
Editorial Comment

Topic: Shelter from bad Advice - The AGE Money Section
From: Gary Stone, Managing Director ShareFinder Investment Services
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The “it’s not my fault” mindset

The following editorial comment is in response to an interesting article in the MONEY section of The Age on Wednesday 31 January, 2007 entitled “*Shelter from bad service – More needs to be done to protect consumers from negligent financial planners*”.

Whilst it may be acceptable that such press is necessary to expose the parts of the financial and investment industry that need to be exposed, it is a concern that, depending on the way this exposure is projected to investors and the general public, it can also support the “it’s not my fault” mindset that permeates modern day society, especially in the world of investment.

It is a fact that taking responsibility for your investment decisions is a major part of investment success. To breed such thinking in our collective investment mindsets we need more broadcasting in our society of what taking responsibility actually is.

Relying on litigation or on advisers insurance cover does not achieve learning responsibility. Nor does it retrieve your lost investment, it actually adds cost either directly or indirectly in legal fees, higher adviser fees, lost opportunity, emotional trauma and so on. Whilst insurance is a tool in the investment success toolkit it is not a recipe for success.

Gary Stone, Managing Director of ShareFinder Investment Services, commented on the mindset of taking responsibility and its effects...

“At the end of the day “it’s your money Ralph” and nobody cares more about your welfare and your money more than YOU.

It amazes me that so many people completely outsource investment decisions to brokers, financial planners, investment managers etc, what’s more, with large amounts of capital. (The average loss in the Westpoint scam was \$85,700!) These service providers will NEVER have your objectives at heart in the same way that you do. Their objective is to earn income using your investment capital as their vehicle. If a win-win can be found then that is great but all too often this is the exception rather than the norm.”

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Stone suggests that there are at least two ways to take responsibility for your investments:

1. Do it yourself. Learn how to do your own direct property investment and/or share investment complete with the associated risks and how to minimise them. This alternative takes more time and effort and requires the most learning, but is also the most rewarding financially and in dimensions that only those that have taken the journey will understand. 'Doing-it-yourself' means that YOU execute the necessary transactions according to your Investment Plan * (see below).
2. If 'Doing-it-yourself' is not for you, for whatever reason, then you need to, at the very least, set the high level policy for your investments and have a definitive Investment Plan *. Any qualified and reputable financial planner or investment manager should then be able to execute/act on your behalf according to YOUR Investment Plan. If you have an SMSF (Self Managed Super Fund) then you need an Investment Plan anyway, by law. Your investment policy states your investment mission (which should be aligned with your personal mission, if you have one), investment goals and objectives (which should be aligned with your personal goals and objectives) and your risk and money management policy according to your risk profile.

Taking responsibility is self regulation! Either way you need to have knowledge and get involved, there is no such thing as totally passive investing.

Mr Stone commented on what the industry should do to near-eliminate Westpoint occurrences...

"Well for starters it can begin exposing commissions and trailing fees. This is critical so investors can make informed decisions. Despite years of public discussion it is just not happening.

We're in no doubt that in most cases the advisers that recommended Westpoint (or acted without involving the investor) did so because higher fees were offered to the adviser for tipping money into Westpoint rather than alternative funds. The investor must ensure that they are involved in the decision.

Most importantly, nothing, but nothing is going to replace self-education. Regardless of the safety nets, insurance, government intervention, associations the lot. Self regulation through knowledge – not industry regulation - must be improved and cultivated."

In the case study provided in the article, let's assume that Westpoint met the investment goals and objectives of the individual (Kathie Dyball). Putting nearly 40% into a single investment should have failed the risk & money management rules of her Investment Plan. Then tipping another \$75,000, to total around 55% of portfolio value into the same type of investment made the matter worse. This was far too much of her capital base in two single investments.

Just the basic self regulation of knowing what the current risk-free rate of return is (printed in the papers every day) and a basic understanding of what an acceptable risk premium is above the risk-free rate of return for interest bearing, property and share investments and deploying some basic risk management tactics for the respective risk premium, would have saved and made Kathie a lot of money. By my calculations around half a million dollars!

The really sad thing is that with a little self regulation Kathie's \$460,000 over 5 years should have gone the other way and blossomed to at least \$707,700 at 9% compounded per annum (conservative for this period). Instead, her investment capital is around \$205,000! Who is ultimately responsible?

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For further comment:

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ShareFinder is Australia's number #1 mechanical share investment solutions company. Founded in 1995 ShareFinder Investment Services began as one of the pioneer vendors of share market charting and fundamental analysis tools in Australia. Our flagship technical analysis product, Market Master, was developed by PrimeCharts who has been developing leading edge software since the mid 80's. Gary Stone has researched and designed proven long, medium and short term share trading methodologies for do-it-yourself investors.