The CommSec SMSF Trading Trends Report

March 2019

This report looks at some of the key share trading trends for SMSFs over the six-month period from 1 July to 31 December 2018, relative to the previous six months. All commentary and tables are based on CommSec data, unless otherwise stated.

Report highlights

Markets succumb to global woes

Since our last report, multiple worries about political, market and economic issues have combined to drive global sharemarkets lower.

Broad-based sell-off creates opportunity

SMSF investors have snapped up blue-chip bargains with a focus on finding quality at a reasonable price, not just 'cheap' stocks.

Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs) – SMSFs trading markets, not just stocks

ETFs and LICs have continued to grow in popularity as SMSF investors seek opportunities to capture a broad-based market recovery without the risk of picking individual stocks.

Direct international trading on pause as global markets lose their shine

The recent explosive growth in direct international share trading by SMSFs has slowed as investors look for bargains onshore and turn their attention to global ETFs for international exposure.

The property pullback

While property has remained a mainstay of many SMSF portfolios, declining markets and a potential ban on non-recourse lending could see funds flow out of property and into other investments.

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Markets succumb to global woes

The high levels of investor optimism highlighted in our last report evaporated in the last quarter of 2018. Multiple worries combined to push investor sentiment into negative territory including:

- US-China trade tensions
- the uncertainty of the US political process
- the ongoing Brexit deadlock
- the impact of rising US interest rates
- concerns that global growth is slowing, and
- fears of a yield curve inversion – where yields on longer-dated bonds fall below short-dated bonds, traditionally seen as a warning sign of recession.

This coincided with an emerging view that markets were overvalued, particularly the US technology sector, exemplified by the so called FAANG stocks – Facebook, Amazon, Apple, Netflix and Google. Resource companies and commodity prices became collateral damage in the US–China trade war, with oil prices in particular suffering major falls during the last quarter of 2018.

Despite a healthy Australian economy with good employment and business conditions, the sheer weight of global woes saw the ASX200 slide from its high of 6374 in August to a low of 5468 in December, a fall of over 14%. Overall, the Australian market was down 6.9% in 2018, its worst result since 2011. Most of the damage occurred during the period covered by this report.

There were few safe havens in overseas markets, which were affected by the same uncertainty. Over 2018, the US S&P500 was down 6.5%, the NASDAQ fell 3.9%, the German DAX lost 18.3%, the UK FTSE lost 12.5% and the MSCI World Index declined 10.3%.

For SMSFs, there were also some specific domestic issues to contend with, including the Labor party's proposed changes to dividend imputation, negative gearing and capital gains; the fall in residential property prices; and a looming Federal election. And despite oft-quoted statistics, the much-anticipated 'Santa rally' failed to appear in December, with the market playing Grinch rather than giving investors a prosperous Christmas.

