The Australian Finance Podcast Episode Transcript

Episode: Q&A: Bonds, how to become an investor & graduating from Superhero
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
How do you do Kate Campbell?

Kate:
Hello, Owen. Good to be back. And we're recording our very first podcast out of lockdown in Melbourne, which is very exciting, even though we're still remote.

Owen:
Yes. We are recording this on October 22, which is for Victoria, the so called Freedom Day. It's a day when restrictions begin to ease. Have you got any plans out of lock down?

Kate:
I'm still studying this weekend. So not as yet, but catching up with a few friends and family over the next week, which will be nice that I haven't seen for a few months and just getting outside a bit. I think the real thing for me is being able to walk outside without mask, because I love going for long walks.

Owen:
Is that the rule? I didn't even know that. Can we walk with that mask now?

Kate:
Soon. I think we have to hit another target for that, but at least I don't have to wear a mask when I run. So that's something.

Owen:
Yeah, that's true. Yeah. It's nothing worse than that. It does make it harder, I'm told. So interesting. Yeah, it's an exciting time, because we can go to restaurants and support local businesses and go to craft markets here in Victoria, which is really nice, which I think the people outside of New South Wales, a city and big, it's been a bit of a different story in terms of their lockdown experience, but definitely over here on the South East Coast, it's been pretty, pretty tough. So congratulations everyone for getting through it.

Kate:
Yeah. And I know I've got a lot of listeners in Melbourne, so hopefully everyone's getting out and had a good weekend the time this episode goes live.

Owen:
Yeah, absolutely. Cool. Okay. So today we're doing our Q&A episodes which are amongst the most popular that we record and they're amongst the most fun that we record too. And one of the things that we've got to say is that anything that we do answer in this Q&A session is limited to the general financial advice only. We don't know the needs, goals, objectives of our listeners that ask questions. So it's always important to speak with a financial advisor if you are confused about what your needs, goals or objectives are and just to seek personal financial advice before acting on any of the information that we talk about today.

Owen:
It's always a bit of fun, because we get to talk about different aspects and people solving the riddles for their portfolios and their general finances. And today's episode is more specific to investing. We do like to get personal finance questions though, and we've seen a lot of them come through in the Rask Australia Facebook group. So if we don't answer your questions here, you should definitely jump into the Facebook group, you'll find the link in the show notes, and you can ask questions there. We do try and respond to as many questions as we can and the community does too. If people want to ask us a question though, Kate, for the podcast, there is a specific email they can send their questions to, right?

Kate:
Yeah. So you can email podcast@rask, R-A-S-K, .com.au. And even I'm sourcing questions now from the Facebook community as well. So feel free to ask them there to get a quick response. And then if a question is really popular or topical or something that we haven't answered before and we think it's worth talking about, we'll take them from the Facebook community as well. And we also get questions on Instagram and Twitter. So I'm happy to take them anywhere. I just collate them during the month and see what we get.

Kate:
But first question is one that has been very popular, a discussion topic in our Facebook community over the last few weeks. And I know Owen hopped in and gave a video response, but there was then a few follow up questions. And it was all about defensive assets, more specifically bonds and gold. And that's something they're talking off air. We haven't actually spoken too much about defensive asset classes, I think since we started this podcast, Owen.

Owen:
Yeah, I think I've spoken to bond fund managers and the like over on the Australian Investors Podcast, but on the Australian Finance Podcast, which is normally listening our recording to today, we haven't really broached this subject. And I think there are a few reasons for that. The first is it's boring for most people. The second is it's very confusing. And the third is it can be very tricky to navigate this environment, because it's different skillset, but we're going to try to just answer some questions today. And if you want to know more about this, which it seems that community does just based on the follow up responses to the initial response, let us know, because we will do an episode on this early in 2022, if that's what you want to hear, we could even do a few.

Kate:
Yeah. And then Chris from Stockspot. Sorry. I was going to say spots bottle or something ridiculous. He's written quite a few articles, because he runs a robo investing company. And so they do use defensive things like bonds and gold in their ETF portfolios. And so he's written quite a few really well researched articles, which sparked some of this discussion. So I might include them in the show notes as well, so people can use that as a point of reference. And if you do want to learn a bit more about gold, you did an episode with ETF securities who have the gold ETF talking about the pros and cons. So that might be another interesting one if you're interested in getting a little bit more background here.

