

# MAKING MONEY



**Pet insurance in the fine print - PAGE 51**

## Crazy share trade spurs financial risk review

**ANTHONY KEANE**  
MONEY EDITOR

INVESTMENT psychology is much more than simply saying: "You'd have to be crazy to invest in the share market".

The field, also known as behavioural finance, has been studied in much detail and even has its own Nobel Prize winner, Princeton University's Daniel Kahneman in 2002.

Understanding investment decision-making has become a hot topic in the current bear market, as people have been forced to rethink their views, strategies and tolerance to risk as the share market plunged up to 55 per cent - its second-worst fall in history.

Bourke Shaw Financial Services principal Lawrence Orlando believes the severity of this downturn is making investors more risk-averse.

He said while his advice to clients had been to "stay put and let the market work itself out", he was expecting an increase in discussions with people wanting to re-assess their risk profile and the assets they were invested in such as shares, property or cash.

"People who experienced the downturn after September 11, then experienced the five or six years of good returns, and now have experienced this downfall, have a perception that there's not a lot we can do so we are

just going to hang in there," Mr Orlando said.

Hood Sweeney Securities director Matthew Rowe said there was no substitute for experience, both for investors and their advisers.

He said while it was important at any time for people to understand their risk profile and their asset allocation, the current downturn highlighted that importance.

"Now is the time you have to understand your own risk tolerance

**PAGE 32:**  
**What type of investor are you?**

and your own behaviour. We are in uncharted territory," he said.

"If you have spare cash, you do need to be thinking about what you are doing with that."

Mr Rowe said superannuation funds were a good example of people not understanding the risks or their investments.

"Most people's only relationship with their superannuation fund is they get a statement every six months. Eighty per cent of superannuation investors are in their fund's default option, which is a standard balanced fund option," he said.

**Continued Page 30**

Welcome to my nightmare - **PAGE 30**



Wise words for credit cards - **PAGE 31**



Dreams taking shape - **PAGE 52**



## SERIOUS INVESTING NEEDS SUPERIOR KNOWLEDGE.

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**Your exclusive invitation to our investment seminar**

**When** Thursday April 2nd, 2009

**Time** 6.00 pm - 8.00 pm

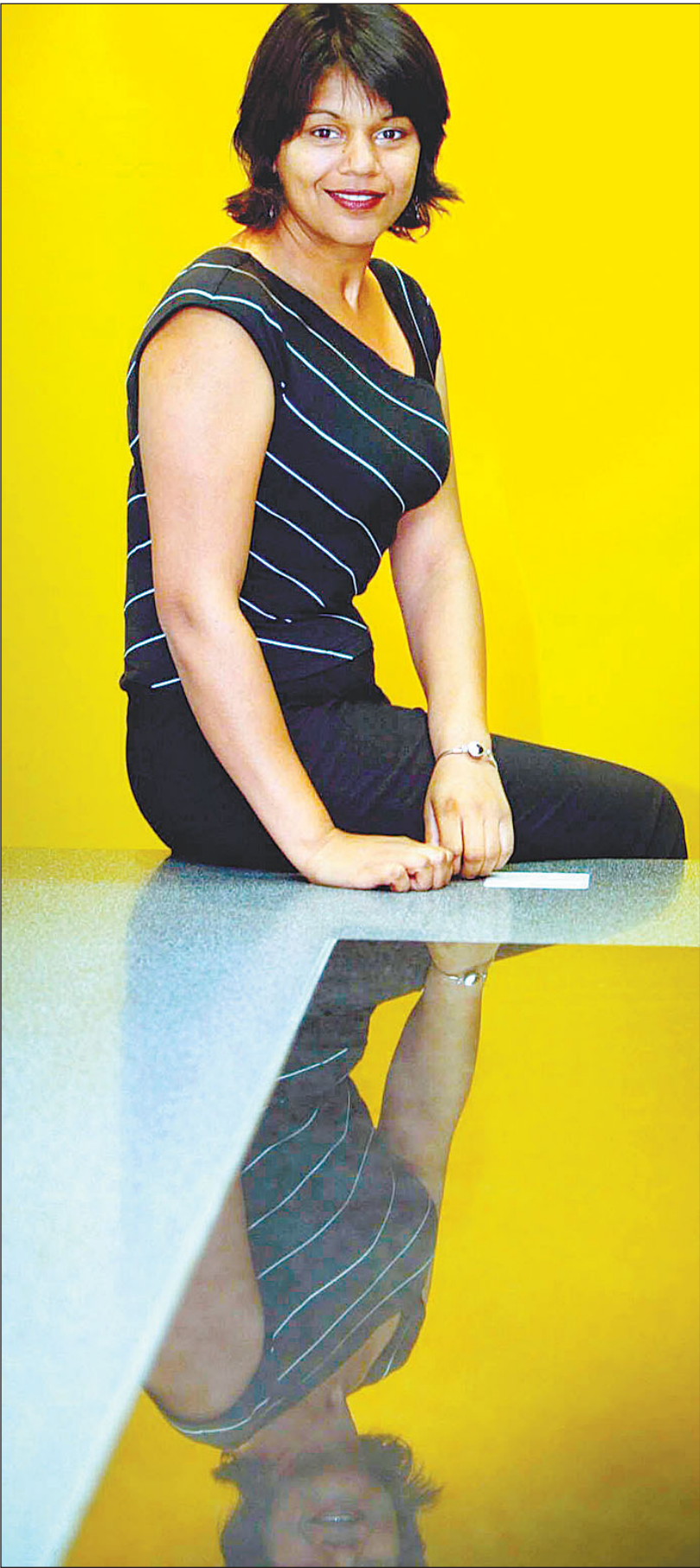
**Where** Enterprise House Function Centre, 136 Greenhill Rd, Unley, SA 5061