Yearly Wrap 2018

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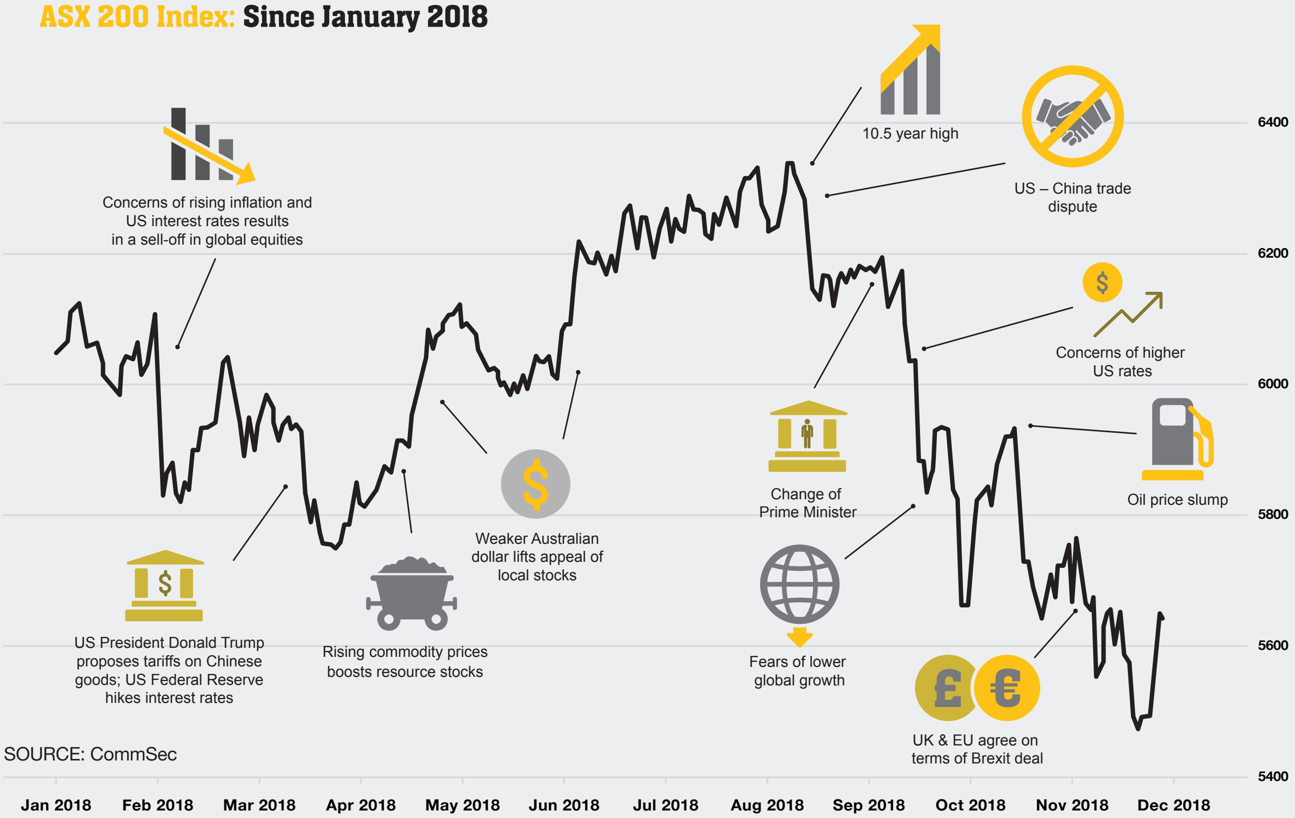
ASX 200 Index: Since January 2018



SOURCE: CommSec

Broad-based sell-off creates opportunity

Global woes impacted the trading trends noted in previous reports, reinforcing some and reversing others. For SMSF investors, the question is whether the recent market downturn is simply a temporary pullback or the beginning of a long anticipated bear market. Many have reacted by buying quality stocks that are often thought of as expensive, but which have been caught up in the general downturn. Their focus has been on finding quality at a reasonable price, rather than just ‘cheap’ stocks.

This renewed focus on blue chip bargains has slowed the recent trend away from ASX20 stocks among SMSFs. As noted in our previous report, the traded value of ASX20 stocks has fallen considerably as a proportion of total SMSF trading. In the six months to December, the top 20 accounted for 32% of SMSF trades by value, compared to 33% in the first half of 2018 and 34% in the second half of 2017. (This shift is not limited to SMSFs, with the ASX20 making up just 28% of trades by value among non-SMSF investors.)

Changes in the value of ASX20 trading as a % of total trades over time

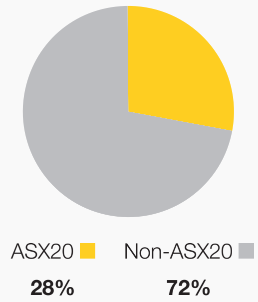
1H17	2H17	1H18	2H18
40%	34%	33%	32%

Now, however, there are signs that this trend may be slowing, with SMSF investors showing renewed interest in key constituents of the ASX20 and ASX50. For example, the last six months saw strong buying of the major miners, with BHP trades rising 12% by value and RIO rising 6%. Across these stocks, 57% of SMSF trades were buys. Similarly, while the value of SMSF trades involving major banks fell 11%, all except ANZ showed a strong buy bias, especially Westpac (WBC) and NAB.

