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Managing Editor

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**Sequencing risk: The worst returns in their worst order**

ANUP K BASU, BRETT M DORAN and MICHAEL E DREW SF Fin

For the first of the baby boomers turning 65 years of age, after a decade littered with financial shocks (dot.com bubble, sub-prime, global financial crisis, sovereign debt), sequencing risk can represent a significant threat to their retirement nest eggs. This paper takes an outcome-oriented approach to the problem, to provide practical insights into how sequencing risk works and the critical dependency of retirement outcomes on sequencing risk. Our analysis challenges the conventional wisdom that it is the accumulated average of investment returns that matter. We show, instead, that it is the realised sequence of returns which largely determines the sustainability of retirement incomes.

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**What Australian investors need to know to diversify their portfolios**

VITALI ALEXEEV and FRANCIS TAPON

An ASIC survey in 2008 showed that Australian investors do not diversify their portfolios sufficiently, with the average investor holding only 2.19 securities. To study this issue, we simulate portfolios using daily observations for all traded and delisted equities in Australia between 1975 and 2011. We calculate two measures of risk, including heavy tailed distributions to account for extreme events. For each risk measure, we recommend the number of portfolio holdings that result in a 90 per cent reduction in diversifiable risk for an average and a more conservative investor. We find that, on average, 24 to 30 stocks are sufficient to attain a well-diversified portfolio.

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**Breach of continuous disclosure in Australia**

ANGELA ANDERSEN, AARON GILBERT and ALIREZA TOURANI-RAD F Fin

Given that disclosure is important for the efficient functioning of capital markets, this paper explores the impact of infringement of continuous disclosure by Australian listed firms. We observe a significantly negative market reaction for our sample firms around the day an infringement is announced. Our findings also provide partial evidence of an increase in spreads and a decrease in price informativeness following the announcement of a breach. Overall, our results indicate that the market considers the breach of continuous disclosure to be a relatively important incident.

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**Papers from the Melbourne Money & Finance Conference 2013**

Finsia acknowledges the contribution of the papers from the 18th Melbourne Money and Finance Conference to this issue of JASSA. The conference — Financial Sector Evolution: Prospect and Determinants — was held in July 2013 by the Australian Centre for Financial Studies.

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## **Measuring retirement savings adequacy in Australia**

JOHN BURNETT, KEVIN DAVIS  
SF Fin, CARSTEN MURAWSKI,  
ROGER WILKINS and NICHOLAS  
WILKINSON

We present two new metrics to assess the adequacy of retirement savings and estimate these metrics for a representative sample of the Australian population aged 40 to 64. Our estimates support the widely held belief that most individuals are not 'on track' to achieve a comfortable standard of living in retirement, although couples appear better prepared than singles. We also estimate the relative expected contributions of the various 'pillars' of retirement income. The metrics presented here may provide a better way to communicate adequacy to individuals, and encourage increased saving.

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## **Restoring a level playing field for defined benefits superannuation**

HAZEL BATEMAN and  
GEOFFREY KINGSTON

After declining worldwide since the late 1980s, defined benefits plans will not recover their previous dominance in Australia because they can only be offered by large and stable organisations. Since 1992 Australia has had compulsory superannuation that is mostly privately managed. Several policy measures have unduly weakened defined benefits schemes, especially in the private sector. Rescinding these measures would revitalise defined benefits and produce a deeper market for privately managed lifetime annuities.

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## **The problems with investment advice**

TOM VALENTINE

The FoFA reforms were designed to improve the quality of financial and investment advice offered to the public. In particular, they sought to correct conflicted remuneration structures which led advisers to act in their own interests rather than those of their clients. However, the reforms did not confront some important problems in the industry — its fragmentation, horizontal integration and the need for improved education of advisers and investors.

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## **Risk-on risk-off: Implications for investors in the Australian stock and bond markets**

TARIQ HAQUE

Risk-on risk-off (RORO) effects were present in Australian and international financial markets from July 2007 to December 2012. This study shows that a risk-parity portfolio which combines both equities and bonds generates a higher Sharpe ratio than investing in either equities or bonds alone over a sample period incorporating both RORO and non-RORO periods.