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Returns from investing in Australian equity superannuation funds, 1991–1999

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Abstract

In this analysis of investment manager performance, two questions are addressed. First, do managers that actively trade stocks create value for investors? Second, can the multifactor model of Gruber capture the cross-section of average fund returns for the Australian setting? The answers from this study are as follows: as an industry, investment managers destroyed value for superannuation investors for the period 1991 through 1999, under-performing passive portfolio returns by 2.80–4.00 per cent per annum on a risk-unadjusted basis and 0.50–0.93 per cent per annum on a risk-adjusted basis. Evidence is provided in support of the four-factor model of Gruber; however, the model fails to capture the impact of investment style for the Australian setting. The findings suggest that Australian superannuation investors would transform their retirement savings into retirement income more efficiently through the use of passive alternatives to the stock selection problem.