14 November, 2022

Strategising Your Risk Levels of Superfund Investments Could Pay Off In The Long Run

When it comes to investing, there is always a certain amount of risk involved. The key to a great investment strategy is to discern how much risk you are willing to take.

The risk profile of your superannuation investment strategy should be determined by combining your financial goals and the time frame in which you want to achieve them.

As you get closer to retirement, you may care to reduce the risk profile of your investments. Younger people, for example, are better positioned to deal with market fluctuations because they have more time to compensate for losses.

The returns you receive on investments are based on the income those investments can generate and the capital growth that the investments will experience. Investments can be broadly categorised into defensive and growth assets.

Growth assets typically have a better potential for high returns but carry short-term risks. Shares and property are examples of growth assets. Defensive assets, such as cash and term deposits, generally have a very low level of associated risk but will also yield lower returns.

By diversifying your superannuation investments between growth and defensive assets, you can fine-tune your portfolio to suit your circumstances.

Individuals running a self-managed superannuation fund should already have a robust understanding of their risk profile. However, if you are a member of a public fund, it can still be possible to retain a high degree of control over your risk profile.

Some public funds offer broad investment categories that you can select (usually between five and ten). Others offer members a much higher degree of control over their portfolios, even going so far as to allow you to select specific companies to buy shares from.

Individuals interested in gaining a higher degree of control over their superannuation risk profile may wish to look at joining one of these more precise funds.

However, the downside is that these funds usually have much higher fees, potentially eroding the benefits of more control. Involved investors with an active interest in determining their risk profile may wish to investigate self-managed superannuation.

Before making any major decisions, consulting with a professional is advised.