Owen:
Yeah. And then there's another episode. This is a bit of a while ago. It's with Vimal Gor. That's Vimal, but it's spelt with a V-I-M-A-L G-O-R. I actually put out a tweet a couple of years ago to ask who is the best a bond investor in Australia and should I get him on the podcast? And Vimal's name kept getting brought up. So he came on the podcast quite a while ago. And it just so happens in finance, he said, "Oh, well maybe in 2021, we get a recession." And I thought that was really interesting. And obviously he didn't see the pandemic coming, but yeah, that's a really interesting episode. And it's an episode where we talk about bond investing fundamentals and the role they play and how to position yourself. So this is a whole topic, but I think the question today is varied, pointed and it's probably useful to a lot of people.

Kate:
Yeah. So maybe, Owen, should we look at this from inside and outside of super in terms of using-

Owen:
Yes, sure, we can do that.

Kate:
Because I know most of us, if we are in a typical balanced or a high growth super fund, there will be a portion of our portfolio allocated to defensive assets, which often include bonds, hybrids, maybe gold. I'm not sure how many super funds use gold. But I don't know if you want to chat about using defensive asset classes inside and outside of super?

Owen:
Yeah, sure. So maybe this is good for context for the question before we get to Cassie's question. So I think it's really important to remember when we talk about the diversification, most people think, oh, 20 stocks or five ETFs and 10 stocks or whatever you've got in your brokerage account. And you think, oh, I'm diversified. But that's actually only one type of diversification. So that's, if you're just looking at the stock side of your portfolio, like what we call equities. So that's like the stock market side of your portfolio. You have also another side of your portfolio, which is typically known as your defensive side of your portfolio. And that's the side that includes bonds and includes gold and those types of things.

Owen:
So let's say you're with AustralianSuper and you're in the balanced strategy. I don't have the exact numbers, off the top of my head. But if you could divide it into two slices, you might have defensive and risky or riskier assets. And so on the defensive side, you'll have things like bonds, I don't think they have gold in there, but I'd have to check. And on the risky side, you'd have things like shares. So it's typically always been based on shares versus bonds. But if you dive a little bit deeper, you will see there are actually categories within those two big buckets. And so on the defensive side, we have not only bonds, but we have things like credit products, we have what's called unlisted assets. So many big super funds buy a stake in, I don't know, for example, Melbourne Airport. And so because Melbourne Airport, isn't going anywhere. The pandemic's proven the exception to that. That might be counted as a defensive asset for them. I don't know exactly, but it might be.

Owen:
And then if you go onto the other side, which is this riskier side, which is where we get the shares, obviously within shares, we can have many different types of shares. We can have global shares, Australian shares, et cetera. We can also have other things like alternative investments. So that's where you hear the name hedge fund. Hedge fund could found in the growth side in that risky side. And so basically, you have two sides of the portfolio, which then can be broken down further. For most investors and for most new investors, we don't really think about investing like we do inside super, because we get excited by stocks in the stock market. And that's what we read about in the news. We don't click to the page that talks about bonds. And we don't go onto Bloomberg, and look, at the bond yields and lots of stuff, because it's confusing and it's a weird world and I don't understand it.

Owen:
So what we ended up doing is we typically end up just investing in shares. And then we can use ETFs to invest in a diversified set of shares or whatever. We can use ETFs to invest overseas, we can use ETFs to invest in gold, many different things. And so most of us up until recently, haven't really thought about, oh, well, maybe I should invest in bonds using an ETF, because you're now able to do that. Whereas in the past, you just relied on your super to be in bonds or you had to go and seek out a specialist fund manager. But thanks to ETFs, you can now be booked. So this is where some people get confused. They think, oh, I'm invested in ETFs, but there are ETFs for everything. So it's no longer a case of just having the Vanguard VAS shares ETF, and it's calling all ETF shares ETFs. Now, you have bond ETFs, gold ETFs, all different types of commodity ETFs. You have overseas ETFs, you have fixed interest ETFs, international fixed interest ETFs, and the list goes on and on and on.

Owen:
So now we can start to think about constructing portfolios like a professional would. And that means including both the risky/share side and the bond side. And so people are now starting to think like that using ETFs. And it's a great thing, because as we're about to talk about it, it is important. Do we need to explain why we have bonds and shares? Why the relationship between those two are important?

Kate:
Yeah, it's probably a good idea, because we haven't covered it much.

Owen:
Sure. And I think this relates to one of the questions from Mary or even from Cassie. So basically, what happens when the stock market falls, everyone freaks out and most people sell. They sell part or they sell some or they do something which is more often than not a mistake. So we know from historical datasets, almost every single one, that when the stock market crashes really badly, that's actually the time to buy more shares, not less. And so forever in a day, over 100 years of datasets, basically what we found through the academic literature and also industry research is that you should combine bonds with stocks to minimise something called volatility, which we've talked about a lot. And volatility is that up and down stuff that you have that happens in your account. Don't confuse real volatility stock market crashes with the day to day stuff. The dataset stuff is just randomness, but the actual big market crashes like we had in 2020.