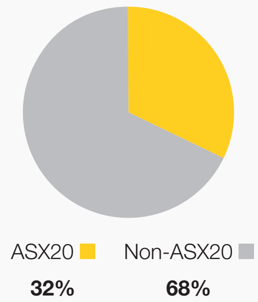
The sell-off in the last quarter of 2018 also provided the opportunity for SMSFs to buy into some of Australia’s most respected blue chips at prices significantly lower than the market peak. They included CSL (with trades up 80% by value), Macquarie Group (MQG) (up 31%) and Cochlear (COH) (up 85%). Trading in all of these stocks showed a strong buy bias, while the healthcare sector lifted from 6.8% to 8.3% of all SMSF trades by value. In the past, SMSFs have been criticised for not having enough exposure to these stocks – now it appears they were simply biding their time.

Trade value of ASX20 as a % of total trades

Non-SMSF



SMSF



Technology stocks continued to spark the interest of SMSF investors, just as they did in the previous six months. But while there were some significant increases in trading value, the focus of activity turned from buying to selling, especially in the weaker second quarter. Afterpay (APT) led the way, with trades increasing 236% by value, followed by Appen (APX), up 50%, and Altium, up 36%. As a result, Afterpay was the ninth most traded stock for the period, while the technology sector as a whole rose from 5.6% to 6.8% of all SMSF trades by value. It remains to be seen if this sell-off continues, or whether it represents a flight to safety that will be reversed if markets improve in 2019.

We also saw other previous market darlings continue to wane, including A2 Milk (A2M) and Telstra (TLS), with traded volumes falling 57% and 38% respectively. Significantly, 60% of SMSF trades in Telstra were sells, marking a dramatic fall from favour by a traditional SMSF stalwart. Not just Telstra, but the wider telecommunications industry seems to have lost its appeal, with a significant wave of selling also affecting TPG (TPM).

TOP 20 TRADED STOCKS BY VALUE			
2018 H2		**2018 H1**	
CBA	5.41%	CBA	6.01%
NAB	3.66%	TLS	4.00%
WBC	3.60%	NAB	3.80%
BHP	3.21%	WBC	3.31%
CSL	2.97%	A2M	2.70%
TLS	2.69%	BHP	2.60%
ANZ	2.39%	ANZ	2.32%
MQG	1.95%	FMG	2.17%
APT	1.86%	RIO	1.56%
RIO	1.82%	CSL	1.50%
FMG	1.71%	MQG	1.35%
A2M	1.26%	WPL	1.33%
WPL	1.03%	WES	1.13%
MGR	0.95%	RHC	0.93%
WES	0.93%	BOQ	0.88%
BAL	0.88%	VCX	0.87%
AMP	0.87%	MGR	0.86%
BOQ	0.75%	AMP	0.75%
COH	0.74%	STO	0.74%
NST	0.66%	NST	0.73%

ASX20 Changes in Traded Value					
NON-SMSF			**SMSF**		
CSL	▲	49.9%	CSL	▲	80.4%
WPL	▼	37.6%	SCG	▼	41.5%
TLS	▼	29.8%	TLS	▼	38.7%
BXB	▼	29.0%	MQG	▲	31.6%
WBC	▲	27.0%	WPL	▼	29.3%
AMC	▲	26.7%	WES	▼	24.8%
IAG	▲	24.2%	SUN	▼	22.8%
MQG	▲	22.1%	TCL	▼	21.3%
RIO	▲	20.7%	S32	▼	20.7%
TCL	▼	17.2%	CBA	▼	18.0%
SCG	▲	12.2%	WOW	▼	18.0%
WOW	▼	11.3%	AMC	▲	16.5%
S32	▼	10.1%	BXB	▼	15.1%
ANZ	▼	6.7%	BHP	▲	12.5%
CBA	▼	3.8%	NAB	▼	12.2%
BHP	▼	3.6%	RIO	▲	6.3%
WES	▼	2.3%	ANZ	▼	6.0%
NAB	▲	1.5%	IAG	▲	3.1%
SUN	▼	0.2%	WBC	▼	0.6%

