The Australian Finance Podcast Episode Transcript

Episode: 5 Reasons Not to Invest (and What You Should Do Instead)
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
Kate Campbell, welcome back to this episode of the Australian Finance Podcast. What are we talking about?

Kate:
Oh, well, we're talking about something that we don't usually talk about. And I think it's something we should given just the sheer amount of topics that we cover when it comes to investing. But today I really wanted to talk about, when should you not be investing? I mean, we're definitely advocates of investing, getting started early. But I thought it would be a good chance to step back and look at some of the reasons why someone wouldn't invest right now.

Owen:
Yeah. Makes sense. Good, old inversion, Kate. Ask yourself the opposite question to get to the truth. So normally we say, what are some reasons why you would invest today? Well, let's invert it and say why wouldn't you invest? Let's see where you sit on the spectrum. So yeah, obviously we talk about all different types of investing. And I think that the five things that we've got today, the five reasons that you wouldn't invest, apply to basically anything. So it's not necessarily shares, ETFs, EMU eggs, gold, platinum, crypto, whatever you're doing. These five things can

apply to any of those. So Kate, without further ado, what is reason number one, why you shouldn't invest?

Kate:
The first reason why you shouldn't be investing in anything as Owen said, whatever it is, is because you've got a lot of debt. And by debt I'm talking about, you've got credit cards, you've got personal loans, you've got car loans, you've got maybe a few buy now pay later accounts sitting around. So this is one of the big reasons why you wouldn't want to invest, because you really want to focus on getting a past off your back first. Because it's really hard to move forward if you've got this, I don't know, if people visualise debt as some sort of ball and chain or an anchor.

Kate:
It's like weighing you down and holding you back from moving forward financially. And it's really good to start to get back to neutral. So figuring out a plan to pay off debt and really get back to neutral before investing and moving forward. And as you've probably seen credit card, interest rates are pretty astronomical. Upwards of like we're getting to 20% on some cards, depending on what it is. And personal loans can be, I don't know what you've seen recently, like 6% to 8%, Owen?

Owen:
Easy. Yeah. Easy.

Kate:
Yeah. And when it comes to investing, like 8% in a year would be a really good return. And so if you're paying like 6% to 8% plus on personal loans and credit cards, that's going to hold you back from moving forward. Because it just makes a lot more sense financially to get rid of that debt first, before investing in moving forward. Because getting a 20% return on something in a year is a pretty crazy returns. But you can actually avoid paying 20% on that credit card debt by paying it off.

Owen:
Yeah. So a lot of our listeners will know when we've talked about debt before. That when you pay interest on your debt, if you pay that off, you don't pay tax for saving money. So if you've got a credit card charging you 20%, which is hideous, if you paid that off it's not like you're making a financial gain, that's the way the tax office would say. So you're not going to pay tax for paying it off. If you've got a $5,000, pay it off. Whereas if you made $5,000 profit on an investment, you would pay tax on that. So depending on what your tax rate is let's say it's 30%, not only are you saving on tax by paying off a debt, rather than trying to invest, you're also not paying as much tax. So, we can pay, like you say, if you've got an 8% return from your investment portfolio and an 8% debt, even that is not equivalent. Because you're paying tax on the 8% you get from your portfolio and you're not paying tax on that the 8% that you saved by paying off your debt.

Owen:
So it makes a heap more sense to pay back your debt first. And that is not sexy. Like when you talk to people like, I want to buy shares, I want to invest now. Absolutely you do. We're not saying totally like this is a rule that you should never invest. Like maybe you can put $500 into an investment account, so you can start to feel what it's like. Or use Raiz or Spaceship or any of those things that allow you to invest a small amounts. To get a feel for it, I think that's really, really important to. Not everyone wants to wait two or three years to pay off their loan. Which I get, all right. I get the rational person says paid off first. But sometimes you do want to experience that, so go ahead and do that. But Kate, reason number two is actually really interesting. Before we get to that actually, we did talk about a lot of this stuff in our money and budgeting course, which is the free course on Rask Education.

Owen:
And then you made a good point in the show notes for this episode. We do have the financial counselling episode. We actually had a Rask invest member right in the other day to say that they no longer investing, because I can't afford it because of COVID lockdown I no more have it. We refunded all their money. But then we also suggest that they go and check out our financial counselling episode that we did with Nick. [inaudible 00:05:23]. Oh, that's my Siri. sorry about that guys. Financial counselling episode that we did with Nick. It's free to see a financial counsellor. And they will go into back for you and help you consolidate debts, pick up the right debts, all that sort of stuff.