To reserve your place contact Sarah Mitchelson on 8332 9255 or email [sarah.mitchelson@intervest.net.au](mailto:sarah.mitchelson@intervest.net.au)

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# Psyching yourself up for investment



STAY CALM: Shivani Gupta recommends keeping a clear head.

## The key is to stay calm

STAYING positive and inspired in tough economic times is essential, says author, international speaker and business coach Shivani Gupta.

People need to change their mindset from “survive” to “thrive” or perceptions might become reality and they might not make it through, she warns.

Ms Gupta, formerly of Adelaide and now the director of coaching and leadership firm Passionate People, shared some of her tips to stay focused and inspired during the financial markets downturn.

“Invite people into your life who can help you become a better money manager,” she said.

Investors should not be afraid to be

adaptable, revise their budget and revise their projections “so you are being real and not living in an illusion about your finances”.

“People in your life are energised by you and your attitude. If you are uninspired and being negative about changes in the economic climate, people will follow you and become negative.

“In these times, staying inspired is important, so look for other role models who are inspiring to you.

“I came across a fantastic slide show on leadership lessons by the inspirational U.S. President, Barack Obama. My key takeaway for the current climate was staying calm under pressure.”

Money Editor **ANTHONY KEANE** examines how emotions and psychology affect investment decisions.

ARE you an overconfident investor, a “never-wrong” investor or a “stuck-in-a-rut” investor?

Or are you simply scared out of your pants by the worst share-market plunge in more than three decades, the continuing talk of a looming Great Depression, and speculation that property prices are heading for a big downturn?

Understanding the emotions behind investment decisions has become more important than ever.

Greed and fear are often described as the two biggest drivers of investors – and the reason market booms are usually better than expected and busts are worse than expected.

When everything was rosy a few years ago investors bought aggressively – often using borrowed money. Now that markets have slammed into reverse, the combination of fear and the forced unwinding of investment loans has made the falls perhaps larger than they should have been.

Impact Financial Coaching director Allan Ward said Daniel Kahneman, who won a Nobel Prize for economics for his work in behavioural finance, spoke about a subconscious process called “framing” – in which we make investment choices based on our percep-

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tion of the risk involved. “Kahneman also highlighted the concept of risk aversion – showing the pain of losses has twice the psychological impact as equivalent gains,” Mr Ward said.

“Our mind is affected in many ways by our environment and a lot of the influence happens subconsciously.

“Many people look at their recent investment experience and expect that to continue. When markets are returning 20 per cent, you expect that will continue forever. When they drop 20 per cent, there’s a feeling that the negative returns will continue forever, despite evidence to the contrary.

“The important thing is to make choices for the long-term good that remove as much of your subconscious bias and emotion as possible.”

Prescott Securities adviser Susan Currie said there were three main thought patterns influencing investor behaviour.

“The first is that the majority of people dislike losing money more than they like making it. This means they will be more inclined to choose an investment based on a lower chance of loss than one with a higher chance of gain,” she said.

The second echoed Mr Ward’s comments of projecting the recent past into the distant future.

“Past history suggests that each stock market fall has always been followed by a recovery. We just can’t say when that might happen,” she said.

“The third thought pattern is that when a situation like the recent collapse is explainable with hindsight, many people believe it should have been predictable and perhaps

preventable. This is not always the case and the shocks of the last 18 months were anticipated by very few people.”