Other sectors that saw significant SMSF selling included the gold miners – despite the gold price rising strongly from September – and the energy sector, as the oil price slump made itself felt. However, bargain hunting helped to lift buying activity in the energy retailers Origin (ORG) and AGL (AGL), as well as AMP (AMP) and IOOF (IFL), both impacted by the financial services Royal Commission. We also saw strong buying for Mineral Resources (MIN) and Bellamys (BAL), another stock which is well off its 2018 highs.

NON-SMSF - TOP 50 BY CHESS HOLDING		SMSF - TOP 50 BY CHESS HOLDING	
2018 H2		**2018 H2**	
CBA	12.8%	CBA	9.8%
WBC	5.8%	WBC	5.9%
NAB	5.2%	NAB	5.7%
BHP	5.1%	ANZ	4.8%
CSL	4.4%	BHP	4.7%
ANZ	4.3%	CSL	3.9%
TLS	3.6%	TLS	3.9%
WOW	2.4%	WES	2.2%
WES	2.3%	WOW	2.1%
MQG	1.7%	MQG	2.0%
RIO	1.4%	RIO	1.6%
WPL	1.0%	WPL	1.6%
AFI	1.0%	TCL	0.9%
ARG	0.9%	AFI	0.8%
COL	0.8%	AGL	0.8%
SUN	0.8%	SUN	0.8%
AGL	0.7%	COL	0.8%
A2M	0.7%	ARG	0.7%
BEN	0.7%	RHC	0.7%
TCL	0.6%	STO	0.7%

ETFs and LICs – SMSFs trading markets, not just stocks

Two SMSF trading trends have become firmly entrenched over the last few years:

- the continuing popularity of Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs), and
- the use of ETFs and LICs for diversification in SMSF portfolios – not only in international equities, but also foreign currency, fixed income, property and high-interest cash investments.

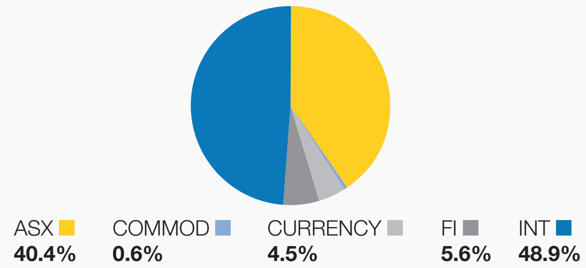
The number of SMSF investors with at least one ETF increased by 13% over the six months to December 2018, following an 5.8% increase in the previous period. The value of total trades in ETFs increased by 11.4% in the second half of 2018, while the proportion of holdings in international funds continued to grow at the expense of domestically-focused funds, rising from 46.9% to 48.9%.

Looking beneath these broad trends reveals some interesting shifts. Trading in US-focused funds saw many SMSFs reducing their exposure to the S&P500 and increasing holdings in funds tracking the NASDAQ. Among Australian-focused funds, SPDR SP/ASX200 (STW) and Vanguard Australian Shares (VAS) had particularly strong inflows from SMSF investors, perhaps indicating a belief that the market as a whole was oversold and that the best way to gain exposure to a broad-based recovery was an ETF. As a result, these two ETFs are now among the 30 largest SMSF CHESS holdings. At the same time, we saw outflows from the US currency ETF (USD) increase, driven either by a belief that the US dollar had reached a peak or, possibly, a desire to free funds for deployment back into the US market.

