The Australian Finance Podcast Episode Transcript

Episode: Q&A: To hedge or not to hedge, when not to get financial advice and does your portfolio reflect your best version of the future?
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Speakers: Owen Raszkiewicz & Kate Campbell
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Episode transcript:

Owen:
Thanks for tuning in to today's podcast. Please remember that all of the information in this podcast episode is limited to general information only. That means the information is not specific to you, your needs, goals, or objectives. So you should seek the advice of a licenced and trusted financial professional before acting on the information. And before you acquire or apply for a financial product, please read the PDS or product disclosure statement, which should be available on the issuer's website. Lastly, please keep in mind that past performance is not indicative of future performance.

Owen:
Kate Campbell. How you going?

Kate:
Good thanks, Owen. How are you?

Owen:
I am very well. Thanks, Kate. And today, I am extra special well because we're talking about finance and we have some questions sent in by our dearly beloved listeners. We have questions

on ETFs and when to sell them, I'm going to follow up on something from shares month. You're going to tell us all about hedging, when not to hedge, how to hedge, to be hedged or not to be hedged. And then we're going to answer a question, which is a really interesting one from Aaron, which is when not to get financial advice. To start off, a disclaimer. Anything that we talk about in this podcast episode is strictly general information or general financial advice only, so please do not rely on it.

Owen:
Even though some of the questions might seem to come from a human, they may not. We may be keeping that secret. They may not even be real life case studies, in which case they can not be specific to anyone, so keep that in mind too. But we do appreciate your questions, and when we do answer any questions, please remember that you should always seek the advice of a licenced and trusted financial professional who can go into detail about your situation because we simply cannot. And past performance is not indicative of future performance, not that we are talking about track records or anything. Kate, I know you have a bit of an introduction.

Kate:
Yeah. Yeah. I think just before we got into today, I just wanted to say a big thank you to everyone who's left us lovely five star reviews on Apple Podcasts, Google, Facebook, Rask Education on the courses. We really appreciate all your support, and it does help new people get access to the content because the more reviews, it shows that track record.

Owen:
That is indicative of our future performance, that one. We are going to keep doing good stuff in the future.

Kate:
I think in terms of reviews of products, past performance is often an indicator of future performance, especially if you're buying a product or a service. So we do really appreciate it and everyone getting started on our free courses on Rask Education. It's really great to see people taking up the ethical and the property courses, which are our newest ones.

Owen:
Yeah, our two new ones, but also your Fire course, which is super popular. It's now number two in terms of popularity. It's caught up with ETF.

Kate:
Yeah, it's up with the ETF course.

Owen:
Yeah. So that's huge. I don't know the final numbers, but it looks like we're going to enrol 600 completely new students in June, 2021, which is a huge feat. We originally set out on a goal, which was arbitrary, just to get 10,000 students enrolled in our courses and we're going to probably be at 8,000 around June 30th.

Kate:
8,000 really soon. So that's awesome.

Owen:
Yeah. And we're moving quicker than ever. We've got more people enrolling, more people telling their friends about it and family and getting them enrolled, which is good because the whole point of it is not to make money, it's to try and get the education out there for as many people as possible as soon as possible, because we know that if we can get relevant courses and education in front of people, it's going to help them, not only now, but long into the future. And oftentimes, the only way it sinks in is if someone recommends someone else to do it. People don't wake up in the morning go, "Oh, I'm just going to take a finance course today." There has to be some incentive.

Owen:
It's normally like a disincentive like, "Oh my God, I've got this huge tax bill. How do I pay it?" Or, "I've just been given some shares, what do I do now?" And that prompts them on the journey. The only thing that really takes over that is just when friends or family get involved and share that. So please share it. Kate's done such a great job, and she's doing a lot more work, particularly to revamp that ETF course. Speaking of things that we've got to talk about, we received a fantastic email from Tony. Tony emailed in and Kate received this email, I believe. And he basically said, "During shares month"-

Kate:
When we did our 10K hypothetical portfolio.

Owen:
Yeah. That I should have said something that I didn't say, which I agree with, I should have said it and I didn't say it. And so during our hypothetical portfolio that we did, I mentioned a company called Soul Patts, Washington H Soul Pattinson. It trades on the ASX under the ticker code SOL. It's probably familiar to a lot of our listeners, not only because of that episode, but also because it's a really big and well-known company in Australia, you may remember that Soul Patts: SOL, we'll call it soul, is kind of like a holding structure. I compared it to Warren Buffett's Berkshire Hathaway.

Owen:
And basically, underneath the hood, there are a whole bunch of different companies that Soul Patts owns. And within that, they actually have an exposure to coal companies, they actually support coal companies in some regards with financing. And I actually spoke to the chairman about this not too long ago, Rob Millner. I want to just make note of something. Tony wrote in and said, "Oh, and basically, you should have said that it has coal exposure because no one in your listenership would want to invest in it." And so this is my response to Tony, and he's agreed that it's okay for me to say this, so this is just straight from the email that I sent to him.

Owen:
"As for the call exposure, here's my rant. I tend to avoid stereotyping what young, middle-aged, or old people might want to hear, because as I noted in our free ethical investing course, our studies and research shows everyone has a different interpretation of what's ethical versus sustainable and right/wrong. All that said, Tony, the only reason I have not recommended Soul Patts to our membership community is because of its coal exposure. So I hear you, I cannot get comfortable with investing my money into a business with that exposure, but here's the way I think about it. I'm also a vegetarian, that's my decision based on the science which shows how devastating our consumption of meat and farming has on the environment, it's profound."

