Business

Love of Stocks Sees $1.5 Trillion Aussie Pensions Miss Bond Gain

By Ruth Carson and Adam Haigh

July 14, 2016, 12:00 AM GMT+10

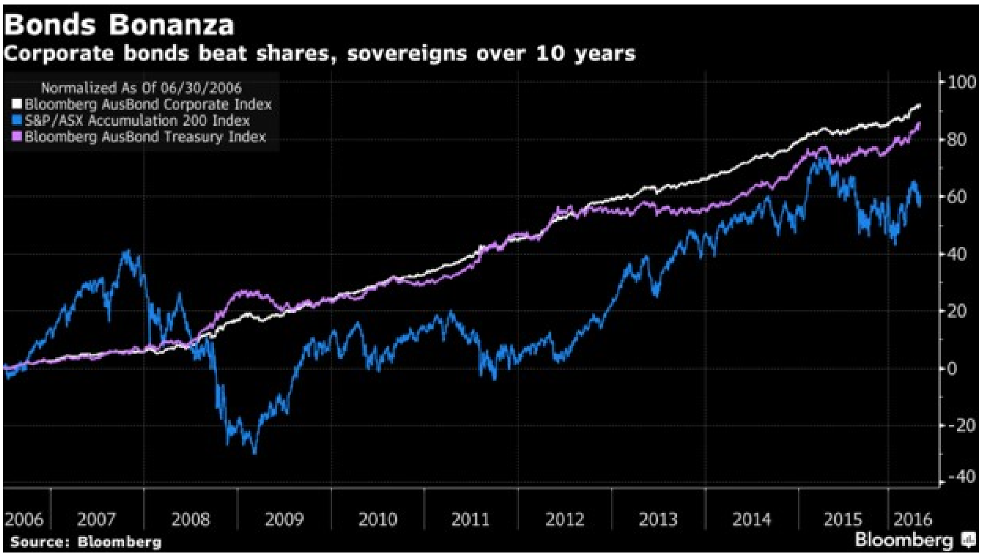
Updated on July 14, 2016, 10:44 AM GMT+10

- Aussie corporate bonds beat local shares over 10-year period
- Lack of consumer education fuels bond aversion: Hamilton

An extended love affair with shares has seen Australia's A$2 trillion ($1.5 trillion) of pension savings miss out on better gains from corporate bonds.

The 6.8 percent a year return for Aussie corporate notes in the 10 years to June 30 beat the 4.9 percent for local shares, data compiled by Bloomberg show. The average Australian has about 50 percent of their pension assets in stocks, the biggest bias in the developed world, and 14 percent in bonds, according to a survey by Willis Towers Watson.

“People have no idea what it means when it comes to investing in fixed income,” said Will Hamilton, private wealth adviser in Melbourne at Hamilton Wealth Management, which oversees A$350 million in assets. “We have a strong equities culture here.”



Hamilton said a lack of consumer education on fixed-income investment and the barriers to accessing corporate bonds have put retirement savers off products that can often be better at delivering sustained returns. Australians have traditionally gravitated toward shares, which are more transparently available through securities exchanges. Dividends on equities also receive more favorable tax treatment than coupon payments from bonds.

Cash Rate

Australia’s benchmark cash rate has fallen from 5.75 percent in June 2006 to 1.75 percent in June 2016, while inflation retreated from nearly 3 percent to around 1.3 percent during the same period -- adding to the tailwinds of bond investors. Future traders are predicting about an 80 percent chance that the central bank will cut the cash rate further by the end of the year. The S&P/ASX 200 Index rose 0.2 percent as of 10:40 a.m. in Sydney.

Mark Lister, head of private wealth research at Craigs Investment Partners in Wellington, which manages about $7.2 billion, sees prospects for further declines in Australian interest rates. That means corporate bonds from good issuers that "give people safety in times of stress still have some appeal," he said.

"While risks are going up globally and interest rates are going down, one of the best ways to protect yourself against risks and volatility is good quality fixed interest," said Lister, who is holding a smaller proportion of equities than would be suggested by the benchmarks he uses.

Realm Investments, a Melbourne-based fixed-income manager says its experience trying to sell corporate credit to retail investors has taught it that savers are the architects of their own misfortune.

Australians have shown little interest in corporate bonds when previously high interest rates for term deposits quenched their thirst for yield. This is no longer an option today after the Reserve Bank of Australia cut its benchmark to a record low interest rates, said Andrew Papageorgiou, investment manager at Realm.

"They're clearly corralled," he said. "But they haven't over time, over the journey, necessarily expressed a real desire" to buy bonds.