Kate:
Yeah. They're an amazing resource and not enough people know about them. And we've met quite a few financial counsellors now, and they're all amazing people. They know all the strategies for negotiating with the bank when it comes to consolidating your credit cards or putting a plan into place for paying off your debt. So they are a great free resource in Australia that you can use. They're not biassed, they're independent. So I'd highly encourage if you are paying off consumer debt right now, give them a call. They have an online chat feature as well now. So just get in contact and see what they can do to help you. Because you just don't know, they may have a strategy you haven't thought of before.

Owen:
Yep. Go and check it out. So number one is, you've got debt coming at your ears. We are not talking about mortgages and all that sort of stuff, that's a different type of debt we're talking about. Those high interest, nasty debts. So reason number two, Kate is you don't yet have your emergency fund. We talked about this, this is one of our first 11 episodes. The 11 episodes that we did first are the most important episodes we've ever recorded. And they take you through exactly what an emergency fund is and why it's so important. Kate, maybe just quickly, what is this fund? I think you've got a cheeky name for it.

Kate:
Yeah. I didn't come up with this name, but it's sort of fondly known as an EF Fund. So you can really just tell anybody, any job, any situation to EF off. Because you have this three to six

months of living expenses or whatever makes you comfortable set aside in a specific savings account that you don't touch, unless it's an emergency. It's like those things on the bus where you break in case of emergency, so you can jump out the bus window. Yeah. That was too bad of analogy there. But it's just something that you've got for peace of mind that you can deal with whatever life throws at you. Because once you're investing, we really want you to think about investing as a really long-term activity, like 5, 10, 20, 30 years.

Kate:
And so you don't want to be forced to sell at a moment where you don't want to because an emergency has happened. Of course you can, if you need that extra cash. But having that emergency set aside, it means that you can invest quite differently because you can maybe take a little bit more risk. Because you know that you've got money put aside and you're not going to have to pull out of your investments at a bad moment. And it also helps with that sleep at night factor. I mean, personally, once I saved up my emergency fund a few years ago, I felt really comfortable knowing that, Hey, I've got this cash there that if anything happens, I can pull out of that. And so now I can invest quite differently knowing that my emergency funds is taken care of.

Owen:
How much would you have to save before you'd feel comfortable investing?

Kate:
I mean, if people want like three to six months of basic living expenses, it doesn't have to be like including Holland days in luxuries. But maybe for you that $6,000, $10,000. If you're a couple and a family with a lot more expenses, some people would save upwards of $10,000. If you're at home or you're a student, maybe $3,000 is enough for you. So it's just getting comfortable with what's going to make you feel more confident when it comes to investing, what's going make sure that if anything happens you can buy a flight? Not that we're really flying anywhere right now. But you can pay for that bill that comes up that you haven't been warned about. Just anything that comes up when it's an emergency, you've got enough cash. So you have to just work out. And it comes back to like understanding your values of what is enough for you, what's going to make you feel comfortable.

Owen:
Yep. And that's it. So you said during COVID that COVID gave you an opportunity to reset your mind on how important the emergency fund is. I think maybe an analogy of the emergency fund, since you brought out that smashing the window thing on the bus to get out of trouble. I took my sister to like a indoor play centre not long ago, where they had like a giant foam pit that you could jump into. And you could like practise like a flip bounce off a trampoline and do that sort of stuff. I would never, ever in my wildest dreams try and attempt to do a back flip. But if I know I've got the foam there to catch me, I'll go and do the flip. I'll take the risk.

Owen:

And so investing is very similar. You have that kind of safety net below you that will catch you if you fall. Now, if you don't have this emergency fund underneath, you take the risk that you get investing wrong. You have to sell at the worst possible time, like during COVID last year. You freak out and then you just annihilate your savings. Because oftentimes if you do sell at that moment, that's the worst possible time to sell. So that's reason number two, you don't have an emergency fund. Number three is really interesting. And hopefully people to listen to this podcast, even if this is your first or your a 120th episode that you've listened to. This is a really interesting one. So you don't understand the basics of investing. If you do not understand the basics, the very basics of investing, you probably shouldn't be investing, right?

