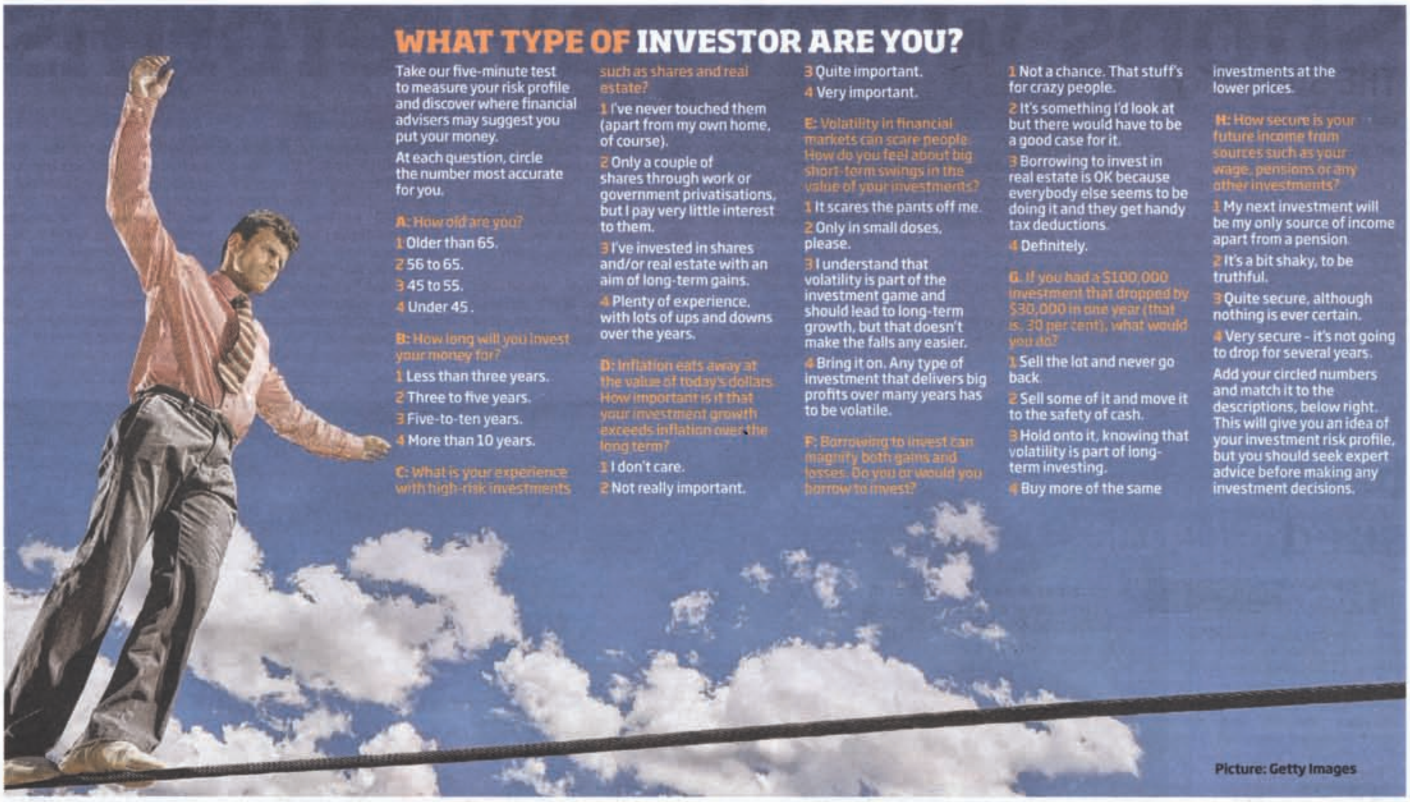
New home sales slumped 8 per cent in July to a 10-year low, Housing Industry Association data shows. CommSec says it confirms the housing sector is heading backwards fast, but there are still the positive signs of a tight rental market and good population growth



WHAT TYPE OF INVESTOR ARE YOU?