Owen:
So some professionals will say that you should have bonds in your portfolio because they move in the opposite direction or at least they're not moving in exactly the same direction at exactly the same pace as shares. And so why does that matter? So let's say if you have a portfolio and it's got 100% in shares and the stock market falls 20%, your portfolio is going to be down 20%, because you have 100% of your money going in one direction, which is down 20%. But if you had half and half, you had your other half in a bond portfolio and that bond portfolio goes up 5% at the same time. So now your portfolio is protected. Half of it's protected. In fact, it goes up. So

you still lose on the shares, but you make some money on the bonds. And that's basically the theory is that you can minimise the crash by having some of your money in a defensive allocation.

Owen:
Now, there are so many different theories and so many different practises on this, but I just want to hammer home one point. Is it that typically the reason why there are two reasons why bonds move in the opposite direction? The first reason is pretty obvious. During a market crash, people sell their shares and buy more bonds, because they're like, "Oh my God, the stock market is crashing, let's put more money in bonds." The other reason historically, is that when the stock market crashes, central bank, if you've heard the term RBA here in Australia or the Fed in the US, these organisations will lower interest rates during a market crash. So in COVID, they might lower interest rates, which then makes it easier for you to repay your mortgage and makes it more likely that you're going to take on a new loan to go and buy something. That's what interest rates are designed to do. And the problem that we have now is that interest rates are already so low. It's pretty hard to go below negative.

Kate:
Yeah, I don't think they're going up anytime soon. I think RBA was saying it's going to be a couple of years before they...

Owen:
So then you enter that realm, Kate, where you have what do the central bankers say and what do the governments do as policy to try and influence what people spend money on, how much they save and so on and so forth. Now, that enters a whole new world of something called macro economics, which we could probably get someone on to talk about this. But basically, some investors believe that you can predict interest rate directions and you can use that to then predict which way bond prices are going to go. And then therefore you can predict with some expectation what the share market might do. So all of these leavers are connected. If the interest rates go up, bond prices go down, share prices go down, therefore you want to own bonds that go up in value if you can find them or you want to own something that goes up. And so it's a whole prediction game.

Owen:
But if you remember one thing from this discussion, most academic literature is based on 60, 40, 60% in stocks, 40% in bonds. That's the easiest way to think of what academics have defined as balanced portfolios, 60% stocks and stock ETFs and 40% bonds and bond ETFs and bond funds and all that stuff. And that's why your super fund in a balanced strategy looks like that, if you just have those two buckets. So that of adds some context to this question. So I think now that we've got that context, I think it's worth given this question to crack. So the first question is on bonds and defensive assets, Kate?

Kate:
Yeah. So this was a discussion happening in our Facebook group over the last two weeks. And I know you jumped in and provided a response, but I thought it would be good to chat about it on here, because it is a discussion that we haven't really had much. And it was about the role of bonds and gold and the overall defensive asset parts of our portfolio. And I thought we should look at it from inside and outside super perspective. But Cassie also had a few follow up questions about whether you actually need bonds in your portfolio if you know yourself and you're not going to sell out when the market crashes and hence you don't need that defensive asset class. So I thought before we dive into what you had to say about the overall question and then Cassie's follow up is what are bonds and why do we usually have some in our portfolio?

Owen:
Yeah, cool. So bonds are basically the other bigger half of the financial market. So you've got the stock market on one side, which is typically more risky. That's one side. And then you've got bonds, which are typically considered less risky and they're on the other side. Now, like all stocks, you could own shares in Commonwealth Bank or you could own shares in a speculative mining company that makes no profits and goes bust. There are many different types of shares. There are also many different types of bonds. Bonds are in a portfolio, primarily because during a market crash or when things go bad in the stock market, bonds typically hold up better. And that's because there are different type of investment. I liken it to if you own a house, if you've paid off some of your house, that's your equity. And that's what we call shares equities, because that's the same thing. And you also have a mortgage against your house, otherwise known as a debt. And what is a debt? Well, debt is a bond. So bonds are the debt side of the equation. And so bonds typically move in the opposite direction.

Owen:
Now, so people tend to ask, okay, how many or how much bonds should I have versus how much shares should I have? Most academic study is built on a 60, 40 portfolio. And that means you have 60% of your money in shares and 40% in bonds. And that's what we call a balanced strategy. So if you're anything like that, you have a balanced strategy. But just remember that within the bond side, you have different types of bonds. And on the share side, you also have different types of shares. You can get exposure to bonds by using ETFs. So ETFs are no longer just shares, ETFs can invest in bonds. Like there's one ETF on the stock market called the VIF bond. VIF is one of the biggest bonds or bond ETFs on the ASX. So you can actually use the stock market ASX to invest in bonds via an ETF. So it's a bit of a merry-go-round, but you get the idea.

