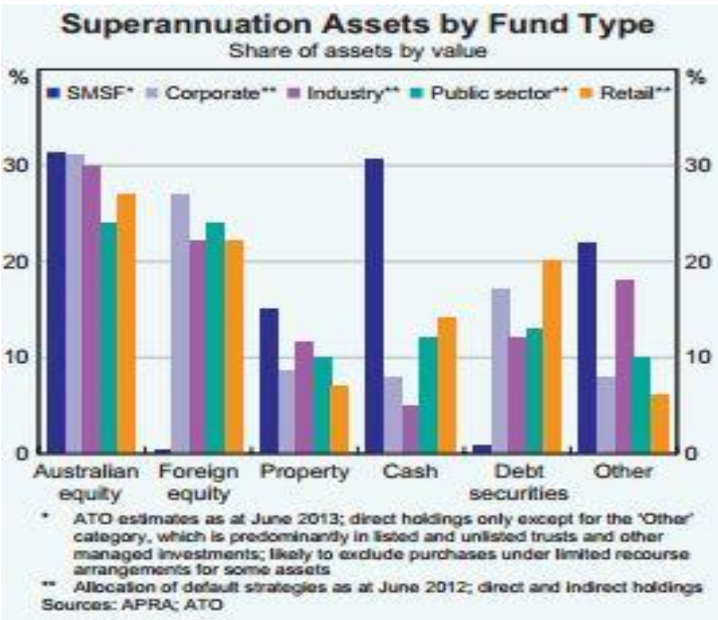
- The heavy losers in Australian equities are Orion and Solaris. A few years ago both were investor favourites. In global equities, Orbis, Schroder and Walter Scott experienced outflows. Colonial First State was a winner in cash, but the majority was from the Future Fund, managed for a few basis points, while the sale of the BT-owned Hastings' Australian Infrastructure Fund's assets depressed numbers for the BT Group.

- On asset allocation, with global equities far outperforming Australian equities during the year, and outflows from Australian bond funds, there is greater diversification and less domination by Australian assets than a year earlier.

**Chart 5 – Asset Allocation**

| Asset Class | % |
|---|---|
| Australian Equity | 26.4 |
| International Equity | 21.9 |
| Fixed interest | 21.0 |
| Cash | 15.3 |
| Property | 11.8 |
| Other | 3.6 |

- Comparisons with SMSF allocations need caution because the latest asset class data is from two years ago. The major asset allocation differences are that SMSFs hold far less in global equities and more in Australian equities (love those franking credits and high yields!), cash and term deposits. Only 14% is held in traditional managed funds. Here are the latest asset allocation estimates from the Reserve Bank.



So what are some of the lessons from the Morningstar statistics?

- Many investors understand that bond index funds – where investments are allocated simply on the basis of where most existing debt is issued and by whom – have no tactical decisions relating to prevailing market conditions, leaving greater vulnerability when rates rise.

- It remains difficult to identify consistent long term manager outperformance, and the fortunes of particular fund managers come and go. While there are certainly fund managers who are more talented than the average, this year's star is often next year's chump. This can have adverse implications for loyal investors as managers facing heavy redemptions are forced to create taxable capital gains as they sell down their holdings.

- Comparisons of investment returns by SMSFs versus multisector funds depend far more on asset class allocation than manager selection or stock picking by the self investor. In years when global equities do well (perhaps because the $A falls) and interest rates fall, institutional funds will outperform SMSFs.

- Many managed fund investors are active allocators, not simply passive holders, as the rotation out of hedged global share funds and exit from passive bond funds shows.

- The managed fund industry is alive and kicking, and regardless of the success of SMSFs, it will be sustained by at least two things: investment returns on the existing trillion dollars, and advisers who support the large platforms putting clients into the multisector funds. And no amount of FOFA, MySuper and Best Interests Duty will change that. Where the large funds are likely to fail is in attracting discretionary money and retaining retirees once they reach the stage where they want to control their own super and pay less management fees.

Stretching the Sir Alex Ferguson anology one more time, he is now retired, leaving United as the reigning champions. The new manager will have a competitive team which will always do well, but the opposition is far more competitive, and the noisy neighbours will increasingly attract new fans.

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