Owen:
"But the thing is, Rask and me serve tens of thousands, if not hundreds of thousands of Australians every week with investment information, most of them aren't veggoes. So my belief is that it would be wrong for me to never discuss companies that are involved in agriculture, farming, farming machinery, fertilisers, physical markets, food, GMOs, livestock, transport, trucking, etc. I believe the best thing I can do as someone who is afforded a special position in our community, is to acknowledge all the different types of investing, explain how anyone can invest according to the ethics, consciousness, etc, and give them the tools to do it well. Basically, I shouldn't be the one to make that decision for them."

Owen:
"I know you didn't ask me this question or make this point exactly, I just say this to try and explain how I see things, my role as an investor, educator and so on. I think both of us agree that investing in coal is not the best thing for our future, both as human beings living on our only habitable planet and as investors looking to maximise net present value. Anyway, I think it's a tremendous point." Tony, he was really respectful in his comment. I think that deserves a shout out. Thank you for listening, first of all, and thanks for writing in and pointing that out. I think we're all better for those types of questions and points that we receive. I don't know. That was my take, Kate. I don't know if you had anything else.

Kate:
No, I think that's just the point, even if you do the ethical course, even if you don't call yourself an ethical investor, it may teach you to ask better questions and learn about the impacts that company is having on the country and on the world. And whether that's a positive or a negative impact, it's seeing the bigger picture, which I think is really important.

Owen:
Yeah. And that's the thing, and just specifically with this, I guess, is that just because I'm not investing in it doesn't mean that other people shouldn't or couldn't influence the company to do other things with this money, and maybe that's a more positive impact, voting to get them to go in a different direction or trying to get them to figure out different ways to use energy or generate energy for society. So, fantastic email. We love to hear well respectful criticism on our opinions because that's one of the best things that anyone can do for us, is to try and help us get better ourselves. So thank you, Tony, for sending that in.

Owen:
So Kate, I'll ask you the next questions. I just went on a long one. So Mark emailed in and he said, "When should I consider buying a hedged ETF over an unhedged ETF?" And Kate, you've got to explain what hedged and unhedged means.

Kate:
Yeah. I guess the way I was thinking about it when I was learning a bit more is when we buy an Australian company, we're buying it in Australian dollars through an Australian brokerage account. And the only thing we have to really worry about with the share prices, well, the only thing we have to really worry about is whether a company goes up or down, we don't have to worry about currency risk because we're earning money in Australian dollars, we're investing in Australian dollars, the company is doing most of its stuff in Australian dollars, probably, and that's not something we have to think about.

Kate:
But, if like many of us have probably invested overseas in the US market, maybe UK or somewhere else, and not only are we investing in overseas companies, we're also investing in a different currency. You don't even often have to think about that when you're using ETFs because they'll just do it for you, you will invest through your Australian brokerage account in Australian dollars, but it would be in an ETF that is then buying companies overseas in a different currency. So it suddenly adds another risk into the equation of maybe the US dollar risk.

Owen:
I remember, I think it was 2010; I'm just going off the top of my head here, 2011, the Australian dollar, if you put that into US dollars, so going from Australia to the US, you would get more US dollars than Australian dollars. So if you put $1 Australian into $1 US, you'd get about a dollar $1.05, $1.10, I think is what it peaked at. And I remember speaking to some investors at the time, if we just took our money, our Australian dollars and put it into US dollars, then if the Australian dollar fell, so there's two ways to look at it, the Australian dollar falls relative to the US dollars, so that means the US dollar is going up. There's one going in either direction.

Owen:
So if the Australian dollar falls, the US dollar goes up, because we had our money in US dollars, then when we transferred it back, we would have more Australian dollars. And so what you could have done in this instance, there were a few of us that started investing more heavily in the US because we thought, "Now it's a good time to get purchasing power to buy US dollars." So we went and invested in the US, we bought companies. I think at the time, it might've been companies like Twitter or Apple or Amazon, or something that a few of us invested into, because then those shares went up on their stock market and then our dollar went down.

Owen:

So you've got the double benefit of being invested in a company that goes up in value while also the currency goes up in value. But it can also go the opposite way, you can also have it go down in value and the currency keep going up, so that means your foreign investment is worth less. So hedging is effectively a way to neutralise the currency impact, right?

Kate:
Yeah. Protect your investment from the risk of that currency being very volatile maybe and not having that exposure to the currency movements. And sometimes like super funds might use different hedging strategies, managed funds. And one of the articles I read said they'll use strategies like foreign currency options and cross-country swaps to protect themselves. So it's quite a high level strategy. You usually don't personally-

Owen:
You don't do these, you don't enter these contracts for yourself.

Kate:
Yeah, you would use a managed fund or you might use an ETF. Vanguard, BetaShares, they all have some ETFs on their books that have hedged in the heading.

Owen:
Yeah. So if you look, like for the, I believe the S&P 500 ETF, that's in US dollars because it's investing in the S&P 500, which is for US companies. But I think there's a hedged version of that as well. So you can invest in the one that has currency fluctuations or the one that hasn't. The one that hasn't would be the hedged version. So when like a hedge, when you drive past one on the street, a good hedge is flat. Think about that. That's what you're looking for. When you have a hedged product, you're looking for the currency impact to be flat, no impact. So the price, I don't know what the Australian dollar is, but let's say the Australian dollar is against the US dollar, 70 cents. I don't know what it is.

Owen:
At 70 cents, that's the currency that's locked in. That's the hedge, it's flat from that point. The value of your investment will still go up and down, it just shouldn't be impacted by currency risks.