Owen:
And so why do we use them? Typically, we use bonds in a portfolio, not only to dampen a market crash. So if a market falls, bonds should remain stable. That's what we call correlation. They should remain stable. But we also use bonds for income and those types of things. So you can get what's called... It's like a dividend. You get a small amount from the bond portfolio every so often. The big consideration here. And there's two things that I'm going to point to is the first is that bonds have done well over the last 30 to 50 years, because interest rates have fallen.

Bonds move in the opposite direction of interest rates. So if interest rates fall, the process of bonds go up. And when interest rates have fallen, then therefore bond prices have gone up. So you get the idea.

Owen:
The other thing is that people use gold in this bucket of their portfolio as well as like this defensive bucket. You don't have to have gold in there. Gold is different to bonds. Gold doesn't pay a coupon or dividends, gold doesn't do all those types of things that bonds do. So they're slightly different things. But just in terms of bonds, don't get hung up on it too much. We'll have some discussion in the Facebook group, if you want to learn more. And we'll do an episode on this early next year.

Kate:
Yeah. If people do want a little bit more about gold, you did episode with ETF securities, the issuer of the G-O-L-D ETF on the Australian Investors Podcast earlier this year, I think. So I'll include that in the show notes. And also Chris from Stockspot's articles that were part of what sparked this discussion on the role of defensive asset classes. So I'll put them in the show notes as well, because I think that's quite interesting background reading if this is an area you want to learn a bit more about.

Owen:
Yeah. I think the one thing that Chris brought up is that basically, you can add gold and bonds to a portfolio and although you won't get as much of the upside in investing, so you won't get the stock market keeping to go up, you actually lose some of the downsides. So you protect on the downside and you still get some of the upside, if that makes sense. And what that does is... Because if you think about, if you had 100% of your money in the stock market and the stock market fell 20%, you are 20% worse off. But if you had 50% of the stock market and 50% in bonds and bonds went up 5% at the same time, your bonds have gone up, but your shares have gone down and the net benefit would be that you're only down less, if that makes sense. So that's why you have bonds.

Kate:
And on the topic of protecting your downside, and as to Cassie's follow up question, if say last year in March 2020, when the market did have a correction, if you weren't the person that was going to sell your whole portfolio and freak out, do you actually need bonds as a younger person in their 20s, 30s or 40s in your portfolio?

Owen:
So this is a very delicate topic, because I have to be careful from what I say here, because some people may take things out of context. So I'm the type of person that has very little of my money outside of my super in bonds. Very little. I use the very Hg ETF, which has some exposure to bonds, very little, but some exposure to bonds. And that's automatically rebalanced into bonds by Vanguard. There are other ETFs that we've recommended inside Rask ETFs, and they're not just boring vanilla bonds. We did recommend an ETF called VIF up until coronavirus,

up until the COVID crash, if you like. But we sold that because as interest rates have fallen, I determined that interest rates probably wouldn't keep falling and therefore it was time to sell the VIF ETF. And we suggested our members put that money into term deposits.

Owen:
Term deposits are a very simple version of what a bond is. You give your money to the bank and you get some interest back. That's what a bond is, except the bonds are a bit more longer term than that. So do you need it? I think there are a few things here. One is that we all say that we are high risk investors until the stock market crashes and then we sell out of fear. And you do not want to be that person. And that's why we say it's a three to five year apprenticeship, Kate, where you've got to get used to how you will behave in a market crash. I think younger people in their 20s and 30s don't need to think about this too much, because as you've pointed out time and again, you can use your super. So you can have a strategy inside super, which is very, very simple as I have and I think you have, very simple strategy inside super just for the long term. And that can have bonds in.

Owen:
And then outside super, you can invest in stocks, you can invest in property, you can invest in shares from overseas and ETFs and all those things, a little bit of crypto or whatever you want outside of super. But in super, you have a very rock solid long term portfolio with bonds in it. But outside super, you can afford to be a bit more aggressive. As you get older, you will find that your stock portfolio grows pretty well or it should if you've been investing sensibly. In that case, you might then start to rebalance into more defensive assets. But there was this old rule, Kate, where financial planners used to say, "Have your age in bonds." So if you are 30, you would have 30% of your money in bonds. It's different nowadays, very different to what it was back then. Bonds aren't what they were back then. So I would say you could probably afford to have a little bit less than that.

