Hello everyone

Self interest versus best interest

Former NSW Premier Jack Lang is reputed for having said "In the race of life, always back self-interest – at least you know who is trying."

In other words, when people see an edge for themselves, they will take it, and in many cases that edge will also benefit others. However, when investing we should also be on guard against those who see an opportunity, or edge, only for themselves.

The fall-out from COVID-19 will be massive – and medium term. I suspect, based on my observations so far of the times ahead, we will see a brand-new band of self-interested investment managers raising their heads to spruik their 'get rich quick' schemes.

The spruikers will be attempting to persuade investors that they alone hold the crystal ball to predict which stocks will rise, and those which will fall. They will roll out compelling data (mainly via the rear-view mirror) to promote their chosen investment portfolios, and they will charge a significantly higher fee for the touted extra outperformance, or 'alpha'.

Unfortunately, there will be many investors who will not pause to question the flash marketing and the shiny suits – or consider the self-interest involved.

The alternative (albeit more conservative) but historically proven outperformance tool is to 'buy the market' by purchasing stocks according to their weighting relative to a particular index. That way as one stock sector rises, you benefit, and if one stock falls, you are insulated. You will not get the dizzying, intoxicating highs, nor will you pay a fortune and suffer the depressing lows that come when the high-flying portfolio crashes.

To demonstrate the danger of stock picking, if you had bought into a portfolio dominated by Virgin Australia, Webjet, Treasury Wine Estates, Corporate Travel Management, Qantas, Santos, Beach Petroleum and Sydney Airport (all stocks which outperformed in the last six months of 2019, with the potential for more outperformance to follow) you may well be aware that these stocks are unlikely to present that reality today. Many investors have paid higher fees to investment managers based on their stated ability to build a portfolio to outperform the market, when in reality, all their eggs are in one basket.

Investment should be about long-term financial security, not about buying a new Maserati for the fund manager. We saw that in the 1980s, and hopefully, we have learned from that experience. Avoid the self-interested spruikers.

The next Generation:

As the proud father of a bright young daughter, I've been enjoying the prospect of planning her financial education. Naturally, there is nothing more boring to the young and inexperienced than superannuation, life insurance and investment strategies – but just as farmers teach their children about the land, so it is incumbent on those of us in this industry to pass on the lessons (including the potential pitfalls) to the next generation, both informally and at 'teachable' moments.

Since COVID-19 has hit share markets globally, my wife and I have established a savings plan for our daughter, using an Investment Bond. Quite apart from the obvious material advantage of providing her with a base from which to accumulate a savings nest egg for future use, I believe that it will prove to be a valuable tool to help her to understand investing and other things financial, over the years to come.

One thing I have learned is that the worst thing people can do is to just 'give' their children money. A better option is to pass on some financial lessons to help children get ahead. Every family is different, but information about additional contributions to superannuation, the role of life insurance and income protection in financial security (and for those with excess cash – the implementation of savings strategies) can be lifelong wealth creation lessons for younger people.

Despite being 17 years younger than Theo, and therefore from a different generation, I am very happy to say that I share his financial planning philosophy. That same generational difference means, however, that I am also close to the challenges faced by people born into the internet age. As part of Theo's team for the past seven years, and having the good fortune to meet and chat with many of our clients' children, some my age, some younger, I've noticed that its often less threatening for them to have someone closer to their own age to introduce them to the world of financial services.

Therefore, if you would ever like me to chat with your adult children, together with you or by separate appointment, please don't hesitate to make arrangements with Theo, or contact me directly. I am of one mind with Theo in that I believe in building and protecting wealth conservatively. As I hope my daughter will learn, there will be rocky roads along the way, but a commitment to a long-term view is the key to achieving financial security.

Marinis in the News:

If you would like to see Theo's latest press releases or articles in which he is quoted, please click here to see our latest public commentary.

And one more thing:

Theo invited me to write this edition of eGrow while he is recuperating from hip surgery, and we are pleased to be able to tell you that it went very well. He sends his warm regards to everyone and is looking forward to getting back to being pain-free and working full time, six days a week – as he usually does!

As always, if I, Kristina, Stacey, Ashleigh, Thuy-Anne, Karen or Alison can be of assistance, please do not hesitate to call or email us directly on (08) 8130 5130 or via admin@marinisgroup.com.au

Kind Regards,

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