Take our five-minute test to measure your risk profile and discover where financial advisers may suggest you put your money.

At each question, circle the number most accurate for you.

A: How old are you?
1 Older than 65.
2 56 to 65.
3 45 to 55.
4 Under 45.

B: How long will you invest your money for?
1 Less than three years.
2 Three to five years.
3 Five-to-ten years.
4 More than 10 years.

C: What is your experience with high-risk investments such as shares and real estate?
1 I've never touched them (apart from my own home, of course).
2 Only a couple of shares through work or government privatisations, but I pay very little interest to them.
3 I've invested in shares and/or real estate with an aim of long-term gains.
4 Plenty of experience, with lots of ups and downs over the years.

D: Inflation eats away at the value of today's dollars. How important is it that your investment growth exceeds inflation over the long term?
1 I don't care.
2 Not really important.
3 Quite important.
4 Very important.

E: Volatility in financial markets can scare people. How do you feel about big short-term swings in the value of your investments?
1 It scares the pants off me.
2 Only in small doses, please.
3 I understand that volatility is part of the investment game and should lead to long-term growth, but that doesn't make the falls any easier.
4 Bring it on. Any type of investment that delivers big profits over many years has to be volatile.

F: Borrowing to invest can magnify both gains and losses. Do you or would you borrow to invest?
1 Not a chance. That stuff's for crazy people.
2 It's something I'd look at but there would have to be a good case for it.
3 Borrowing to invest in real estate is OK because everybody else seems to be doing it and they get handy tax deductions.
4 Definitely.

G. If you had a $100,000 investment that dropped by $30,000 in one year (that is, 30 per cent), what would you do?
1 Sell the lot and never go back.
2 Sell some of it and move it to the safety of cash.
3 Hold onto it, knowing that volatility is part of long-term investing.
4 Buy more of the same investments at the lower prices.

H: How secure is your future income from sources such as your wage, pensions or any other investments?
1 My next investment will be my only source of income apart from a pension.
2 It's a bit shaky, to be truthful.
3 Quite secure, although nothing is ever certain.
4 Very secure - it's not going to drop for several years.

Add your circled numbers and match it to the descriptions, below right. This will give you an idea of your investment risk profile, but you should seek expert advice before making any investment decisions.

Picture: Getty Images

Find balance to survive fall

Amid volatile global financial markets, it's time to reboot your approach to wealth creation, writes **Anthony Keane**

THERE'S nothing like a share market downturn to make you think twice about investing.

When international markets tumbled last month, investors and super fund members suffered painful flashbacks from the global financial crisis, when the value of their shares more than halved.

Our market has bounced back about 14 per cent from those lows, but it was another jolt to fragile confidence.

Some people got out of shares completely. Others haven't gone back in since the GFC, having sold out at the same time everyone else was selling.

It's the same when markets are booming. People jump on board the investment bandwagon because it seems everybody else is, too.

So why do so many people follow the herd?

Wealth For Life Financial Planning principal Rex Whitford says it's because humans have not evolved psychologically as quickly as our technology has.

"It was only 30 years ago that we started using computers as everyday tools and four years ago that we were able to carry the sum of human knowledge in the palm of our hand on an iPhone. But we are running on two-million-year-old survival software," he says. "Once, on the African savannah, if you didn't run with the herd you were lunch. Now, when we revert to this survival instinct we get caught.

"This is because our hardware is still Homo sapiens 1.0. We are creatures of instinct."

THE PAIN OF LOSING

Impact Financial Coaching director Allan Ward, who has studied behavioural finance, says research has found that losing money has a much bigger impact on our brains than making money.

"Losing 10 per cent of your money hurts a lot more than the joy of gaining 10 per cent," he says.

Investors are often drawn to information that supports their preconceived views.

"If they think the sky is falling and markets are going to crash, they will find a lot of information saying that," Ward says.