Owen:
And if you got to say 70 or 60, if you're 60 or 70 listening to this podcast, welcome to the show, we'd love to have you. 70% is probably still too much, to be honest, but there's one big catch all here. If you're the type of person that freaks out and does know much about investing and is new to investing with a bit of money, do not go and put all of it in stocks. Get financial advice, just slowly put your money into the market over time and get used to the feeling of it falling and rising really quickly, because that will happen and then build on that over time.

Owen:
So Cassie's question was basically if I didn't sell during coronavirus, should I have bonds at all? And you're like me, Cassie, I didn't. I sold one share during coronavirus and that was based on what the company was doing. It wasn't based on coronavirus. And I have very little bonds, but my super has bonds, keeping in mind, my super has bonds. And that's where it's sensible long term investing, if that makes sense.

Kate:
Yeah. And the super funds do that to reduce the volatility as well. So they're not scary. The members aren't as scared when a market correction does happen. And even I was having a look at my high growth fund the other day, and it is 10% in defensive assets, which potentially is higher than I want at my age, but that's what it is for now. And I think a lot of robo advisors and even Raiz, they'll have some defensive assets as part of their diversified portfolio. So that's even a good place to look as a starting point to see what are the other providers who do put together diversified portfolios, how much do they put in defensive assets. And that could be part of your investigation.

Owen:
Yeah, just a quick note. Some of the diversified ETFs on the stock market are not actually diversified. So I think there's one that says it's diversified, but it's actually just buying shares ETF. So it's an ETF that invests in other ETFs. So it's diversified ETF, that's what we call it, and invest just in shares. So you'd still have to add bonds onto that if you want it to be truly diversified, keep that in mind. But yeah-

Kate:
Always look under the hood.

Owen:
Always look under the hood to see what mix you've got there.

Kate:
Yeah. Awesome. Well, the next question builds on the last one. And it's about changing your portfolio as you age and it's from Mary on Instagram. And she said, "I know according to our age, we should be using different strategies to invest. Younger people should potentially be using higher growth strategies, because they have more time to invest. So if I build a high growth portfolio when I'm in my 30s, if I add another 30 years on to that, how should I then change my portfolio from high growth to potentially more defensive when I'm closer to retirement?"

Owen:
Cool, great question. I'm going to just do an example. This is not based on Mary's situation, because we don't actually know what that is. But let's say we have an example. You are 35 today and you want to retire at 65. So that's exactly 30 years. You have $50,000 in your investment portfolio and you invest all of that into the share market. You achieve a 6% return after fees and that, and you invest $1,000 a month. So 6% you add $1,000 a month and you've got 50,000 to start with. In 30 years, you will have $1.2 million. Now, let's run that same scenario. And you've got a 3% return, because that's the bonds, and you put $500 in a month. So imagine this would be an example of you have $1,500 to invest in your investing account every month, but instead of putting it all in shares, you put $500 into bonds, and you've got the $1,000 into shares. But because bonds are more defensive, you make less of a return.

Owen:
Now, if I assume that you still start with $50,000 in this account, so you have $100,000 today, $50,000 in shares, $50,000 in bonds. But we said, we're putting less into bonds. The bond side of your portfolio would only be worth 406,000. So that 50,000 would go to 406. On the share side, we know it's 1.2 million. So by the time you reach 65, your portfolio in percentage terms is what we would say out of balance. Now, the important points here, one, that if you have $1.2 million in shares and $400,000 in bonds, by the time you hit 65, that's great. You might be out of balance in percentage terms, but don't overthink it. You've still got $1.6 million. So you're still doing very well.

Owen:
The important part of bonds is to minimise that volatility in the shorter term. So when you get closer to retirement, that's when you can start thinking about options. And your options might be, do I sell some of my shares and put that money into bonds or 10 years out? Do I start putting more money into super, which I know is more balanced for me? Or do I just add all of my investment money into the bond side of my portfolio to boost that you're coming into retirement? But the important thing is that when you sell an investment, you will pay tax. So if you sell the shares part of your portfolio, you will pay tax. So you want to minimise the amount of selling that you do. That's just good investing. Minimise that side.

Owen:
Okay. I've said to you before, the big important thing that people probably aren't considering, and I think I did a video of this into the Facebook group as well, one of the big things is that if you are investing in ETFs or managed funds or even your super fund, pick the funds and the fund managers that are more likely to drop fees not increase them. Some fund managers like Vanguard have shown that they will lower fees and there are big global like BlackRock and Spider and all of them, they'll have low fees to begin with. And that is keeping one. So the important point is this, is that if you have $1,000 in your invest in Vanguard or this one or that one, and you think, "Oh, the phaser are a little bit different, I want 0.5%." Today, that's not a big deal, because you've only got a few $1,000. But in 30 years you might have a million dollars and all of a sudden you think, "Oh my God, the other ETF, which I should have invested in is now so much cheaper, I'm paying all of these fees."