Kate:
So it's a way of taking out one of the many hundreds of different risks you encounter when you invest in something. You've still got all the other million and one risks under the umbrella, but it's a way of taking out one kind of risk.

Owen:
Yeah. And you've got a point here that when a lot of these fund managers do it, like Magellan is a good example. Magellan is an active fund manager which sponsored the cricket a few years ago, they have a global fund and they have a global hedged fund. So don't be confused with hedge fund, that's a totally different thing. We're talking hedged, hedged fund, and that's effectively the same strategy just with currency hedging. So you could have the Vanguard

international shares fund, and then you could have the Vanguard international shares fund hedged. So they're the same strategy, just one neutralises currency.

Owen:
That's okay. Maybe I'll just to make it easy on people. Let's say for some reason you thought you could predict that the Australian dollar was going to fall. So it's going to fall over the next three years. You believe the Australian dollar is going down, but you want to invest overseas, you want to buy Apple shares, or you want to buy an ETF that invests overseas. If the Australian dollar is going to fall, what would you choose as hedged or unhedged if Australian dollar was falling?

Kate:
Probably unhedged.

Owen:
And why is that?

Kate:
Because the hedging is not going to benefit you if the Australian dollar falls relative to the currency in which your investments are held.

Owen:
That's right.

Kate:
And in terms of fees, hedging does incur an additional cost, but for most of the ETFs, I was having a look at the major Australian providers, it was only about 0.03% additional. So the management fee might've been 0.2% per year for the normal one and it could have been 0.23% for the hedged ones. So there wasn't a huge difference in terms of fees for the ETFs there. So that's taking out one thing. I was having a look at long-term performance of a few Vanguard ones that were the similar, the hedged and unhedged version, and in the last 12 months, there was quite a difference. The hedged one had outperformed the unhedged one, but over five to 10 years, they were quite similar.

Owen:
Yeah. So this is the thing, that's a really good point you bring up, and it's good that you found this by yourself, which is that oftentimes if you're investing for a long period of time, it doesn't have that big of an impact unless you're going into some weird currencies like somewhere, maybe say in Africa or the Middle East or whatever, where the currency is very volatile.

Kate:
In most of the cases when we're talking about hedging, we're talking about US dollars.

Owen:

Yeah. Occasionally, you might talk about like the Euro, but that's not as common because the US currency is the global reserve, so that's what most countries talk to. Over a long period of time, it tends to be a pretty neutral effect, shorter periods of time, like I said, one to three years, it tends to get quite accentuated one way or the other. But the important point is this, if you are a long-term investor, it's probably not that big of a deal because if you are investing in longterm and the impacts relatively muted, probably not that big of a deal. However, I would add one caveat here. The long-term average for the Australian dollar versus the US dollar is somewhere between 70 and 80 cents.

Owen:
Some people have rules in place that if the Australian dollar gets over a dollar, which would be well away from the average, they might put money overseas, or if it falls really low, like to below 50 cents, they might keep money here in Australia, so then you'd bring money back. And that is effectively recognising that over the long-term, it should average somewhere between say 70 and 80 cents. Sure, it doesn't mean it will, but it should. That's, I guess, one strategy you could utilise. You could just think, "Okay, it doesn't make sense that the Australian dollar is so high or so low," I might flip flop one way or other."

Owen:
But the beauty of these ETFs these days is you don't need to make a completely different decision. If you want US shares exposure, you just go to the hedged version, protect yourself, something like that.

Kate:
Yeah, I think definitely timeframes is an important factor when you're making that decision. Personally, for my investments over the next 20, 30 years, I'm not really worried about trying to hedge my currency risk, and I don't mind having exposure to the US dollar because I think in Australia, we get really focused on our own currency, but actually, there's so many other currencies out there.

Owen:
Yeah. I think one of the secrets of that really wealthy is they embrace other currencies because they know that if something happens in their country, then they still got money somewhere else that can deflect some of that. The one thing I guess, to be mindful of is you don't have to invest in other ETFs to get currency exposure, you can invest in Australian companies or Australian ETFs that have exposure. One thing that people think is, "I have to get an international share broking account," or, "I have to get a particular currency account." You don't have to do any of that, you can just actually keep it right here on the ASX.

Owen:
Like you said, there are ETFs that offer currency exposure. There's even ETFs in Australia which are perfectly reasonable that all they do is they put their money in US dollars in a bank account in the US. Say if you're doing it, you can just buy the ETF in your brokerage account.

So you can do all those types of things, just don't let it completely change the direction of your long-term wealth creation, which we have a question on that next.

Kate:
The next question was from William via email. "Hey, Owen and Kate, I've got a question about what you guys would do with some of your earlier investment mistakes, which you may have bought when you first got started. Would you cut your losses and apportion the capital into something else, or just let it sit at the bottom of your drawer until they're positive?" He continued, "I'm mostly referring to some of the ETFs I bought very early on as a beginner when I had a bit of new shiny object syndrome.

Owen:
Air quotes.

Kate:
Yeah. "But definitely, I overvalued. As well as a couple of hot stock tip"-

Owen:
In single quotation marks.

Kate:
Yeah. "That I really didn't do much research on. These buys are the only things holding my portfolio back in the red. That being said, I've only started investing in the last year, so these these buys haven't really sat in my portfolio that long." I think personally, that we all get taken away by new shiny object syndrome at the start. I mean, maybe six years ago or so, I was trying every investment product under the sun. I was not really investing, I was more day trading with absolutely no idea what I was actually doing, but it was a good way to learn. And I think just came out about even at the end of the day.