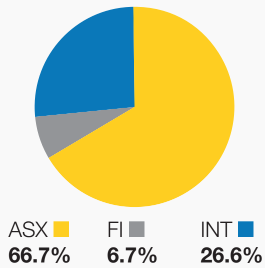
Turning to LICs, we saw a 6% increase in average trade size from the previous six months and an increase in total traded value of 7.7%. Just as significantly, buys lifted 11% while sells were up just 5%, indicating a strong appetite for increased holdings. As a result, international LICs remained around 26% of the traded value of SMSF investments. Nonetheless, the LIC with the largest traded value is the MCP Master Trust (MXT), an Australian fixed income trust specialising in Australian corporate debt.

Exchange Traded Funds (ETF) and Listed Investment Companies / Trusts (LIC / LIT)

SMSF - ETF Traded Value by category



SMSF - LIC Traded Value by category



15 Most Traded ETFs during the period

1	SPDR ASX200	STW
2	ISHARES S&P 500	IVV
3	VANGUARD AUST SHARES	VAS
4	BETASHARES NASDAQ 100	NDQ
5	VANGUARD US TOTAL MKT	VTS
6	BETASHARES US DOLLAR	USD
7	VANGUARD INTER SHARES	VGS
8	VANGUARD HIGH YIELD	VHY
9	ISHARES GLOBAL 100	IOO
10	ISHARES ASX200	IOZ
11	VANGUARD ALL WORLD EX US	VEU
12	BETASHARES CASH	AAA
13	VANGUARD AUST PROPERTY	VAP
14	MAGELLAN GLOBAL	MGE
15	ISHARES MID CAP 50	IJH

15 Most Traded LICs / LITs during the period

1	MCP MASTER INCOME	MXT
2	ARGO INVESTMENTS	ARG
3	WAM CAPITAL	WAM
4	AUST FOUNDATION INV CO	AFI
5	MAGELLAN GLOBAL TRUST	MGG
6	MFF CAPITAL	MFF
7	MILTON CORPORATION	MLT
8	WAM LEADERS	WLE
9	WAM GLOBAL	WGB
10	BKI INVESTMENTS	BKI
11	PLATINUM CAPITAL	PMC
12	L1 LONG SHORT	LSF
13	CADENCE CAPITAL	CDM
14	WAM RESEARCH	WAX
15	FUTURE GEN	FGX

15 Largest ETFs by CHESS Holding

1	VANGUARD AUST SHARES	VAS
2	SPDR ASX200	STW
3	ISHARES S&P500	IVV
4	VANGUARD US TOTAL MKT	VTS
5	VANGUARD HIGH YIELD	VHY
6	IVANGUARD INTER SHARES	VGS
7	ISHAREAS GLOBAL 100	IOO
8	VANGUARD ALL WORLD EX US	VEU
9	VANGUARD AUST PROPERTY	VAP
10	ISHARES ASX200	IOZ
11	BETASHARES NASDAQ 100	NOQ
12	MAGELLAN GLOBAL	MGE
13	ETFS PHYSICAL GOLD	GOLD
14	VANGUARD AUST FIXED INTEREST	VAF
15	BETASHARES US DOLLAR	USD

15 Largest LICs / LITs by CHESS Holding

1	AUSTRALIAN FOUNDATION INV CO	AFI
2	ARGO INVESTMENTS	ARG
3	WAM CAPITAL	WAM
4	MILTON CORPORATION	MLT
5	BKI INVESTMENTS	BKI
6	MFF CAPITAL	MFF
7	MAGELLAN GLOBAL TRUST	MGG
8	WAM LEADERS	WLE
9	DJERRIWARRH INVESTMENTS LTD	DJW
10	WAM RESEARCH	WAX
11	WAM GLOBAL	WGB
12	FUTURE GENERATION GLOBAL	FGG
13	PLATINUM CAPITAL LTD	PMC
14	PLATINUM ASIA INVESTMENTS LTD	PAI
15	MIRRABOOKA INVESTMENTS LTD	MIR