Hillross financial planner Lee Virgin said current market conditions were no reason for people to abandon long-term investments.

“Investing is not a get-rich-quick activity, it’s a technique to gradually build wealth – well after this economic downturn is over.”

Mr Virgin said there were generally three levels of risk tolerance – conservative, moderate and aggressive. “Conservative investors are risk-averse. They’re not willing to take risks with their money. Their priority is keeping their money safe, even if this means returns may be lower,” he said.

“At the other end of the scale, the aggressive investor is a risk-taker. They are prepared to invest in assets that have greater risk, knowing that – all else being equal – the higher the potential return, the higher the risk.”

Other people fell somewhere in the middle, Mr Virgin said.

“One way to combat risk is by diversifying or not having all investment eggs in the one basket. Diversification helps reduce overall risk by spreading investments over different asset classes.”

The three most widely-owned asset classes in Australia are shares, cash and property.

While Australians have a love of residential investment properties, many financial planners do not advise on these investments, and instead focus on listed property trusts and property funds.

Unfortunately for property trust investors, the collapse in the sector since November 2007 has wiped out 30 years of capital growth.

The share market has tumbled more than 50 per cent in the same period, back to 2003 levels. Cash returns – about 8 per cent last year – have dropped to less than 4 per cent amid falling interest rates.

Residential property prices in Adelaide have fallen at the top end but been flat or marginally higher in other areas of the market in the past year.

Hood Sweeney Securities director Matthew Rowe said an investor’s background and past experience could play a significant role in decisions.

“Women tend to be more risk-averse than men,” he said.

“With investors seeing investment markets moving substantially, the mental uncertainty this creates means that investors can find themselves sitting on the sidelines watching opportunity pass them by.

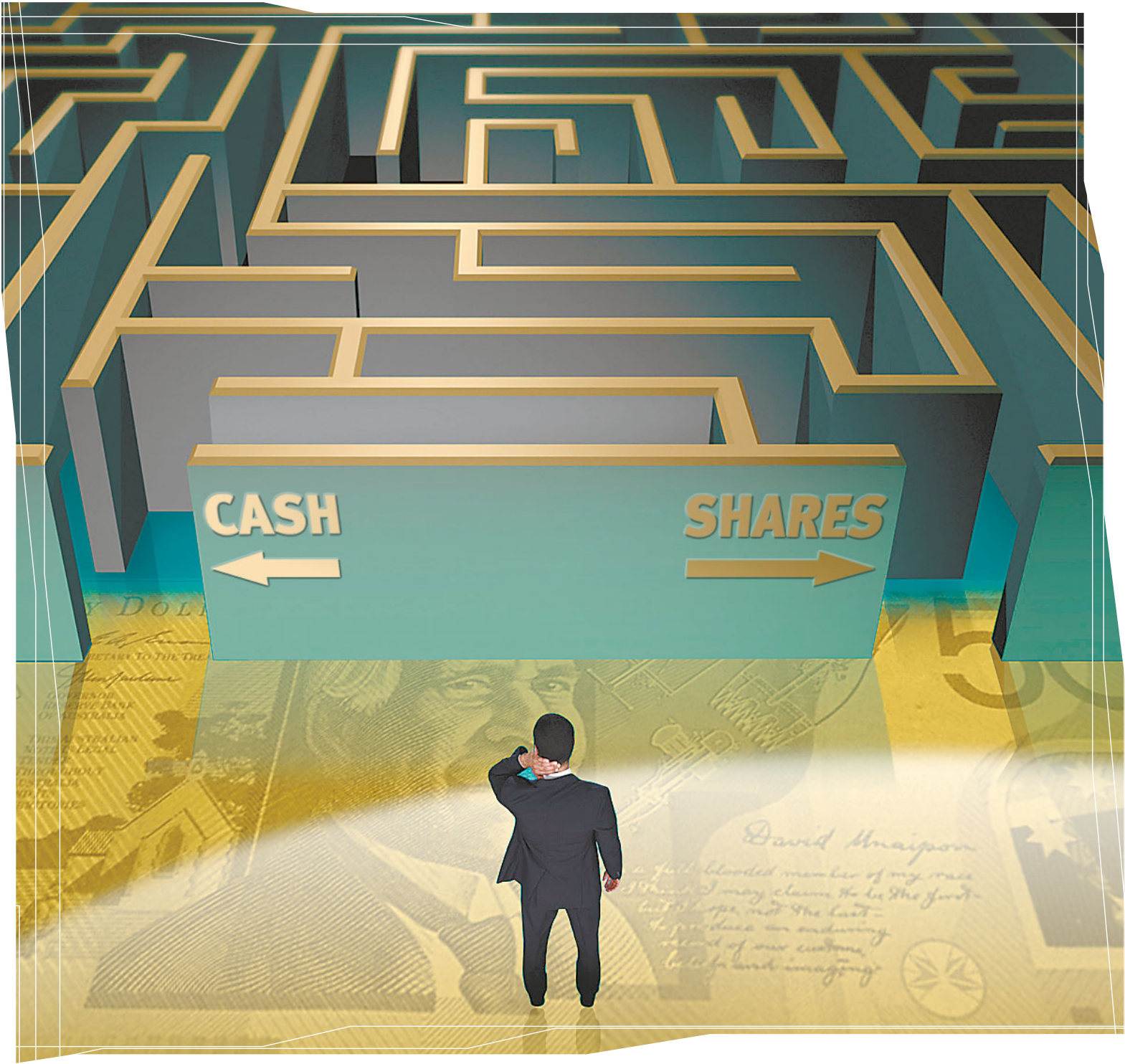
“It’s easy to invest in markets when times are good, but we are reluctant to invest when the market has fallen and prices are low.”