Kate:
But for me personally, once I got through that trial and error phase and had learned a bit more and understood ETFs and share investing a bit, I closed all the accounts that were complicating my life down, I simplified everything and I probably sold all the things that I didn't know what I was doing. They were all like $500 parcels, but I did sell them because they weren't part of my investment strategy, they were from that mistake phase, then I wasn't talking about that much money, but I wanted to just start fresh and focus rather than have my trial and error phase still remind me every day.

Owen:
Yeah. That's a good point. Can I give you two answers, the short one and the long one? The short one is I'd probably clean up my portfolio so that it always reflected my best version of the future. So if that means that I'd sell some, sure. But I'm going to actually answer your question in a totally different way, William. I want you to imagine that you're walking from one corner of Central Park in New York City, it's a snowy day and you've just gone out for a walk. You've got

your jacket and you've got your dog on a leash. And your dog is one of those leash. You know those ones that extend, Kate? The ones where you have a little trigger on it and it runs out and then it runs back in and you can tighten it and it goes long again and the dog can run away but come back, for your dog. And you're going from one corner of central park to the other corner.

Owen:
You have a long-term vision, you're going to be over at that corner. You know you're going to be somewhere over there, you're going to pop out the other side, you're going to grab a coffee and you're going to walk back. Think of that longterm horizon like you're investing. That's where you want to go over your lifetime. You want to go from this point to that point, which could be 10, 20 or 30 years. Between now and then, your dog, let's call him Rover, is going to go everywhere. If you give him 30 metres of that rope, he's going to go left, right, up, down backwards, forwards. At any one time, he will just look like a bunch of randomness just running through that park.

Owen:
If you looked above as like an eagle flying over the top, you could see Rover just going left, right, up, down, completely random. But over the longterm, you're going to go from the bottom corner to the top right, which is what almost all share price charts do, not individual shares, but stock markets like the ASX 200, the Dow Jones, S&P 500, FTSE 100 over very, very long periods of time. That very, very long period of time is the left to right across Central Park. And the randomness is what happens from one year to the next. Last year, it was COVID, this year, it could be something else, the next year, it could be something else. That's Rover just running backwards, up and down randomness. Now, of course, at any one time, you want to make decisions that put you back on that line.

Owen:
So that sometimes means when he runs left, you pull him right, when he runs left, you pull him right again, when he runs, right, you pull him left. You keep him on track. And the way you do that is you make small changes, not big wholesale changes to the way you invest. So we know that you always say automation, we know that works. We know another thing that works is dollar cost averaging, just putting a little bit of money away every so often. So before you go and make wholesale changes, just remember that you're going from the bottom left of Central Park to the top right corner. Everything that Rover does in between, that tail shouldn't wag your direction, that shouldn't be determining where you go.

Owen:
A few things to consider if we bring this back to reality is the tax consequences. Are you going to take a tax loss? Are you going to take a gain? Sounds like you're going to take a tax loss, something to talk to your accountant about. Another thing you said was overvalued ETFs. So when you think about overvalued or undervalued, remember that there's a difference between price and value. I couldn't tell you if an ETF is over or undervalued and I've been doing this for quite a while. The reason I can't tell you is because it's very hard to value ETFs because you've either got a value, all X hundred companies inside it, or you've just got to guess. So be careful to let the dog wag your belief here.

Owen:
You might not have bought an overvalued ETF, you might just have bought it, it just happens to be the wrong time, and in time will come back.

Kate:
You might've been in a thematic ATF and it was not having a great year that entire industry. Yeah.

Owen:
But then in two or three years, it could come back. It's being like Rover going left and then eventually coming back. Hot stock tips. These are classics, William. We've all been there.

Kate:
Sometimes they're worth getting rid of. If you've got more than maybe $500 and it has gone down, I'd maybe do some research into that company and see if it's something you would still want to hold.

Owen:
The point is, don't make any rash decisions, make them smart. This time around, make it a smart decision. Don't listen to what your friend says, pick your best team for the field at any one time, so pick your best investments. You only have a limited amount of money unless you have a money machine at home, if so, give us a call. And the other thing is, write down before you buy or sell anything. We say this on the show, that's why you wrote that. Yeah, the decision making stuff. And you've got the PDFs from the recent episodes that you can access. And it includes questions to self-reflect, things like, "Why am I doing this? What are the risks? Have I talked about it with someone else?" These are all really good things. They apply to both buy and sell.

Owen:
William, you're definitely not on the wrong path, this is the right thing. You're going from bottom left to top right, but starting investing, you've made the decision to get out your jacket on that cold winter day and you're on the path, just stay on the path and make sure you're making sensible decisions from now on and taking the right pathways to get across the park.

Kate:
And making the mistakes at the beginning is great because you're hopefully only dealing with a smaller amount of money and it's been a good market to make mistakes in as well.

Owen:
Yeah. It hasn't been catastrophic. Eventually, you become desensitised to it and you begin to feel that those 20% falls, 10% falls from here, there, and everywhere, you become immune to them and you just focus on the longterm. Aaron's question. That's a fantastic question. And I'll summarise it in one sentence, which is, when should I not get financial advice? So he says, "Hi,

Rask team. I've listened to every episode of the Australian Finance Podcast and the Australian Investors Podcast." That is awesome. He says, "Keep up the good work." Hey Aaron, there's a lot more coming in the new financial year, especially for the Investors Podcast, so keep an eye out for that. My question is, "How does one know if one does not need to see a financial advisor?"