"And the recent downturn hasn't helped anyone.

"It's like you get run over by a car, pick yourself up and get whacked again.

"As an adviser it's horrible, because you take your clients home in your head at night."

Ward says common mental mistakes include people focusing on just one poor part of their investments – such as shares lately – rather than their entire asset base.

They pick the worst reference point to measure their losses – such as shares since 2007 – rather than earlier last decade before their long boom.

"Don't get trapped into making it worse than what it is," he says.

WHAT KIND OF INVESTOR ARE YOU?

Investors are either conservative, balanced or aggressive.

A typical super fund's default option is a balanced mix of low-risk and high-risk assets, although in recent weeks many have been accused of being too aggressive because they often hold 50-70 per cent in shares and property trusts.

Marinis Financial Group financial strategist Theo Marinis has more colourful terms:

- **Cowboys** – people who gamble on the latest stock tip, with their financial strategy to get rich quick.
- **Shepherds** – those who look after their money carefully and take a conservative approach to long-term, balanced investment.
- **Lemmings** – they follow the herd and get pushed around, come out OK at retirement but could have done better.
- **Gunnas** – people who were going to do something but never got around to it.

Have any of these descriptions applied to you? Whitford says we are often different types of investors in different circumstances.

"The reality is that many people often need to be more aggressive than they are, but they have no strategy in place," he says.

"Without a strategy in place, there is nothing to apply a discipline to.

"Is it any wonder that people panic when they have never sat down to consider a properly crafted strategy?"

RISK PROFILE TOOLS

One of the first things a financial planner will ask a client to do is to fill out a risk profile questionnaire.

It's a multiple-choice document and the answers given help the adviser determine whether the client is conservative, balanced or aggressive. They are a good tool but should not be used alone, says Ward.

"The questionnaires are a good starting point but there really needs to be a discussion afterwards," he says.

"You may come across as a conservative investor, but you may need a more aggressive asset allocation now for a chance of getting where you want to be."

Most financial planners have risk profile tools.

There are plenty online, and we've even created one on this page for you to have a go at.

SURVIVAL TIPS

In tough times, the key is to take emotion out of the investment process, Ward says.

"We don't make logical decisions in a lot of cases. We make emotional decisions," he says. "You have to be as objective as possible.

"Do your sums and a review as if you're starting from scratch. Get good advice."

Understanding why we think the way we do is important.

Whitford says some investors do not understand themselves, investments or economics.

"Sometimes clients need a financial planner who does 5 per cent financial planning and 95 per cent psychology," he says, adding that discipline is the key. "Exercise discipline, stop looking at your portfolio every day and don't buy into all the bad news."

Marinis (pictured below) says sticking to your strategy is vital and it's usually best to draw down from a cash buffer for income needs rather than sell shares at fire sale prices.

"Don't panic ... it is the nature of investment cycles that markets boom and bust, but over any given 10-year period wealth has always grown significantly," he says.

YOUR RESULTS

Your score from the quiz above can help determine your risk profile.

8-12 ULTRA-CONSERVATIVE
Stick it in cash only, as any other type of investment may cause you problems such as nausea, heart palpitations and uncontrolled crying.

13-17 CONSERVATIVE
Cash and fixed interest investments should dominate your assets, but you might add a small splash of shares or property for an extra bit of colour.

18-22 BALANCED
If you ignore your superannuation, luckily your money's in the right place. A typical default super fund option is a balanced mix containing about 50 per cent shares, 10 per cent property, and the rest in cash, fixed interest and a sprinkling of alternative investments.

23-27 GROWTH
Here's where things start getting a little bit hairy, with a higher proportion of shares and property and less cash. Your investments will fluctuate more than a balanced investment, so you need to take a long-term view.

28-32 AGGRESSIVE
Cash is for sissies – all your money goes into shares, property and other high-risk investments, perhaps with a big lick of borrowed money too.