Mr Rowe said investors often put too much weight on recent news, at the expense of other data, such as the long-term growth performance of the share market.

“Historically, the market has favoured long-term investors. The main principle is to remain focused on what your goals and objectives are,” he said.

Mr Orlando said investors should remember that a decline in value was only a decline in value. “A loss will be crystallised only when assets are sold down,” he said.

Financial planners use risk profiling questionnaires to help them



## ARE YOU ONE OF THESE INVESTOR TYPES?

- **The over-confident investor:**

**ATTRIBUTES** investment gains to their own skills.

**MAY** have too much confidence in their ability.

**COULD** make decisions without adequate advice or research, which could
- threaten their long-term strategy.

■ **The “never wrong” investor:**

**IS** reluctant to admit they have made a mistake such as picking a bad stock.

**ATTEMPTS** to avoid facing the reality of their decisions.
- MAY** hold on to losing investments for too long, which could lift their losses.

■ **The “stuck in a rut” investor:**

**SEES** a past price, such as the price they purchased an investment for, as the right or fair price.
- USES** a single piece of information as the basis of all analysis about the value of that investment.

**MAY** be blinded to important information, such as that they bought over-valued shares.

*Source: Financial Wisdom*

one which has subsequently gone up.”

Bourke Shaw Financial Services principal Lawrence Orlando said the current financial crisis was not the first, and would not be the last, downturn in the share market.

“Historically, the market has favoured long-term investors. The main principle is to remain focused on what your goals and objectives are,” he said.

Mr Orlando said investors should remember that a decline in value was only a decline in value. “A loss will be crystallised only when assets are sold down,” he said.

Financial planners use risk profiling questionnaires to help them understand clients’ tolerance to investment risk and the type of assets they should be investing in.

These questionnaires can be several pages long, and Mr Orlando said they had become necessary for planners to prove they understood their clients’ views.

“First-time investors often don’t know how risk-averse or risk-tolerant they are until it actually hurts,” he said.

“It is natural to want more for less – that is, greater returns with less risk – but, unfortunately, markets don’t work like this.”

Wealth For Life Financial Planning principal Rex Whitford said risk-profile tools were also de-

taking on the risk is greater than the risk itself.”

Mr Whitford said a key way to test your level of tolerance to financial crashes was to ask: “How well do you sleep at night?”

Prescott’s Ms Currie said understanding the time-frame of investment was just as important as understanding emotions.

“The investment profile of those close to retirement, or already retired, will contain a larger proportion of cash and term deposits to provide a secure yearly income, with a smaller proportion in shares to generate growth investments for the longer term,” she said.

However, a 30-year-old’s risk profile in relation to superannuation would be skewed towards holding more shares and less cash because the need for cash was not as immediate.

“This investor also has more time to recover from market fluctuations like those we’ve seen in recent months,” Ms Currie said.

“However, a two or three-year investment, say for a home deposit, will mean a shorter-term strategy involving fewer or no shares, that are often volatile in the short term, but more cash for safer returns.”

## MEASURING YOUR RISK PROFILE

Here are examples of the type of questions you may be asked on a financial planner’s investment risk profiling tool.

**A: How long do you expect your money will be invested?**

1. Less than one year
2. One to four years
3. Four to seven years
4. More than seven years

**B: What is your investment experience?**

1. I have never invested money.
2. I have some experience and understand how investment markets work.
3. I have previously invested in shares, managed funds or property and understand that markets fluctuate.
4. I have invested substantially across a wide range of investments and have a strong understanding of how markets work.