Owen:
I love how he use one, "So, do you recommend that everyone see a financial advisor regardless of their personal situation or prior knowledge? What kind of financial advisor offer an individual that cannot learn and apply on their own?" "I know people who have had initial consultations with many planners and each has provided different advice, which makes me wonder how I would know if the advice I receive from a planner is better than the strategy I already have in place. What do you think? Your thoughts on this would be much appreciated? Thanks. Smiley face." Good one, Aaron. Great question. Why do we always say, please consult a licenced and trusted financial advisor?

Kate:
We have to. You've listened to every podcast, you've probably heard it a lot, but we're not allowed to provide personal financial advice, so the only option we really have when anything gets a little too personal is we have to say talk to a professional financial advisor because we're not allowed to answer. And the only way you can get an answer to that question is actually finding that person. So in Australia, it's very regulated, so you might see US YouTubers saying all sorts of things and there's a lot less regulation over there. So people can say a lot of different things, but to ensure we comply, there's only so much we can say.

Owen:
And we've talked about getting financial advice. Have you received personal financial advice or you personally have you gone sorted it out?

Kate:
No. I've spoken to quite a number of financial advisors on different podcasts episodes and from the work I've done, but I haven't actually had the need to go and have a consultation with a financial advisor.

Owen:
And this is one of the issues that we have, you and I know we both have gripes, different gripes, but similar gripes about the why the industry is set up here in Australia, is that we can't, even though we've studied this stuff for a very long time, we have experience, we can't give simple answers to questions, even though we're answering questions right now, they're just generalised, often anonymized, randomness. We can't do that because the way the rules work in Australia is that if you get advice immediately if someone takes into account your situation, they have to issue a statement of advice, even if it's limited in scope.

Kate:

Yeah. You can't just go to a financial advisor and say, "Here's my one question. Give me an answer."

Owen:
Yeah. You can get scaled, what's called scaled advice, but they still have to do the full rigmarole, which costs you money because it's their time.

Kate:
They have their own compliance, which is a lot more rigorous.

Owen:
Yeah, that's it. So the reality is, and to your point, Aaron, a lot of people don't get financial advice because it is so expensive. And the other one thing that is an issue, we had the Royal Commission, which exposed a bunch of crap financial planners for their own doing or from the banks that they worked for is doing, ended up giving really poor advice to people who probably could have done better with that just not even being in contact with them.

Kate:
And it's a bit tough because tens of thousands of financial advisors have left the industry in the last few years because of the increase in compliance or they increased the education standards so you have to have a lot more qualifications and compliance and professional development to be financial advisor now. But I know financial advisors from their perspective, it's quite tough at the moment because there's a lack of consumer trust. We have met a lot of great financial advisors that genuinely care, every day they're learning as much as they can so they're on top of regulation. They give the best advice possible. And seeing one of them could be an awesome decision for you, but it's also a three to $5,000 decision.

Kate:
So for most people listening to this podcast that probably only have a few thousand dollars, it's just not feasible.

Owen:
And that's why we see a lot of the financial advisors that we speak to often only end up having clients that earn $100,000 or more, or have clients that have $500,000 or more.

Kate:
And they'd like to deal with other clients, but just the sheer cost of compliance means they can't.

Owen:
Yeah. So if you have $10,000 and at the fee of $3,000, it's totally not worth it for them or for you, and it'd be a bad outcome. In fact, the advice would almost always be bad, but the problem is people need advice. That's why this podcast exists, we try and bridge the gap. So I guess when would you not seek financial advice, Kate? You haven't seeked financial advice?

Kate:
I think from my perspective, if you're the kind of person who likes to research, who likes to learn to deep, dive into thing is happy to wade through a lot of bad information to find the good and you have to read a lot of information and be quite discerning to actually work out the truth in the muddy middle. I've spent hundreds of hours reading different websites, books, every single financial website under the sun. When I started, there wasn't really any podcasts, but as many research sources as I could get my hands on, and talking to a lot of professionals. And reading the product disclosure statements, sometimes you'd even need to read the regulations.

Kate:
You really have to be prepared to deep dive if you want to manage your entire financial life. So I think that's probably why I haven't got financial advice because I feel relatively comfortable managing my own situation. And at the moment, if I make a mistake, that's my own fault, I'm not blaming anyone else. If I didn't read about the non-concessional super cap or something like the super contributions and I stuffed up, that would be my fault because I didn't get advice and I was DIY-ing it. And I think that's really important that if you don't get advice, you have to own that decision and you can't blame it because you just read one piece of bad information. You have to be really prepared to go and look for all sides of the story and make a decision yourself and own that.

Owen:
You hit the nail on the head. I think your situation is also simpler than most people because you're younger, you really understand investing and you understand tax, you understand the essentials of every one of them. There's a reason we structured the first 11 episodes this way. The essentials of budgeting and credit was one of the first things that we did, because those are just now in the coffin, there's high credit stuff, high interest credit stuff. The other thing is sorting out your super, it doesn't take a lot of time just to pick a good super fund that it's lowish in fees and provides the right amount of insurance cover for you of those particular insurances.

Owen:
The other thing was just learning about investing. That's probably the longest lead time because you want to learn before you actually put your money to work. And then there's the basics of tax is one of the most popular things to talk about because it applies to everyone, and we're fortunate to have people around us that can help us with that. So if you understand the basics of money and budgeting like bank accounts, understand the basics of debt, so things like what to avoid like credit cards, that sort of stuff, but also how to find a good mortgage, that's a huge, huge, huge benefit for you. The other thing is when it comes to super, picking the right super fund that provides adequate insurance.