Kate:
Absolutely. I mean, even as someone like you, that's been investing for over a decade, you're still learning new things every day. So when we talk about this idea, we're not talking about all the complexities of investing and all the new information coming out. We're talking about some of those core concepts that once you learn and understand and can put into practise, they stay with you for the rest of your life. And that's things like spending less than you earn, investing in high quality companies and exchange traded funds and focusing on having a long-term investment horizon. Understanding that the market is volatile and risky, and you're going to have to deal with the ups and downs. And it's a roller coaster ride. And thinking about your own investment approach and your philosophy and how you want to do it.

Kate:
And I think it's really important to think about some of those basics before diving in. Like a lot of people started investing for the very first time last year, and they may have just dove in straight away, and that's awesome. But maybe now's the time to step back and go, Hey, I want to learn some of the basics. And whether that's listening to different podcasts or taking our free ETF and share investing courses, reading books. There's so many great books out there on investing nowadays. And just most of them repeat similar messages. Once you read a few investing books, you'll say, hi, that advice is very similar to that advice. And most of the basic principles are the same and have been the same forever. And especially with behaviour and emotions because we're all just humans involved in this marketplace. Understanding some of the basics and that will stay with you for the rest of your life. And then if you want to get into the more complex and nitty gritty, then that's kind of like an ever evolving process.

Owen:
Yeah. So the first 11 episodes of this podcast series are fantastic. You can listen to every week, obviously we'd love you to. Then the other thing is we have all of our free courses. So just go and check those out. When we get messages come through to support at Rask, we basically say, have you done the course? Because it's free and it's totally awesome. So go and check that out. Yeah, there is a belief that some people can invest their way out of a savings mistake. So they think that they can just invest better and then they don't mean to save money. NO, no. That's not the way it works. So you can save your way out of an investing mistake, but it's very hard to invest your way out of a savings mistake.

Owen:
So if you've got really bad personal financial habits, it's very hard for you to invest with a very long-term mindset which is needed to invest in the stock market. And so just in terms of the stock market is volatile and risky. You can expect to crash, so a 20% full or more, at least I would say every five to seven years. So if you prepare for that mentally, financially, emotionally, all those types of things, spiritually, you'll have your spirits crushed probably at that time. Just prepare yourself for that, be ready for it. And investing is not until the next market crash it's for life. So keep that in mind, when you set about your investing journey. Kate, Reason number four. This is the fourth reason you wouldn't invest right now. And it is you're playing with fria. And that's a lowercase fria, F-I-R-A. Not the upper case, which everyone knows, Kate for uppercase fire. What are we talking about here?

Kate:
Yeah. So in this example, I wanted to talk more about people that are thinking about investing, but have a very short timeframe. Either because they just want to make a million dollars overnight. They're jumping on a trend lockdown gains. But I think it's really coming back to, if you are thinking about investing, do you need this money in the near future? And I'm talking anything up to two years time. And we get a lot of questions about why can't I invest my house deposit. And if you want to buy that house in the next year or two, I think most people would tell you, put it in a high interest savings account. And don't risk investing that money with such a short timeframe. So yeah, house deposit, maybe you're saving up 10 years for a house deposit and that's probably a different discussion.

Kate:
But yeah, house deposit. If you're saving for a holiday, if you need the money for education expenses coming up, that is the time when I would say investing is probably a bit too risky for you right now. Because that money, if you need it in the next few months or the next year or so, that should be in a savings account. That's a short-term financial goal and you shouldn't be investing that way.

Owen:
Totally, totally. Basically the longer you have to invest, the better your outcomes are going to be. The problem is our little monkey brains get in the way of us doing that. So when things go bad we tend to sell, and when things go well we tend to put more in and then sell it when it hits the bottom. It's like that, we have the chart on our website which comes from behaviour gap, which is greed by fear sell. And you do them at exactly the wrong times. You are greedy at the top of the market, fearful at the bottom of the market. And the idea is repeat until broke. So you don't want to play with fria, As you say. You want to make sure that you're giving yourself the maximum amount of time to compound. So if you're saving for a house you want to start saving three years in advance.That's probably my advice.

Owen:
Because that gives you plenty of time to be diligent with your saving, start to do the right thing and not really freak out and get FMO. Not settle for some crap house or apartment. it's like kind

of all sorts of nonsense. We hear about those who buy off the plan, get one of those packages. Don't do that stuff. They can work, they can work. They're not all bad, but just try and be sensible and give yourself time. Otherwise you're going to end up making mistakes. Same applies to investing. It's a 3 to 5 to 10 year pursuit that would even say for the rest of your life. Okay. That was number four. Now we've go to number five, Kate. This is the grand finale, drum roll, please. What's reason number five, that you wouldn't invest your money?

