canberra times: q&a

Q 1: With the global financial crisis continuing I am worried about leaving my $100,000 in superannuation. This is all I have for retirement. Should I take it out?

D.B., Canberra

A 1: There is no doubt we are in a prolonged period of uncertainty with the ongoing Global Financial Crisis starting to test investors' patience. It is a good opportunity to take a step back and look at the bigger picture. Here are some thoughts:

- All investments carry some kind of risk, and the trade off for taking on board this risk, is an expectation of receiving a return. The higher the return we expect back, the higher the risk is of actually achieving that return.
- The first most important principal for investment is diversification. For example, if you had $100,000 invested in the US company Lehmann Brothers, and the company collapses, then your entire $100,000 is exposed to the risk of permanent capital loss. If instead, your $100,000 was invested in 16,000 assets around the world, across all investment sectors including shares, property, fixed interest and cash, and one company Lehmann Brothers collapses, then your overall investment portfolio is only slightly affected by the permanent capital loss.
- The second most important investment principal is your planned timeframe for investment. The short term is very unpredictable with volatility, yet the long term is very predictable. If you are not comfortable with the short term volatility that comes with investing in growth asset such as shares and property, then you need to be investing in defensive assets such as fixed interest and cash. The returns will be lower over the long term, but so will the movement in capital value. It is critical though to still make sure that your investment is backed by a well diversified portfolio of assets. Again, 100% fixed interest exposure to a Lehmann Brothers debenture could suffer permanent capital loss.
- We say long term returns from diversified investment is predictable due to capitalism. There is a way money moves in a capitalist economy that means we have to get greater return from shares and property than from fixed interest and cash, to allow everyone to be properly compensated for the cost and risk of money. So long as you believe capitalism is here to stay, then long term returns will be achieved.   Can you ever envisage a point where people do not work for reward, where businesses do not operate to make a profit, or where people do not consume?
- Most of us use investment professionals in fund managers, to make sounds investment decisions for us. For this role, we pay the fund manager a fee to take on board this responsibility. It is important to understand that when placing investments in managed funds, they are done so in a trust structure. This means that should the fund manager "collapse" your funds are still safe as the fund manager is not able to access your investment funds for their own operations.

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- The superannuation environment is also a very tax effective place to hold savings, so you should think very carefully before taking your funds out of superannuation. You can still achieve your goal of taking less investment risk within the super environment.
- Consider the extreme alternative to investing, which is you pull your entire $100,000 out of superannuation and place the funds under your mattress. You will not receive any return and it will erode in value over time due to inflation. You are still exposed to permanent capital loss if you are burgled or your house burns down!

We are certainly in a fascinating time for investment markets but investing is a necessary tool for most to receive some kind of return on the capital we have accumulated. A famous saying goes, “the sharemarkets are a tool to transfer wealth from the impatient to the patient.” You simply need to be able to hold your share investment position long enough to reap the rewards. So, diversify, look long term and be patient.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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