Owen:
So what you should be considering is, today, which for these fund managers are low cost and they're going to stay low cost into the future. And that's a really important consideration, because those fees that you pay could end up hurting you down the line. And I think most of the big ETF providers are low in fees, but Vanguard is one that tends to keep lowering fees. So keep that in mind too. So to answer Mary's question, don't overthink it would be the general gist of it. Don't over think it. And Cassie's question too, don't overthink it too much. Just invest in really good things for the long term. And I don't know if you have an insight on this one?

Kate:
Yeah. And I just think you don't have to have it all figured out. I don't know what I'm going to do with my portfolio in 30 years, but I'm investing in a way that suits me for the next 10 or 20 years. So when it becomes closer to retirement, this might be the time when you've got a significantly larger balance where you go and talk to a financial advisor and come up with the right strategy that you're comfortable with, especially when you don't have an income source anymore. I don't think you have to have it all figured out in your 20s, 30s or 40s. As long as you keep plugging away, you're investing on a regular basis, you've got low cost super ETFs. And if you are investing in shares, you're putting in the work there. I think yeah, I'm fairly aggressive in the way I invest at the moment. And then maybe when I get into my 50s or 60s, I might think more about adding some more defensive assets on top of what I already have in my ETF portfolio and my super fund.

Owen:
Yeah, I think that's great. Like you said, a great time to get advice is five or 10 years out from retirement. And it's at that time when you can start to think, "Okay, how has my risk profile changed? How have I invested up until now? What do I want to change?" But in your 30s, you can afford to be more aggressive. Most people can be, not everyone, but most people can be, particularly, if you've been investing for a while and you familiar with things. And then remember as long as you're investing for the long term and you can mentally with good behaviour right at the bumps, you put yourself in good stead for long term. We'll dive into more of these conversations around portfolio management and around bonds in the new year.

Kate:
So Ellie from Instagram was asking a question a little bit different now about studying business or finance. So she's looking for a formal qualification for a job, not exactly sure what she wants to do more for the sake of security of having a qualification for a nine to five. But at the same time, she'd like to learn about business and how to analyse them and learn how money works in the real world so she can potentially be an active investor. What degrees would we recommend? Property finance, business economics?

Owen:
So bachelor degrees? Yeah.

Kate:
We haven't talked too much about careers in finance. I think it's quite good episode to do in the future, because there are so many different careers. You don't have to be the investor working in finance. So there's technology, operations, HR, marketing, legal, there's so many other roles. And I think it's quite a good industry to be in. But I guess the first question, I'd just be like, well, what do you actually want to learn and what do you want to do with it? Because property is quite different to just...

Kate:
I did a business management degree and I learned nothing about investing. I learnt about how to do a marketing campaign and project management and a tiny bit of business law. But it wasn't really anything to do with like what Owen would do in a day to day. And so I think that's probably the first point you got to start and you can test a lot of these things out. There's so many free, those MOOCs. Was it massive online learning course or something? Through Coursera and FutureLearn where you could try doing what's of Australian unis offer these. You could do something on micro or macro economics, to do something on accounting, do something on property and try all these areas out before you launch into a three year degree. I'm definitely a fan of try before you buy when it comes to education and learning.

Owen:
Kate, would you have done your degree again if you have the choice now? Would you have done business management?

Kate:
Probably not, because I think I would have preferred to do potentially commerce or finance or something like that. I don't think business management was that helpful, but it has helped me do what I'm doing now and study law. So in one way it all worked out, but in the other way, I don't think it was as practical for the real world.

Owen:
Why would you have done commerce or finance? Which units or majors would you have done differently?

Kate:
Yeah, I think it was just a lot of the stuff we learned was very holistic or just very high level business, it wasn't actual how do businesses run. It was how to run a business, that sort of thing. And I would've liked to learn a bit more about accounting and economics and some of those things.

Owen:
Yeah. I think that's a hard thing in finance. You come out and if you do a business degree, you're not always a practitioner. So if you go and study nursing, you're a nurse. It's recognised. You study law and you do your time, you're a lawyer. But if you do business, you're not a business person just by having the degree. It's like health science versus physio, for example. And so you can do majors like accounting within finance and within commerce. When I did a study on this many years ago, and I was just looking at the investors, so I looked at some of the big investment funds in Australia like Magellan and Platinum and a few others like that. And I did a study of the people that work there, the analysts and the chief investment officers. And what I found is that I think it was over 60% of them had commerce degrees, but then a lot of them had things like the Chartered Accounting qualification, which is obviously something you do outside of uni. There's Chartered Financial Analyst designation, and the masters of applied finance.

