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super back on track

If you've been dreading the arrival of your latest super fund statement, rest easy. Research group SuperRatings say our nest eggs made a remarkable come back in 2009. Balanced funds - the preferred choice of the majority of Australian workers, notched up an average return of almost 13% last year, a far cry from the 20% loss of 2008.

A balanced fund normally has around 70% of its portfolio invested in growth assets like shares, and this is the key to the bounce back in fund returns. From late March 2009 to December 2009, global sharemarkets staged a remarkable rally, and the upswing has filtered through to super funds.

Shares deliver strong long term returns but it's not always plain sailing. Over the last decade we've seen how volatile sharemarket performance can lead to seesawing returns on our super.

SuperRatings crunched the numbers and found that an investor tipping \$100,000 into a balanced fund on New Year's Day 2000, would have seen very little growth in his nest egg for the first three years of the decade. By around mid-2003, the fund would only have grown to around \$105,500.

From 2003 things really took off, and over the next three years to August 2006, the fund would have risen in value by a whopping 51%. At that stage our hypothetical super balance would be around \$159,400.

The final three years of the decade saw sharemarkets rattled by volatility. The same nest egg would have risen to a peak of \$187,000 in November 2007 followed by a sudden drop to \$140,200 in February 2009. The sharemarket recovery we saw last year would have seen our imaginary super balance rise to \$168,400 - an overall return of 68% for the entire decade.

The scenario we've just looked at highlights the value of investing your nest egg across a diverse range of asset classes. And that's just what a balanced fund does.

The 13% return earned by balanced funds last year compares extremely favourably to many other fund options. The average return on a capital stable fund was about 9% in 2009. Cash-based funds notched up an average return of just 2.9% last year.

Amid the good news that funds with exposure to sharemarkets are back on track to deliver healthy long term returns, there's also some bad news. In 2008/09 personal contributions to super dropped by about 40%.

It's understandable that the plenty of working Australians have had their faith in super shaken over the last two years. However super remains one of the most tax-friendly investments available, and the tax savings play a vital role in building a healthy nest egg.

The returns on super are concessionally taxed - both when you're building a nest egg as well as later on when you start to draw down the money.

It makes super a very appealing investment for retirement savings. If you have some spare cash, I recommend tipping a bit extra into your super. It lets you capitalise on today's buoyant investment markets, and could make a significant difference to the quality of life you enjoy in old age.

Paul Clitheroe's 'Making Money' for the week beginning 8 February 2010



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