PROJECT TITLE: Their Own Worst Enemies. Behavioural Finance and the Investments of Australian Households

FIELD OF RESEARCH CODE: 1402; 1502

PROJECT SYNOPSIS:

Mandatory superannuation contributions for all employees were legislated by Federal Government in July 1992 and are the principal retirement savings vehicle for Australians. There is, however, a growing concern that many Australians will not have enough superannuation to fund their retirement. An individual's investment choices within superannuation are a key factor in determining whether she will have sufficient funds for her retirement.

The superannuation review by the Australian Productivity Commission (APC) highlights structural issues within the superannuation industry which have led to poor investor outcomes. “Super[annuation] has been a large and compulsory public policy endeavour, yet there is remarkably little publicly available data on the outcomes that individual members are actually
experiencing — in terms of the returns they earn, the fees they pay, the insurance they hold and the outcomes they receive over time” (APC, 2018. P. 27).

An international study conducted by The World Economic Forum documents that there is a superannuation shortfall. Australian men will outlive their Superannuation by 10 years and women by 12 years (World Economic Forum, 2019, p. 21). The recent decision to allow for early superannuation withdrawal due to COVID-19 only further exacerbates these concerns.

Issues that the APC raises – high fees and relative underperformance – are very well documented and can be addressed. The APC has highlighted that data on, and analyses of, individual and household outcomes are scarce. It is clear that there is a gap in our understanding of Superannuation investment decisions of individuals (households) and the outcomes they achieve. This observation is challenging. Our project would seek to address this gap.

Two important determinants of an individual’s superannuation balance upon retirement are the money contributed into their fund and the way that it is invested. Increasing income - and therefore ability to contribute to their superannuation balance – is not always a realistic solution. Therefore, understanding the investment choices and decisions of superannuation participants is important as these decisions are held by the individual. Our project will present an evidence-based analysis of individual (household) superannuation investment decisions. It will inform Australian investors, their advisors and policy makers.

Using theories and methodologies drawn from Behavioural Finance (where Finance applies psychology to modelling financial markets and investors’ decisions) we will analyse investor behaviour using data from a major investment manager. Behavioural Finance suggests that investors can be their own worst enemies when it comes to wealth creation. Bebbington et al. (2020) provide the first evidence that this might be the case in Australia. Our working hypothesis is that Australian investors will exhibit similar sub-optimal investment behaviour as has been observed overseas. For example, Calvert, Campbell and Sodini (2007) document the very poor state of Swedish household portfolios: they are inordinately risky and undiversified. Durand, Newby and Sanghani (2008) present similar evidence for a sample of Australian investors.

The project would examine the behaviour of Australian investors using theories and methodologies from Behavioural Finance. In particular, we would seek data from a large investment house and model the portfolios of investors over time. In doing so, we would document systematic biases leading to sub-optimal outcomes. The project might readily be extended to FinTech through examining the influences of this particular source of information on investor behaviour.

References


FEASIBILITY AND RESOURCING – DESCRIPTION OF THE SUPPORT THIS PROJECT WILL RECEIVE:

The team is well prepared for this project, honing its skills in this area through projects analysing large datasets of household investment data. This has included monthly transaction data from over 60,000 US households and over 30,000 household superannuation accounts provided by a major industry partner.

The team is also led by one of Australia’s leading experts in Behavioural Finance (the field from which theories being tested are derived). He has strong links with the financial planning industry and serves on the Financial Planning Education Council. Google Scholar ranks him amongst the top 100 scholars in Behavioural Finance.

THE SIGNIFICANCE OF THE PROJECT/ PROGRAM FOR THE ENROLLING SCHOOL OR INSTITUTION:

Australia’s system of retirement saving is not serving the needs of its people. In identifying behavioural biases affecting their superannuation savings, this study will address significant issues facing Australians in their retirement and point to remedies for the savings shortfalls. In tackling FBL’s aim of facilitating “evidence-informed economic and social policy”, this study has the potential to materially affect Australian’s wealth and well-being.

Students must express interest in this scholarship opportunity by emailing the Project Lead listed below. Please provide a copy of your current curriculum vitae and detail your suitability to be involved in this strategic project.

PROJECT LEAD CONTACT:

Name: Robert Durand
School: School of Economics, Finance and Property
Faculty: Business and Law
Email: Robert.durand@curtin.edu.au
Contact Number: 08 9266 9971