THE WALL STREET JOURNAL.

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MARKETS

‘Selfie’ Shtick Focuses on Dividends

Australians who manage their own pension savings are placing much of their cash in so-called defensive stocks

Retiree Margaret McGuiness and her husband, Laurie, bought a Toyota with proceeds from their winning stock positions. *PHOTO: JAMES GLYNN/THE WALL STREET JOURNAL*

By **VERA SPROTHEN**
March 4, 2015 8:58 p.m. ET

SYDNEY—They’re called selfies, and they are making professional fund managers here nervous.

The expanding ranks of Australians who manage their own pension savings are helping drive stocks to levels not seen since the global financial crisis. Together they control more than 568 billion Australian dollars (US$444 billion) of the country’s A$1.9 trillion in pension assets.

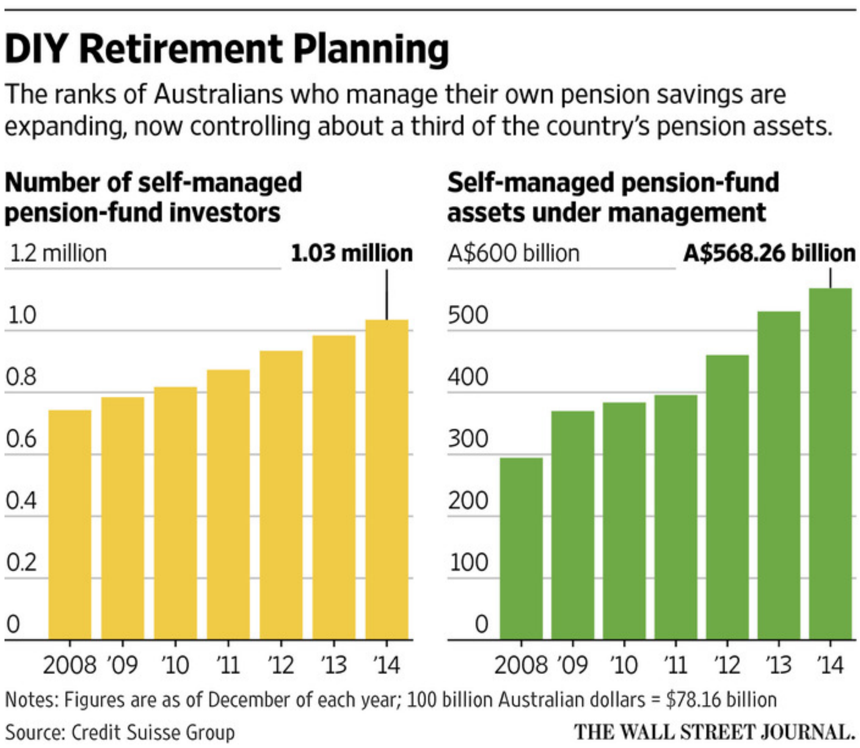
Selfies are putting a flood of cash into everything from banks to pizza makers, pushing some valuations to heights more common for U.S. technology companies. Much of the new money is going into so-called defensive stocks—such as Commonwealth Bank of Australia and telecommunications operator Telstra Corp. —which typically pay out a high proportion of their earnings as dividends and are considered relatively steady investments.

Driving this shift are record-low Australian interest rates that make it less attractive for baby boomers, retirees and others to hold cash or invest in government bonds. Dividends can provide better income.

“Selfies are the army,” said Hasan Tevfik, an equity strategist at Credit Suisse Group AG in Sydney. “They’re the biggest equity investor in the market and have an almost singular focus on dividends.”

The benchmark S&P/ASX 200 index is up 9.1% this year, compared with less than 2% for the U.S. S&P 500, and is now close to breaking above the 6000 level for the first time in seven years. The financial sector has performed even better, with three of the four biggest Australian banks reaching all-time highs in recent weeks.

