IFAs well positioned for a new era of active investing

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Complex markets are ushering in a new era of active management and a major opportunity for IFAs to show their value by partnering with savvy stockpickers.

Last year was a dismal one for passive investors. After the share market rally of 2021 came the reckoning of 2022. Particularly for the IT and consumer discretionary sectors, which saw huge sell-offs. Anyone holding energy ETFs did well.

After returning close to 17 per cent in 2021, the S&P/ASX 200 ended 2022 down by 1.08 per cent. While January saw a huge rally to 7,558, the index has since come back by around 4 per cent.

But it is fixed income that has become the major attraction. Lifting the cash rate from 10 basis points to 3.85 per cent will do that.

“Rising interest rates are recalibrating the way you can think about asset allocation and building investment portfolios,” Infinity Asset Management chief investment officer Piers Bolger told ifa.

“Now we’ve got an environment where bond yields are anywhere from 4.5 per cent plus, depending on where you are on the curve. That’s equivalent to what you are getting on dividend yields. So that is allowing you a little bit more flexibility in the context of portfolio positioning,” he said. “Duration starts to come into play as well in terms of management of fixed income.

“From our perspective, despite the challenges associated with it, rising rates are actually a positive aspect associated with investment management because all of a sudden you do start to see that shift away from one or two asset classes.”

As the investment manager for financial advice group Viridian, Infinity manages $3.2 billion across more than a dozen managed account portfolios for advisers and their clients.

Mr Bolger believes managed accounts have become even more critical as bond markets react to cash rate calls.

“It’s not something you can do on an ad-hoc basis,” Mr Bolger told ifa. “Managed accounts are really something you have to live and breathe on a day-to-day basis and have the tools and access to information to be able to deliver on that.”

In its FUM Census, the Institute of Managed Account Professionals (IMAP), in conjunction with Milliman, found that managed accounts FUM grew 9.8 per cent to $144.5 billion in the 12 months to December 2022.

“When you look at the growth of managed accounts across the industry, that growth alone really does highlight the benefit they can bring to advice networks and individual advisers,” Mr Bolger said.

“I think that will only continue to grow; particularly as financial markets are challenging. The biggest strength an adviser can bring to that client relationship is an external party that can sit alongside them in providing that strategic advice to clients,” he said. “Managed accounts work seamlessly in an advice environment.”

IMAP chair Toby Potter believes a key advantage is the ability of investment committees, asset consultants, and investment portfolio providers to quickly effect strategies and tactics to minimise adverse effects from market fluctuations, and then provide tailored information for advisers to communicate proactively with clients.

“It is a much better outcome for advisers to provide explanations of decisions made in the clients’ interests, than to deal with a wave of questions from individuals,” Mr Potter said.

Just over half (53 per cent) of financial advisers in Australia were using managed accounts in 2022, according to Investment Trends, while 18 per cent planned to do so in the near future.

Only a quarter had no intention of using SMAs.

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