Owen:
The other thing would be when you buy a property, property is a huge commitment, so buying the right property, getting good advice from a mortgage broker and a buyer's agent, if you need it, those are some key areas that you can probably get by with if you're PAYG have a very simple model. I've got some just extra things I'll talk on the end here is the time and effort. This

is what it all comes down to, time and effort. Kate put in the time and she put in the effort to learn. This is the reality of it. The more complex your situation, the more time and effort you will need. The more complex your situation, the greater the chance for things to go wrong. The more complex you make your situation, the more costly it will be to unwind.

Owen:
I hear that many stories of people getting SMSF, setting up trusts, company structures, getting into relationships and buying a house without actually putting down on paper who owns what, buying a house with a brother or sister, going into business with family or friends, like all of these things, costly decisions that can be a nightmare to unravel, and they will set you back. The other thing is when I definitely would get financial advice is probably the easiest way to try and work out the inverse, definitely would is immediately prior to retirement. I've even told my in-laws, they've got to get financial advice, they've got to get financial advice, they've got to get financial advice.

Owen:
Because as much as I can tell them, they need someone to sit down with them and go, "This is when the retirement is going to kick in. This how much you can take.

Kate:
It's quite complex, the transition to retirement phase, even if you're in a traditional super fund compared to a self-managed super fund, both of them are quite complex.

Owen:
Totally. And particularly around where you want peace of mind that you're doing the right thing, and before you retire. Please do that before you retire, even if it's six months before your retire. I know you repeat that, to retire, if you know what's coming up, get the advice.

Kate:
There's a lot of crossover in Centrelink and disability pensions, and all of that, like this quite complex scenarios inter-mixing. And that could be, once it gets into that regulation and how much and caps and things, it can be very difficult, even as the most astute consumer out there to actually work out how that interplays without that industry experience.

Owen:
The other thing is if you're buying a business or like starting a business, maybe this isn't a question for your financial advisor, although it would be if you had one, it's definitely a question for your tax agent. Ask how that's going to impact you and how you can set that up. If you get an endowment, so someone sends you some money because someone died, you were mentioned in a will, so you've got some money from a relative, friend, or family member or something like that, that's another reason to get financial advice, just to make sure that you're doing it in a tax effective way because an estate, which is where you get money from when someone passes away, that's different to if you've got a super payout. So just make sure that you know your tax situation so you can manage it appropriately.

Kate:
Yeah. I think like any of these, when you're dealing with multiples of tens of thousands of dollars, once you're 30 years down the track and you've got a big superfund, you've got a big property, you've got a big business, a company structure, a trust, an inheritance, a good financial advisor, and you can get ones that specialise in all these different areas. If you look for that, they will be worth their weight in gold in terms of the amount they could save you in tax and structuring things.

Owen:
Even when we talked about investing for children, we said that if you have a little amount of money, then just do it yourself. But if you have a lot, go and see a financial advisor, because they will set up a structure or something in 20 years when little Bethany turns 21, she's going to be taken care of in a tax effective manner, versus if you just did the blunt way of just whatever.

Kate:
And even if I don't at the moment, but if I had a family and maybe I had some health issues and I needed to get a whole insurance package inside my superannuation, it can often be good to get financial advice for that to make sure you've got the right structure and you've got enough because that can become very complex if you're not a vanilla blue chip worker.

Owen:
Well, the problem we have in Australia is that a lot of financial advisors wouldn't touch you if you had really complex needs. So that's where you need someone who is a specialist, because the regulation in Australia has cost a lot of people access to financial advice, generally speaking, but it's cost most people access to insurance advice, which is really, really even the best financial advisors refrain from giving advice in insurance, just because it's so complex, because of medical needs, it's kind of that interplay. But the other reasons I would definitely a financial advice if you've got an SMSF and you want to get rid of it, or-

Kate:
If you want to wind up anything.

Owen:
Yeah. A lot of people will push you into SMSFs, but really think long and hard before you get involved in that, just because of the compliance involved and the ongoing needs. And if you'd like, to your point, complex medical needs, there's a thing in Australia called a special disability trust. If you or someone you know is in a situation where they have a complex disability that requires ongoing care outside of the NDIS, learn about special disability trusts. This is a great question, we could go on for all day. One thing I will recap with this email, Aaron is if you're so inclined, if you want to spend a week of your life learning everything there is to know in financial advisors toolkit, there is a book that anyone can buy, and it's called the Australian Master Financial Planning Guide.

Owen:
And it explains every single thing that you could want to know. I get a copy every year. I've had to go through it for uni, and thankfully it provided all the answers for me too. But the Australian Master Financial Planning Guide has everything, and it's technical, but it has everything, examples, it's updated every year. It's a great book. There's also the Black Book from Macquarie. The Black Book is basically all the rules every year, the change.

Kate:
Yeah. And you can also do diplomas and certificates from different financial companies.

Owen:
Yeah. Do diploma of financial services.

Kate:
Yeah. Or applied finance. Some people would do that. I've met people that have done that just so they could apply it to their own finances. They didn't want to work in finance, they just wanted to make sure they knew as much as possible to keep managing it themselves.

Owen:
Yeah. It'd be like just doing a diploma of nutrition at the beginning of your life. The benefits that you get from that over the course of your life.

Kate:
Also I should do like a PT course, just so I could do my own fitness programming.

Owen:
I actually did that.

Kate:
But I think people should do more courses just for their own personal benefit.