Kate:
So the fifth reason is that you haven't done the work and you're not prepared to accept your mistakes. And I think if you've been listening to us on the podcast for a while, you probably have heard us say that don't invest in anything you don't understand. And if not, this is your reminder of that. And I think it's really important that you do your research, whatever financial product, whether it's buying a property, investing in superannuation. You do your research, you read the product disclosure statement, you get used to some of the things like fees and historical performance. And who's holding the money, is it in your name? Is it in a custodian account? Just understanding some of those basics, it's really important to know that. So if anything ever does hit then, you know some of those basic ideas behind where your money is invested in. And if you're investing in companies, this is even more important that you've done your research, isn't it Owen?

Owen:
Yes it is. And the sleep at night factor is probably the big one here. If you get a tip from a mate at barbecue, or you're like, oh, I heard about this thing called Ethereum, which is a type of cryptocurrency. Yeah, I here it's going to be the big thing. And you go and buy it. Yeah, sure, things might go well for awhile. But then if things go bad, you won't know what's going on and why. And that will cause you to lose sleep. So the easiest way to make sure you get sleep is to do the work in advance. So to understand what you're investing in before you invest in it. Not during it, not after, but before you've invested into it. And so you just have to have a reasonable understanding. We're not saying you have to do a spreadsheet analysis that goes 50 tabs. That's not what we're talking about.

Owen:
You can go to the website to share, learn about the business, what they do. Get the latest on your report. Read the top of that. We've got a full shares month that we did a little while ago, which was super popular. Which we loved. And the final thing is mistakes. This is a really interesting one Kate, that you bring this up. Because so many of the professionals in our industry, especially if you go on social media or whatever, they get so emotional about the things that they invest in. It's honestly like a tribal battle on Twitter sometimes that you have. Even on Instagram, there is lovely platform where you share one of them photos and all that jazz. But people get really like, fired up about it. They're like Apple is so much better than Microsoft and I don't care what you say.

Owen:
And then the next minute they are agreeing on something else. But it's like, you know what? At the end of the day it doesn't matter. It doesn't matter what you think, it only matters what the investment is and if you're comfortable investing in it. And sometimes you're going to get it wrong and the other person is going to be right. That's their victory. It doesn't matter. If you make mistakes, that's what's investing. If there wasn't any risk that you would be wrong, we would call it saving. So it's investing for a reason. There are risks. You will be wrong eventually. The more humility you have, the better you'll be off.

Kate:
Yeah. And just being prepared to learn and embrace your mistakes. All of us, every single person I've ever interviewed has made mistakes in the past. But it's whether you can deal with them, you can embrace them and you can learn and take something away from them. I think that's a real test of your skill over the long-term. Because it's going to happen. And can you accept it? If you're just going to look for someone to blame every time you make a mistake when it comes to investing, you're probably not going to get very far. And I really think people do need to take some, I mean, obviously there's like fraudulent stuff and that's probably another whole kettle of fish. But you do need take some sort of personal responsibility for financial decisions you make and really any decision you make. And if you're not ready to take responsibility for getting something wrong and it happens, then maybe it's not the right time for you to invest yet.

Owen:
Yeah. I kind of live my life. Kate. I don't sweat things. Like, I don't really worry about things. Is this thing going to affect me in five years? So there's that old saying, "People underestimate what they can achieve in five years but overestimate what they can do in one." And maybe a good example would be like the other day, we just had our walls painted. And I had the ladder out, and I smacked the ladder into the wall and it chipped all the brand new paint off the wall. I was like, I don't really care that much, because in five years I'm not going to even remember this moment. So I'm just going to move on. And I'm just going to own it. Yeah. I'll fix it. No worries. Moving on. And I don't even sweat that stuff.

Owen:
When it comes to investing, it's a really important skillset to remember that what you should be trying to do every time you invest is minimise your future regret. Morgan Housel talked about this in the podcast. He says, you know, I invest in index funds not because... I could try and pick individual stocks and do all that. But index funds are boring, they're easy. And in five years from today I'm going to be happy that I got index returns. And that's minimising my regrets. Sure, I could be a stock picker, but I don't want to be. So I'm just going to go with that. And that's going to minimise my regret. Kate, we've focused on the negative here with five things, but you've actually got five things just to summarise, to make sure that you're ready to invest. And a lot of people that listen to this. We actually had a thousand people join our ETF membership in August. I think it was 1,001 people joined the service.