Owen:
It is very difficult to get a job in investment research, as in being an analyst. It is very difficult. And their analysts are typically at the point of year end of the financial space. As you said, there are a lot of people behind the scenes, even in a business that doesn't do funds management. So like our business, does you and I and Monique, our producer, she's also on this call, but then there's five or more people behind the scenes that aren't actually directly involved in doing things like this and talking about investing and whatever. And this is a very nimble business. There are many businesses, like financial firms, that have hundreds of people behind the scenes doing something. And so those people are typically former finance students and those types of things.

Owen:
In my opinion, I think if you want a job as an investor, you need to do something that's atypical. I think that's the best opportunity for you. So have the financial understanding, but do something atypical. Almost everyone that studies finance and goes on to become an investor, goes and studies something else because it makes them have a better understanding of how things work. So if it was me starting out today, and I've said this before, I would do software engineering and I would do something like a finance or economics degree, but with accounting in it.

Kate:
And that's probably where I like even a double degree comes in handy.

Owen:
Yeah, exactly. And that's what I'd do.

Kate:
And some of those basics, like being able to read an annual report and understand all the numbers, that's quite important if you are interested in active investing. So these things you can study afterwards, but if you are in a bachelor, then it would be interesting. Something I recommend is going and looking at people on LinkedIn doing roles that you would be interested in. If you're interested in investment analysts, go and look at some large managed funds and firms that you know, look at what people's education history is, what their work history is and how they got to where they are. Look at their additional qualifications on top of maybe their bachelor degree.

Kate:
There are some people in the industry that potentially haven't done a bachelor's and maybe they've done the certified financial analysts qualification instead. But as Owen said, I think study is quite important in this industry and expanding your circle of competence. And so if you have a PhD in microbiology, but you're also an investor, that really sets you apart, you can do something that not everybody else can. And I think some of the most interesting fund managers and investors we talk to, have a really interesting knowledge and experience on top of their investing skills.

Owen:
Yeah, 100%, that's the thing. Yes. The reason why I said software engineering and accounting is because in every funds management business, there is a quantitative specialist. And typically those quantitative specialists are programmers and they're people that understand the programming side of things. And so that's often a backdoor into funds management as well that people don't really think about. So always being on the sales side and so like the marketing side of funds management. That's another side. That's why you can get in the door and you can start as a knock, the marketing team learn from just seeing and speaking with the investors and then build yourself up from there.

Owen:
The reality is 30 years ago, you could get a job in investing or research with a bachelor's degree, or maybe not even, you could get it without one. Now, you need a bachelor's degree and something. And so oftentimes, that's the CFA, the Chartered Financial Analyst designation, which I passed level one. It's three levels. I passed level one. I attempted level two, but I didn't do all the study. I didn't pass obviously. But I was also starting the business and doing my masters at the same time, which probably didn't help. But I would say yeah, you need to prepare yourself that it could be at least postgraduate, possibly more. Like the CFA is basically two degrees in one, I'd say. So just prepare yourself that it's going to be a tough slog and you may need to get creative.

Owen:
I think writing a blog, doing a social following is actually a really interesting way to engage with industry professionals and probably get your resume on top of the stack if you ever go to apply for a job with that person. So I think that's really interesting too. So that's probably what I'd do. Yeah, so much to do.

Kate:
Yeah, but just talk to people in the industry, find them on LinkedIn and just really get an idea. Even look at the jobs and what qualifications, they're asking for and just really immerse yourself. As Owen's mentioned before, investing is a multi year apprenticeship, even without to talking about the qualifications, just getting your head around how to analyse a business. So I'd just say dive in if you are interested and learn as much as you can, soak it all up, because mostly analysts that we meet live and breathe, they love learning about companies and working out how things work and how everything fits together and piecing the out puzzle together. Very curious people. So yeah, just dive in if you are interested. It's not my field, but it is a great field to work in.

Owen:
Yeah, start investing. That's the big one too. Just start investing. Just start buying shares and learning about companies. Keep a journal of all the companies you find interesting, what you find interesting about them and that journal could be a blog, like a free blog or whatever. Just start investing, start writing about what you find. And back as we've talked about before Charlie Munger's advice, the most important hour of the day is the hour that you invest in yourself. And

that's reading, that's writing to yourself, that's journaling, whatever you do. So I used to do that all the time. I used to get up extra early and go and read a book or read blogs for an hour before my day started at the local cafe. And I think those years of doing that paid off massively when it comes to employment, when it comes to knowledge base, all those types of things. Something interesting to think about.

