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NERVOUS INVESTORS SEEK SAFE HARBOUR

# Fear fuels fixed-income boom

Market volatility is driving bank deposits to record levels

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INVESTMENT

AUSTRALIANS are increasingly looking to previously shunned investment products like corporate and government bonds — so-called fixed-income securities — as they try to find a safe harbour from extreme stockmarket swings.

While Wall Street finished last week 0.66 per cent higher on hope that European and US public debt concerns might ease, there are signs that fixed-income houses will continue to reap the rewards of a flight to safety, as a legion of baby boomers wilt under the pressure of a volatile stockmarket.

The trend is reflected in record deposit flows to the banks and surging inquiries to financial houses on how investors can protect their capital. And retirees are also asking about hitherto unloved annuity products that guarantee income over a set period.

One player, fixed-interest broker FIIG Securities, is signing up 250 clients a month without any advertising. “Pre-GFC we would be lucky to sign up 50 a month,” FIIG executive director of markets John Lechte said.

Australians have one of the highest rates of direct share ownership and are also indirectly heavily exposed to equities thanks to the compulsory superannu-

ation scheme.

But that appears to be changing as fixed-interest products, which are a common investment class in Europe and the US, are becoming popular.

One key reason for our high dependence on shares is that the \$1.4 trillion superannuation sector is biased towards the “accumulation” phase, which emphasises growth through a high equities exposure.

Mr Lechte said: “Most people are getting sick of the volatility, which is causing them sleepless nights. There are definitely people aged 70 to 80 who are seeing a 10 per cent fall and are saying, ‘I’m out’ (of the sharemarket).”

“We are clearly going through a very turbulent time,” said Alex Dunnin, head of research at funds monitoring house Rainmaker. “It seems we are locked into this massive uncertainty and you can see why consumers are scared.”

Mr Dunnin said many workers approaching retirement were “gobsmacked” on learning how much of their nest egg was exposed to equities, when they thought they had a balanced portfolio, and wanted to get out of them.

“All of this money is pouring into cash and deposits” and “ex-

plained why bank deposits at \$1.5 trillion are now bigger than all super at \$1.4 trillion”.

According to the Westpac/Melbourne Institute index of consumer confidence, 38 per cent of Australians believe that bank deposits are the wisest place for savings, the highest level since the Whitlam-era turmoil of 1975.

Challenger Group, the leading supplier of annuities, reported a 56 per cent rise in annuity sales in 2010-11 (to \$1.46bn) and has targeted a 25 per cent rise this year.

Richard Howes, the head of Challenger’s life arm, said annuities accounted for only 4 per cent of the \$50bn post-retirement market, with allocated pensions accounting for the “overwhelming majority”.

Allocated pensions allow retirees to nominate the amount of income received, but the period is not set and the pensions cease once the account is exhausted.

“We think the guaranteed retirement income market can command a share of the retirement income pie closer to 30 per cent,” Mr Howes said.

“In 2011, we sold three times the amount of annuities we did in 2008. That growth doesn’t show any signs of slowing up.”