**C: What would you do if the value of your investment dropped 20 per cent or more in the first year?**

1. Sell the lot and switch the funds to cash.
2. Move some to cash but keep some too.
3. Do nothing, as I understand that investments can fluctuate.
4. Buy more at the reduced price.

**D: Which of these risk/return scenarios are you most comfortable with?**

1. Low risk, with maximum return of 6 per cent a year, and 3 per cent minimum return
2. Moderate risk, with maximum of 8 per cent and minimum of minus 5 per cent.
3. Above-average risk, with maximum 12 per cent and minimum minus 10 per cent.
4. High risk, with maximum of 20 per cent and minimum of minus 25 per cent.



**E: Which best describes your feelings about an investment?**

1. My money should be totally secure at all times.
2. My money should grow by at least the rate of inflation.
3. My money should grow better than the rate of inflation and may fluctuate.
4. My money should grow substantially better than inflation over the long term, while fluctuating in value.

**HOW THEY WORK IT OUT**

**Add the numbers that correspond to your answers to get a total.**

5-7 suggests you should have a conservative, cash-only portfolio.

8-11 suggests you are moderately conservative.

12-14 suggests a balanced portfolio.

15-17 suggests focusing mainly on growth investments such as property and shares.

18-20 suggests an aggressive investor.

## THEIR INTEREST MORTGAGES

INSTITUTION	VARIABLE RATE	INTRO RATE	INTRO MONTHS	3 YR FIXED	5 YR FIXED	TOTAL FEES
Adelaide Bank	5.90	-	-	-	-	\$695
ANZ	5.91	-	-	5.84	6.49	\$600
Australian Central	5.89	-	-	-	-	\$250
BankSA	5.89	4.76v	12	5.34	5.94	\$100-\$850
Commonwealth Bank	5.74	4.71v	12	5.75	6.39	\$450-\$600
Community CPS	5.91	5.19f	12	5.94	6.44	\$0-\$645
NAB	5.74	4.65v	12	6.09	6.49	\$600
Savings & Loans	5.91	5.49f	12	-	-	\$600
Westpac	5.91	-	-	5.39	6.29	\$600

## THEIR INTEREST CREDIT CARDS

INSTITUTION	PRODUCT NAME	PURCHASE RATE	ANNUAL FEE	FREE DAYS
Adelaide Bank	No Days Interest Free Visa	16.54	-	-
ANZ	ANZ Low Rate MasterCard	11.99	\$58	55
Australian Central	Australian Central MasterCard	18.90	\$35	55
BankSA	Starts Low, Stays Low MasterCard/ Visa	12.24	\$69	55
Commonwealth Bank	Commonwealth Bank Low Rate	11.74	\$48	55
Community CPS	Community CPS MasterCard (Silver)	19.49	\$35	55
National Australia Bank	Low Rate Visa Card	10.99	\$49	55
Savings & Loans	Visa Debit/Credit Card	14.95	\$24	-
Westpac	Low rate	11.99	\$45	55

## YOUR INTEREST ONLINE SAVINGS

INSTITUTION	PRODUCT NAME	RATE >\$2000	RATE >\$5000	RATE >\$10,000
Australian Central	e-savings Account	1.50	3.25	3.25
BankSA	Express Deposit Account	3.75	3.75	3.75
Commonwealth Bank	NetBank Saver (Introductory rate)	4.50	4.50	4.50
Community CPS	monEsaver Internet Savings Account	0.10	3.35	3.35
Elders Rural Bank	ERBonline Savings	4.00	4.00	4.00
National Australia Bank	NAB Saver	4.25	4.25	4.25
Savings & Loans	CLIK Online saver	2.70	2.70	3.20

## YOUR INTEREST TERM DEPOSITS

INSTITUTION	1 YEAR \$2000	1 YEAR \$10,000	2 YEARS \$2000	2 YEARS \$10,000
Adelaide Bank	1.25	3.40	-	-
ANZ	-	3.25	-	3.25
Australian Central	2.15	3.30	2.40	3.50
BankSA	3.00	3.50	3.20	3.70
Commonwealth Bank	-	1.50	-	4.00
Community CPS	2.00	3.20	2.75	4.00
National Australia Bank	-	3.40	-	4.25
Savings & Loans	1.10	1.60	1.10	1.60
Westpac	-	3.50	-	3.50

Rates current as at March 25, 2009. Source: infochoice.com.au