Kate:
Nearly broke the internet.

Owen:
Nearly broke the internet. That's what the headlines say. Which is fantastic. But a lot of them are really new investors and investing for the first time. And some of them jumped into our Facebook communities, share that as well. Every time you make your first investment, it's really scary. Everyone goes through it. I'd say the hardest investment you'll ever make is the first one. So Kate, what are the five things, now reflecting on this episode, the five quick things that everyone can do to make sure that they are prepared, even if they don't feel like it, what are they?

Kate:
Okay. The First one is, if you do have any personal debts, making a plan to pay off these debts you have. And that might take a couple of years, but you can learn more about investing in the meantime. So you can actually use this time as an opportunity to educate and level up your money skills. The next one is, if you don't have an emergency fund, set a goal. Whether it's $3000 or $10,000, work out a goal. Maybe a six or 12 months savings plan that you move money when you get paid each month into a savings account. So you've got that safety net to catch you.

Owen:
So not invest it, just in a savings account. yeah. Got it.

Kate:
Then learn about the basics of investing. And you can do that by listening to podcasts like ours. Taking out free shares and ETFs course, we'll link to them in the show notes as well. But that's a really good way to start understanding the foundations. Because once you put the foundations into place, it's a lot easier to build the rest of the house.

Owen:
Yeah.

Kate:
Then make sure you're investing with a long-term horizon and you're not thinking, Hey, I'm going to invest in something. Hopefully it's going to go up next month because I want that money for a holiday.

Owen:
Yep. And that's where you and I constantly, I guess how I've gone about ETFs. It's a really easy way to start. Because you can just invest for five or 10 years and know that it's just going to keep doing the same thing. Whereas if you comes straight out of the gates blazing and you're trying to pick this little tiny African mining company that might not be as success, you might make money, you might. Probably unlikely. But you might make money in the next one to two

years. But what about in 10 years? Which one is going to bring you the most wealth over 10 years? And it's probably the boring thing that you should start with. What about the last one?

Kate:
Yeah. Actually a lot of the time and investing boring is better. And the final one is do all of the necessary research to understand whatever product or company you're investing in. If you've listened to some of our superannuation episodes recently, you'll know that reading the product disclosure statement, isn't that fun but it's a really important thing to do. To actually understand where your money is and the rules around it. And you can read product disclosure statements, financial services guide, most products have some sort of documents. If it's a company, they might have an annual report. So just anything that you can invest in has some sort of documentation or it should. And so you can have a rate of that to really understand the product you're investing in.

Owen:
Totally. Yeah. It'll help you sleep at night and get excited by it. One of the things, one of our mantras, is just to be optimistic. A lot of the financial media is negative. We're trying to tell you that investing is good. It's scary, but it's good. And so get excited about the companies that you're investing in, getting excited about the ETF. Tell people, talk to your partner about it. Just like we've done in this episode, we inverted the question, why shouldn't you invest. The easiest way to know if you're comfortable investing in something is, to say what are the key risks? So to invert your thinking. So if you're investing in some African mining company, can you tell us the three risks that apply to that African mining company? If you're investing in an ETF, what could go wrong?

Owen:
You had the decision-making episode, which was fantastic for this. So a great list, make a plan, pay off those debts, set a goal and save up your emergency fund. Learn the basics of investing. Make sure you're only investing for the long-term because that's investing, short-term would be more like trading, which is something that we don't necessarily endorse. And the fifth one was do the necessary research to understand what you're investing in. And of course you can learn about all this stuff by taking a free course on Rask education. Which we'll put in the show notes. We're almost at 10,000 students.

Kate:
Almost, exciting.

Owen:
Oh my gosh. We're almost 10,000 students. How amazing. It's just awesome. So yeah, if you haven't enrolled in a course or you've got a family member that wants to learn, jump on in there and take one of the courses. I'm sure there'll be more courses coming soon. Wink wink.

Kate:
Get you more Female secret courses in the Rask.

Owen:
Get more courses in the Rask. And there'll be free. Always free.

Kate:
We love free here.

Owen:
We love free. We love free Education. It's funny because if we had a price on them, more people probably take them. Just the way human psychology works. And especially Western society, the way we value things that have a price tag. Always Kate, a pleasure. So thanks for joining me on this episode.

Kate:
Thanks for listening.