Owen:
Maybe we can talk about that off-air. I've got two more points to talk about, Kate. This is from Joseph. So Joseph asked via email, basically how a managed fund performance fee is calculated. So oftentimes just for a bit of context, for those of you who don't know, when you invest in a managed fund, which is one that you typically have to fill out a form for, or you do that online and then you deposit your money via BPAY, some examples would include Magellan, ASK Capital, Antipodes, Forager, Platinum, all these big names you might've seen around the place. Typically those funds charge a performance fee. They charge the ongoing fee, which is like 1%, but then if I do really well, you also have to share some of your gains with them for their good performance.

Kate:

Yes. So management fee and performance fee. So that's what you're can have to look out for. And the management fee could be anywhere between like half a percent to 2%. That's most of them I see fit somewhere.

Owen:
Yeah. It's probably closer to 1% standard, 1% to 2%, that's probably standard.

Kate:
One to 2%. Yeah.

Owen:
So that comes out automatically. Typically every day, just a tiny little bit is deducted from your account and it goes into their bank account. How about the performance fee, Kate, how does that work?

Kate:
When the management fee, it's taken out regardless of whether they do a good job, so if they're underperformed for 10 years and your money goes backwards, they still take their management fees every year. But a performance fee, which most managed funds seem to have in Australia.

Owen:
Yeah. It depends. I would say most. Yeah, that's fair for active fund.

Kate:
Most, especially if they're equity.

Owen:
Yeah. Australian shares funds definitely in global.

Kate:
Yes. They'll say, "Our benchmark is the ASX 200" or whatever the benchmark is. It might be the cash rate.

Owen:
That's how you can measure their performance. So if they say, "We made 10% this year, but the benchmark went up 20%," that's not exactly-

Kate:
Yes. So they underperformed. So they'll say, "Our benchmark ASX 200." And then they'll say, we either outperformed or underperformed the benchmark. So when you're looking at a managed fund annual or monthly report, they'll usually have a table and it will say performance one month, three months, 12 months. And it will say benchmark performance in another column, and it'll say outperformance in the other. And it could be a negative number, they might've underperformed. And if they overperform the benchmark, they get to choose which

benchmark. Sometimes funds can do tricky things there by choosing really low benchmarks, like a cash rate for an equity fund, but they will charge the 20%, for example, it's often 20% management fee on the outperformance.

Kate:
So if the bench mark, the ASX 200 did 10% and the fund perform did 12%, then a performance fee charge on that additional 2% above the benchmark. So it's supposed to reward them for doing a good job that you're already paying them for.

Owen:
This is how fund managers make squillions of dollars.

Kate:
Yes. We have many fund like managers that have become millionaires, billionaires in Australia.

Owen:
Yeah. This is one of the reasons why they've done really well, they performed really well. And they've got the protection of the management fee. There was few people trying to change this.

Kate:
So you get paid your fee every year, and then if you have a good year, you get a big bonus.

Owen:
One of the things, I'll give you a tip, here's a tip for when you pick managed funds, is try and find a managed funds that has something called a high watermark. And just like a high watermark on a pier or a jetty, what you want in that high watermark is it to be set at the level that it was previously the highest. So when they calculate performance, they are only eligible for the performance fee if it's above the high watermark. So let's say this year it goes up 20%, the unit price is how all funds have a thing called a unit price. It's like a share price, but for a managed fund. Let's say it goes from a dollar to a $1.2, but the next year falls back down to 90 cents. Even if they go from 90 cents back up to $1.2, they shouldn't receive a performance fee just for getting back to where they were.

Owen:
So they typically forego the performance fees, and then it comes back from $1.2 upwards. And that protects you from paying a performance fee twice for something that they're already recouping. So that protects you. So you're looking for a performance fee, you're looking for a good benchmark. So if it's an Australian shares fund, make sure it's benchmarked to something like the ASX 200 or ASX 300 total return. If it's global, you want S&P 500 or the MSCI or World MSCI or World. So these are all valid benchmark. That all said, you can always just read the PDS, just go and read PDS, it has an example of funds and the fees involved.

Kate:

Yeah. Definitely quite a few will provide that breakdown off the last time the PDS was updated. Yeah.

Owen:
That's it. And then you've got an example of a managed fund fee calculator. Obviously we haven't talked about it, but-

Kate:
Money Smart have one.

Owen:
Yeah. That's one there. Kate's going to include that in the show notes. And it just shows you the impact of fees, and that can be quite substantial. But one of the things to keep in mind is that performance fee, isn't always-

Kate:
It didn't have a performance fee section.

Owen:
The performance fees and that little thing that works for us too.

Kate:
Yeah. And it's quite difficult because performance fee is calculated and taken out daily. So as a retail consumer, unless you can get all the unit prices the last 12 months and who can be bothered to do that, it's quite difficult to get it. You might even be able to ask them, if you're really interested in a fund, what was the estimated average performance fee over the last 12 months that an investor would have paid?

Owen:
You could ask them like, "What is the fee that you collect from me?" Just ask them straight out what it is.

Kate:
Maybe they publish their annual report, which has a line item for total performance fees.

Owen:
Yeah. If it's like Magellan, Magellan offers investment funds that you can invest into, but they're also on the stock exchange, so they have to report.

Kate:
And the second part of this question was the fund they mentioned has the option you can either invest in the unlisted managed fund where you have to fill in a form and do your ID checks and sign stuff. And then you send the money off and it's invested and you have a unit price and blah, blah, blah, or some of these managed funds have a listed active ETF.

Owen:
So you can buy that one in your stock broking account.

