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Coaching for Wealth Creation

We have all met people who don't believe in vaccinations, who don't believe man walked on the moon, or who are convinced that buying Telstra, CBA and NAB shares makes the perfect retirement fund… which all reinforce for me, the benefits of having a 'coach' to save us from our more whacky ideas.

Retirement savings are too important to be left without a second opinion – or the appointment of a coach to act as an investment psychologist. That coach might be a broker, a financial planner or a financial strategist.

The impact on average portfolio returns where financial planning input is involved, has recently been measured by Russell Investments at 4.4% per annum.

That result is significant, and alone it puts the investor above inflation, regardless of what investment returns deliver. With, to quote directly from journalist Tahn Sharpe's recent article on this financial planning value add – "the avoidance of behavioural mistakes providing the lion's share of value".

In other words, a great deal of the real benefit of financial advice is actually in the prevention of emotional, knee jerk investment decision making.

I am reminded of a client who, during the GFC, decided that he required income of $60,000 pa. My client (who I will call Murray) was concerned that the end was approaching and he should move to cash, as his portfolio was down by about 30% to $3m – and yes, the markets were in disarray, as they tend to be from time to time!

My role was firstly, to reassure him that even if he received an impossible 0% return on his portfolio, he actually could keep drawing down on his capital at the required rate, for next fifty years. Given that he is a retiree, this was, of course, an optimistic timeframe – but it proved the point that he really didn't have anything to worry about.

Further, with just an annual income of 2.0 % pa from his share dividends plus interest on the defensive sector of his portfolio (and assuming no future capital gains) he would still easily achieve his income needs. His capital would remain intact and available to be distributed to his partner and children.

Given that the long-term average return on balanced portfolio has been around 7.0% pa, Murray had nothing to worry about, but his concerns were amplified by timing and his anxiety. He just needed someone to take away the fear by calmly pointing to the logic. 11 years later, his portfolio is now valued at over $6m.

This example re-enforces for me, the role of financial advice in helping clients deal with their emotions around their finances. As we get older, we tend to become more cautious and conservative – which is usually good, but we also need counsel to avoid putting our cash under the mattress. It is important to have someone to trust, and to provide this counsel during the difficult and uncertain times.

It is often said that retirees fear running out of money more than they fear death. Whilst past performance is no guarantee of future outcomes, we certainly haven't invented a better system than investing in a fully diversified portfolio (with exposure to growth assets in accordance with our individual comfort levels) to grow and protect wealth.

As needs and objectives change however, regular reviews of this comfort level (also known as an 'investment risk profile') is vital to keep financial peace of mind.

As a financial strategist, I love making my clients' funds work as efficiently as possible, and there is great value in that… but delivering financial peace of mind is, to borrow the line from MasterCard, PRICELESS!

This then raises the question of what to do once you have accumulated these funds. Should retirees spend more and worry less? I think they should, within reason.

More than half of retired Australians restrict their spending to less than the age pension, and if they fear running out of money more than death itself, as a result they may be denying a better lifestyle for themselves.

The unfortunately named retirement spending 'Smile Graph', so named because we spend more at either ends of retirement with a dip in the middle (due to travel at the start then on healthcare at the end) proves that this uncertainty about how long we will live makes us reluctant consumers.

Like most, leaving a financial legacy to my children is a part of my personal planning – but there is a point of inter-generational balance that needs to be achieved.

If I can go back to Murray for a moment, his $6m portfolio now generates on average, $420,000 pa at an annual return of 7.0%. He spends around 20% of that, leaving around $340,000 pa to grow. As a man now approaching his 70s, he can well afford to be less frugal. Even if he spent the entire amount of his investment earnings, he would still be able to bequeath his partner and children a couple of million dollars each. Should he not wish to spend for spending's sake, he could, perhaps, choose to quietly donate significant funds to charity, creating employment and doing 'good' in society.

But that is his choice. As his investment psychologist, my role is to stop Murray from panicking, to help him to invest in a way that conservatively grows and protects his wealth, and enable him to do what he wants with the cash he generates.

We all have investment 'cognitive distortions' (myself included) which is why we can all benefit from coaching for wealth creation.

Theo Marinis is Managing Director of Marinis Financial Group

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For further information, please contact:

MARINIS
FINANCIAL GROUP

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as Marinis Financial Group
T 08 8130 5130
F 08 8331 9161
E admin@marinisgroup.com.au
W marinisgroup.com.au
A 49 Beulah Road
NORWOOD SA 5067