In Australia, almost all employees are covered by the country’s compulsory contribution system. Companies must pay at least 9.5% of workers’ income into a pension fund of the worker’s choice. Employees can opt to put even more aside for retirement, making Australia’s pension-fund system the fourth-largest in the world. And they can bypass institutional money managers and handle their own investments.



In the working-class suburb of Bradbury on Sydney’s southwest fringe, 68-year-old Margaret McGuiness recently bought a A$27,000 Toyota Camry Altise with the proceeds of profitable bets on Australian shares, including Commonwealth Bank and supermarket operator Woolworths Ltd.

“If we just had money in cash, we’d be in a terrible position, because the interest rates are very, very low. We only keep a small amount in cash,” said Ms. McGuiness, who herself manages about A$500,000 in retirement savings built up with her husband, Laurie. “Most of it is in blue chips”

The couple first invested A$400,000 freed up when Laurie retired in 2002 from his job installing and maintaining telephone lines for the country's biggest phone company, Telstra. The prospect of low interest rates back then encouraged the couple to manage their own money rather than take a more conventional approach via a professional fund.

Ms. McGuiness said their strategy is simple: They target companies with household names that pay healthy dividends, which are then reinvested. Most of their pension money is invested in local companies that meet this definition of a blue chip, though some is in property and international shares.

"It has been really good from when we started....We are up, and we are staying steady," she said.

The worry for some old-school investors is that the market is now trading at its most expensive level outside the late-1990s tech bubble, with valuations running at more than 16 times forecast company earnings in Australian dollar terms, compared with a long-term average of around 14 times, according to Citigroup Inc.

Throngs of usually humdrum stocks such as cheese makers, travel agencies and paint producers have seen valuations surge even more dramatically. Domino's Pizza Enterprises Ltd. , for instance, now trades at nearly 58 times the prior year's earnings. Facebook Inc., by contrast, trades at 59 times past earnings, and tech giant Google at about 28 times.

"The Australian share market looks expensive relative to history" said Steve Miller, a strategist at the BlackRock Investment Institute in Sydney. "That should make you cautious."

Institutional investors, mostly from overseas, are also playing a part in driving up Australia's stock market, as they hunt for higher-yielding investments. Australian companies offer some of the world's richest dividends, luring a widening pool of foreign investors seeking decent returns as central banks globally ramp up monetary stimulus, and as the Australian dollar has weakened. At year-end, Australia's top 200 companies paid an average dividend yield of 5%—a full percentage point above the equivalent average in the next highest-paying major region, Europe, according to Credit Suisse.

The S&P/ASX 200 jumped 7.7% in the 11 trading days after it became clear in mid-January that the European Central Bank would begin a giant bond-buying program. It surged another 3.4% after Australia's central bank cut interest rates to a record low Feb. 3—spurring yield-hungry retirees to flood the market with still more cash.

Even though the central bank kept rates on hold this week, it signaled further cuts are likely this year in order to spur a sluggish economy.

Self-managed pension, or superannuation, funds have been around for decades. But they have become more popular in recent years, as investors have sought more control over retirement savings that plunged during the financial crisis, shaking confidence in institutional fund managers, according to the SMSF Association, an industry group that advises tax consultants and others who work with self-managed pensioners.

Tony Brennan, a stock strategist for Citigroup, thinks the S&P/ASX 200's bull run has further to go as the country's low interest rates draw more money off the sidelines, while the weaker Australian dollar attracts more foreign investors.

Other investors are already gearing up for a potential correction, believing valuations are out of step with fundamental economic conditions as Australia's resource-rich economy struggles through a cooling mining industry and faces weakening growth in China, its biggest trading partner.

"Low interest rates fundamentally corrupt an investor's sense of risk," said Roger Montgomery, whose firm, Montgomery Investment Management, with A$650 million under management, also helps DIY-pension investors increase their retirement money. He said he is worried enough to have moved a third of his fund's own assets into cash.

—James Glynn contributed to this article.

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