Kate:
Yeah. So it might be a four letter stock code, quite a few of them are. And it acts a bit like an ETF, but it's actively managed, and it usually replicates the same strategy. So the question was, is there advantage in investing in one over the other, what are the key differences? And I think they mentioned, well, who was it? Joseph mentioned from the ones he could think of the liquidity, because it's a lot easier to sell, the active ETF for your brokerage account and get the cash, whereas if it's a managed fund, you have to usually fill in a withdrawal form or a partial withdrawal form, scan it, email it in, they have to accept it. Sometimes they have issues of your signature. I've had that happen.

Kate:
And then they have to process it, and it might be a five to 10 day window to actually get the cash in your bank accounts. So it's a little bit harder sometimes or a bit slower. The minimum investment amounts often lower. If you're just going through your brokerage account, it's probably $500, whereas often managed funds might have a minimum balance of $20,000, $25,000. So that can be quite a high barrier to entry for a lot of people. I know some managed funds have maybe 1,000 or $5,000, but that's not many because I did a big search a few years ago. And also adding additional investment amount, it can be a little easier with the managed funds because you could set up a direct debit, regular contribution plan every month, $200 goes straight into that managed fund. So your dollar cost averaging in.

Kate:
Whereas if you had the listed version, you'd have to buy additional units for your brokerage account and pay brokerage, but there is also usually a buy sell spread. So you usually have some fee with the managed fund there.

Owen:
Yeah. No matter which way you go about it, you're going to pay something to enter and exit.

Kate:
I personally use, I don't have any active ETFs, I don't believe in my portfolio, but I do use ETFs and I do use managed funds, and I think there's benefits to both.

Owen:
That's a good answer. I got nothing to add. Cool. Good question.

Kate:
Yeah. The last thing I wanted to mention before we wrap up is we had a great discussion in our Facebook group, our Facebook community, if you haven't joined up, there's a link in the show notes, which I'd love you to join, about different sources that people get their daily financial news

from. So I thought I'd share a few with you here. One of them, The Australian Financial Review. You can get the app on your phone. That covers a whole range of sources. And they usually look at both sides of the story,

Owen:
It's actual journalism. That's a bonus. Yeah.

Kate:
There's some great journalists over there and they usually do a good job at trying to have a diverse range of views and opinions. And it's a good way to learn about different things happening in the economy. If you're interested in direct share investing, most of the companies will eventually be covered in some manner there. Possibly some brokers have daily newsletters they'll just tell you economic information or moves, either way. Rask Media, we cover a few little ASX stocks.

Owen:
Oh, a little, come on, a big company. Now, we do. We have some great writers in our team. Super stoked to have them.

Kate:
And best ETFs as well if you're interested in ETF information. There's a few daily business podcasts that are Australian oriented, What the Flux, and Fear And Greed, they're like five-minute daily episodes. So you get a wrap up of three important stories for the day in the business world. Finimize which is quite a friendly global platform that do five-minute daily podcasts, and it's all within their app and you can learn different things. Bloomberg, get some of the information from them for free. So that's quite high quality.

Owen:
I like The Australian Financial Review, but global. If you go Bloomberg Asia TV, if you Google or search that in YouTube, you'll find a 24/7 stream. I say 24/7 with asterisk because it's a US programme, so you get up early to watch it live. And then they just have replay segments. But I watch that, not every morning, but when I'm at home, I typically wake up in the morning and watch a bit of Bloomberg to get the market wrap from the US, and it's totally free. So it's cool.

Kate:
Yeah. And while I'm thinking about that, I didn't have it on my list, but ausbiz.

Owen:
Yeah, also ausbiz. Last week, this is the Monday that we're recording this.

Kate:
Oh, and you were on that the other week.

Owen:

Yeah.

Kate:
There's a lot happening on there every day, different market, new stock stuff.

Owen:
Yeah. There's plenty to go on. Just as we've always said, just curate your news flows so that it's both diverse, but it's also reliable. There's a lot of journalism in Australia that's a little bit weak in terms of its analysis and also a few different websites that devote a lot of their time to one side of politics which is never great.

Kate:
I don't think it's a bad thing to pay for high quality information.

Owen:
I think it's a good thing. I think we should.

Kate:
I pay for the AFR and I think that's worthwhile.

Owen:
Yeah. Between that and ABC, I think you've got a pretty good base for business news from AFR as well as the ABC, but they ABC is really good all around. We've had Pat on the show recently, big fan of what they're doing. Bloomberg's good. There's plenty of good news sources. And if you want to stock ideas, that's what our site, Rask Media is for like stock research and some great writers and analysts there, but this podcast too are also great. We try and be timely, but typically by the time we record this and get it through the processes and whatever, it takes a few days.

Kate:
Yeah, definitely. And join our Facebook community if you want to join in this discussion.

Owen:
Yeah. You got all the links and the show notes. It's totally free to join Rask Australia on YouTube as well as on Facebook. So you can find us and engage and ask questions and do whatever you want to do there. Cool. All right. Kate, as always, thanks for taking some time to join me.

Kate:
Thanks, Owen. It's been a good Q&A episode.

Owen:
Absolutely.

Kate:

Thanks for tuning in to this episode of the Australian Finance Podcast, where our mission is to improve the financial futures of all Australians. If you'd like to learn more, create a free account at rask.com.au/account to download free episode workbooks, bonus resources, and take our amazing free personal finance courses.

Owen:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snap review on iTunes, and you can follow us on Twitter and Instagram @raskaustralia. Kate and I are also are on both of those channels. Finally, if you have any feedback, suggestions for episodes or guests to come on the show, or you just have a question for us, shoot us an email at podcast@rask.com.au.