Direct international trading on pause as global markets lose their shine

Regular readers will recall that a repeated theme of previous reports has been the explosive growth in direct international share trading by SMSFs. In our last report, we highlighted a 57% surge in direct international trades over the preceding 12 months. However, that growth appears to have slowed, at least for now. Over the six months to December, the value of direct international share trades by SMSFs increased by a relatively modest 9.7%, while the average number of international stocks per SMSF dropped from 6.4 to 6.03. In contrast, trading in internationally based ETFs jumped by 41%, albeit from a small base. In comparison non-SMSFs lifted their value of direct international trades by 10.3% but were less diversified, with an average holding of 3.2 stocks per investor.

Our last report also noted increasing interest in Asian stocks, particularly banks and tech stocks. Contrary to our expectations, this trend has not continued, with the overwhelming majority of recent international trading activity focused on US-based companies. While Ali Baba has kept its place in the most traded and held stock lists, online retailer JD.com has fallen out of favour, with investors instead turning to Tencent after a significant price fall. Taiwan Semiconductor also appeared in the top 20 traded stocks amid an upsurge of interest in semiconductor companies globally, with US-based AMD also among the most traded and held stocks.

So what is behind this pullback in direct international share investment – and is it a harbinger of things to come? We believe a number of factors came together during the second half of 2018 to make direct international share investing less attractive in the short term. First, as we have seen, the ASX presented opportunities in many ASX20 and ASX200 stocks, with attractive valuations driving activity onshore. Second, ongoing trade tensions between the US and China made Chinese stocks look more risky. As a result, many SMSFs appear to have turned to ETFs for exposure without specific stock risk.

Despite the growing use of direct shares, SMSFs are still relatively concentrated in well-known companies, primarily in the US. Total holdings of the top 10 stocks comprise 35% of total international holdings (counting the two classes of share in Alphabet/Google as one).

Top 20 International stocks by Traded Value (AUD)			Top 20 International stocks by SMSF Holdings (AUD)			Top 20 changes in Traded Value			
	STOCK	STOCK CODE		STOCK	STOCK CODE		STOCK	STOCK CODE	
1	AMAZON	AMZN	1	APPLE	AAPL	1	SIGNATURE BANK	SBNY	▲
2	APPLE	AAPL	2	BERKSHIRE HATHAWAY B	BRK B	2	INTERDIGITAL	IDCC	▲
3	FACEBOOK	FB	3	ALPHABET (BOTH)	GOOGL/GOOG	3	FERGUSON PLC	WOSCF	▲
4	TENCENT	TCTZF	4	AMAZON	AMZN	4	RALPH LAUREN	RL	▲
5	ALPHABET (BOTH)	GOOGL/GOOG	5	FACEBOOK	FB	5	CONOCO PHILLIPS	COP	▲
6	TESLA	TSLA	6	MICROSOFT	MSFT	6	TAIWAN SEMI CON.	TSM	▲
7	AMD	AMD	7	TESLA	TSLA	7	WYNN	WYNN	▲
8	TAIWAN SEMI CON.	TSM	8	ALI BABA	BABA	8	AMD	AMD	▲
9	BERKSHIRE HATHAWAY B	BRK B	9	VISA	V	9	CANOPY GROWTH CORP	CGC	▲
10	NVIDIA	NVDA	10	MASTERCARD	MA	10	COCA COLA	KO	▲
11	MICROSOFT	MSFT	11	BANK AMERICA	BAC	11	KIRKLAND LAKE GOLD	KL	▲
12	ALI BABA	BABA	12	NVIDIA	NVDA	12	TENCENT	TCTZF	▲
13	WYNN	WYNN	13	NETFLIX	NFLX	13	RPC GROUP	RPCGF	▲
14	NETFLIX	NFLX	14	JOHNSON & JOHNSON	JNJ	14	BOOKINGS HOLDINGS	BKNG	▲
15	SIGNATURE BANK	SBNY	15	TENCENT	TCTZF	15	GOLDMAN SACHS	GS	▲
16	MASTERCARD	MA	16	AMD	AMD	16	ATLASSIAN	TEAM	▲
17	VISA	V	17	TAIWAN SEMI CON.	TSM	17	CISCO SYSTEM	CSCO	▲
18	JOHNSON & JOHNSON	JNJ	18	SIGNATURE BANK	SBNY	18	JD.COM	JD	▼
19	BANK AMERICA	BAC	19	PROSHARES SHORT 3X NASDAQ	SQQQ	19	MICRON TECHNOLOGY	MU	▼
20	PROSHARES SHORT 3X NASDAQ	SQQQ	20	WYNN	WYNN	20	BERKSHIRE HATHAWAY B	BRK B	▼

