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PIS Timely Tips

Insight Nine - Employ Experts

Even the smartest investors use managed funds. Why? Because managed funds employ disciplines that many individual investors do not. The methodical, systematic approach taken by most professional fund managers helps them avoid many of the mistakes individual investors are prone to.

Since the 1980's, investment experts have paid increasing attention to a field of study called behavioural finance. It's a science that investigates whether individuals behave rationally when they invest. Unfortunately many of us don't – and that can prove expensive.

Most of us exhibit a number of irrational behaviours when it comes to investing. Individuals often have an inflated sense of their own competence. For example, around 90% of us believe we are above average drivers. Carry this approach into investing and it's easy to see why some investors take excessive risk given their level of investment expertise.

Researchers have identified other biases. 'Self-attribution bias' is the understandable, unfortunate, tendency to claim success as a result of our talents and failure as a result of bad luck.

An investor might regard a good year in the share market as proof of their stock picking prowess. However, a poor year is the fault of a bad market. 'Hind sight bias' is our tendency to believe (often falsely) that we predicted an event. And if we think we successfully predicted the past, we may have an inflated sense of our ability to predict the future.

Behavioural finance and investment manager research also tells us that individuals will sell winners sooner than losers. In other words they carry their losses and cut their profits – exactly the opposite of a rational approach.

It is because of these irrational behaviours that fund managers often outperform individuals. Their investment approach is much more structured and they are trained to avoid poor investment behaviours.

Of course managed funds have other advantages. Managed funds make it easier to diversify – because you pool your money with that of other investors you have the capital to invest in a wider range of assets.

Source | BT

Consolidate and Accumulate

Like much of the developed world, Australia is hooked on debt.

With loans available for the purchase of anything and everything it's quite easy to get into financial difficulty.

If you have a number of loans – a mortgage, a car loan, store cards, personal loans and credit cards – you could benefit significantly from debt consolidation.

Debt consolidation will not magically reduce the total amount of money you owe, but it could save you thousands by lowering your overall interest rate, and possibly extending the term of your debt.

Consolidation could also reduce your monthly repayments and help you manage your budget better.

So how does it work?

Debt consolidation combines your high interest debts into one lower interest loan. The most common approach is to increase the balance on a mortgage in order to pay the higher interest debts.

Did you know?

Illegal super schemes

Illegal super schemes will cost you a lot more than you expect and get you into a lot of trouble.

These schemes usually involve a promoter offering to help you access your super early. They offer to transfer your super savings from your existing super fund to another type of fund (mainly a SMSF) and may claim that you can use this money for anything you want. They're lying.

Taking your money out of your SMSF before you are allowed is illegal. Promoters can charge fees of up to 30% or even take all of your super savings.

Source | Australian Taxation Office

About our services: The Group has offices in all capital cities throughout Australia as well as an extensive regional network. Our highly skilled and trained advisers will assist you in determining the financial strategy that is right for you.

List of services:

- Wealth accumulation
- Superannuation/rollovers
- Retirement planning
- Mortgage elimination
- Shares and property
- Fixed interest and cash
- Tax planning
- Finance services
- Home mortgages
- Business planning
- Risk insurance
- Corporate superannuation
- Corporate services

Consolidating your personal loans, car loans and credit cards into one lower interest loan could lead to many immediate benefits, as well as putting you on track to a secure financial future.

For example, if you find it hard to meet all your monthly bills and repayments, consolidation can help by spreading the repayments over a longer period.

Plus, instead of having to manage lots of separate accounts, consolidation can leave you with just one simple payment a month.

Most importantly, you get to stop paying the ridiculously high interest rates charged by credit cards, store cards and personal loans. This not only saves you money in interest, it can also give you the power to pay off the debt much faster.

Once you've escaped the trap of high interest debt you'll be free to pursue positive objectives like saving for the future, buying an investment property or renovating your existing home.

However, before jumping straight in make sure you do a bit of analysis, either on your own or with your financial adviser. You'll want to work out the terms of every loan you have. Write down the amount owed, the interest rate you are paying, the term of the loan, the repayment amount (and frequency) and any restrictions or penalties for exiting the loan.

You now need to see whether the benefits of consolidation out-weigh the related costs. These costs can include early repayment penalties on any existing loans, stamp duty, application fees and valuation fees.

It is important that you understand all the terms you are entering into, and the implications for all your existing loans. For this reason, it is advisable to seek the help of your financial adviser with your debt consolidation strategy.

Apart from the obvious financial savings, the most important benefit of debt consolidation is the new start it provides. Once your debt is under control you're on the road to better money management and a better future.

There is always the danger of returning to the bad debt habits that got you into trouble in the first place, so you should take the new start as an opportunity to change your ways. Like so many Australians you may need to start saving and investing your disposable income instead of spending it, and also learn to resist the temptation to buy things you cannot afford.

Your ultimate goal should be to free yourself from 'bad debt' (like credit cards) and only ever owe money on 'good debt' (like a home loan). Good debt is money borrowed to buy things that generally rise in value, like property. Bad debt is borrowing to buy things that fall in value, like clothes.

The bad types of debt also have very high interest rates, so you're paying over the odds to have something that's plummeting in value. On the other hand, good debt (like mortgages) offers the lowest interest rates, so you're paying a reasonable rate to buy an appreciating asset.

If debt is weighing you down be sure to take control sooner rather than later. If you can consolidate and pay off your debts you'll effectively free yourself to start generating real wealth. You'll be free from the stress and burden of debtors, free from excessive interest payments and ready to start working towards a secure financial future.

Source | IOOF

Your local adviser is:
SENSIBLE FINANCIAL PLANNING 8387 7010

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