The property pullback

SMSFs may be diversifying more than in the past, but their investment staples are still property, Australian shares and cash. Indeed, the past few years have seen an increase in their allocation to property, both commercial and residential. As a result, there has been an associated increase in lending to SMSFs for property purchases under non-recourse borrowing arrangements.

Now, however, things could be set to change. Many major banks no longer offer non-recourse lending to SMSFs, while a change of government in Canberra could see it banned outright. We will be closely monitoring the flow-on effects of this and the general reversal in property prices for SMSF investments.

Even if the proposed ban on lending goes ahead, existing loans will likely be grandfathered and as SMSF lending is generally made under conservative conditions, we do not expect a mass exodus of SMSFs from property. Nonetheless, there are a number of potential impacts, both for the wider market and for individual stocks. For example, will SMSFs move funds earmarked for property from the housing market to the share market – and, if so, will they move to direct shares or ETFs, domestic or international?

There has already been significant commentary on the impact of a slowing housing market on the major banks and their ongoing profitability and value. Alongside the banks, there is the impact of slowing dwelling construction on property (Mirvac) and building materials stocks (CSR, Boral, James Hardie Industries and Adelaide Brighton). Falling house prices and the associated wealth effect could potentially impact discretionary spending on everything from retailers (Harvey Norman and JB Hi Fi) to car sales (Automotive Holdings Group and AP Eagers). Real estate focused businesses such as REA and Domain may also be affected by falling volumes. However, it is worth noting that in many cases these influences have already significantly impacted share prices in these sectors.

In summary

There is no doubt that the last quarter of 2018 was a challenging time for SMSF investors. Yet with the challenges came opportunities that many SMSFs happily seized. The widespread sell-off saw a number of well respected companies suddenly become cheaper and more attractive. SMSFs also began buying the major banks as commentators predicted the worst of the Royal Commission impact had been priced in and dividend yields (with or without imputation credits) became too attractive to ignore.

ETFs and LICs not only remain popular, but we believe more SMSFs are using them to gain exposure and benefit from a potential market recovery without the risk of picking stocks. This is in addition to their ongoing popularity as a means of gaining international exposure through both passive and active strategies.

The growth in direct international shares has paused, we believe more as a result of market turbulence than any change in long-term trends. The focus on direct international investment is still firmly US-centric in terms of the weight of trading dollars and holdings, particularly while the uncertainty of the US–China trade dispute continues.

Domestically, the property downturn will affect many SMSFs, impacting both direct property investments and widely held stocks with property market exposure, whether through their direct links to construction or through declining consumer sentiment.

And finally, as Australia moves into election mode, SMSF investors will no doubt be watching developments with interest to see how they impact their investments.

CommSec

About the research: The CommSec SMSF Trading Trends Report is an in-depth exploration of the online trading behaviour of SMSF investors, released every six months. SMSFs are a significant investor segment, representing 30% of all superannuation investments in Australia. This report is based on a detailed analysis of the trading behaviour of active CommSec clients between 1 July 2018 and 31 December 2018. The sample comprised a diverse cross-section of active share traders — defined as those who had traded at least once during the 12 months before the study period — including both SMSF and non-SMSF investors.