Kate:
We're probably a little bit outliers doing study on weekends for years on the end.

Owen:
Sure. Yeah. Not everyone wants to do that. You have to sacrifice a lot obviously. So keep that in mind. So this next question comes from name withheld. So no name for this one, but I like that. The person says, "Hi, Owen and Kate, I'm new to share investing. I've only got $500 in one company at the moment. And I have an account with Sharesies. I'm starting to find out more about other trading platforms and it seems like there are two broad types. The traditional bank platforms like nabtrade and CommSec. And there's newer cooler platforms targeted at beginner investors like Sharesies, Spaceship, Superhero, etc. If I wanted to take investing more seriously, do I need to "graduate" from these beginner platforms? What are the benefits of going to the more traditional platforms, ie, the bank platforms? What are the risks or pitfalls I should look out for when moving between platforms? Kate, go for it.

Kate:
Yeah. So the first thing I thought we should just differentiate between micro investing app. So Raiz, Spaceship, as they mentioned, because that's more of... You can choose which portfolio, but you can't buy and sell individual shares and ETFs. And this means you can just put $5 in. So that's one thing. And we've got an episode on that. I probably wouldn't call them brokerage platforms. They're more of a managed style investment. Then we've got the more modern platforms. So Pearler, Sharesies, Superhero, Stake, SelfWealth, where they are a brokerage platform. Some you get your own hold identification number, some have cheaper brokerage, but a custodial based model. Again, we have an episode. So that is real investing. That is a brokerage platform where you can buy and sell whatever shares and ETFs you want. You can invest for the long time on that.

Kate:
And then as you mentioned, you've got the more traditional brokerage platforms, which do a very similar thing to the Pearler and SelfWealth and Sharesies, but they're just run by... They've been going for a long time like nabtrade and CommSec. And they have quite a few other features and things there.

Owen:
Yeah. So do you need to graduate from, if you are using Sharesies or you are using, maybe not Stake, maybe Superhero? Do you need to graduate to one of these other platforms?

Kate:
I don't think anymore. Unless there's particular features or there's some tools and things you can't access on something Pearler or Sharesies, that CommSec and nabtrade as really established platforms can offer you. As we've mentioned before, you can create a free account and just check CommSec or nabtrade out if you want to have a look. But I think there's more of a graduation almost from the micro investing where it might be how you get used to investing, but then you get to a point where you feel comfortable enough to buy your own ETFs and shares and you go, "Hey, I'll use Pearler or I'll use CommSec." But I don't think between the more modern brokerage platform and your traditional CommSecs, I don't think you have to graduate anymore. I think they both fulfil what most investors would require.

Owen:
Yeah, I agree. So is it easy if you wanted to switch across?

Kate:
So for something like those micro investing apps, because you're in a managed account, you can't really move the portfolio. So that might be more the graduation style, but between Pearler, which is just sponsored, you get your own hold of identification number and CommSec, you would be able to move your holdings through... Some of the platforms, it's more of an automated process and sometimes you have to fill in a form and pay a few fees, but you can in a few weeks move across your holdings from one platform to another. So that is possible. And there's just some fees involved. So it's not something you would just go, "Oh, I'll just move here one day, move back the next."

Owen:
Yeah. And from where I sit, I think that's really important. So you don't want to constantly be changing. I think the key, we've talked about this in a lot of other episodes, where we've talked about micro investing, we had actually Raiz on the show before, we've spoken to Sharesies before. We've spoken to a lot of these industry experts. So you should go and check out those episodes. We also did one on different brokerage accounts on Heinz recently, right?

Kate:
Yeah, that was a two parter. So if you go back two months scrolling through the episodes, you'll be able to find that. And yeah, I don't think there's too many pitfalls when moving between platforms. I just wouldn't. It is a bit more effort. There are some fees and I wouldn't do it without having a real think through. And just keep your life simple. It's good not to have one ETF on one platform, one ETF on another platform, oh, I've got a share on this platform. That makes your life a bit more complicated. You have to sort, you have to collect more statements at tax time, you have sure your details are correct on multiple platforms. So test out a couple of brokerage platforms and once you're comfortable using one, especially when you're getting started, just stick with one platform at the beginning.

Owen:
Yeah, I think that's really good feedback there. So don't feel like you necessarily have to graduate. We've talked before that you can have multiple accounts and you can do what works for you. Simple is beautiful. Simple is amazing. Keep it simple, because if you keep your investing simple, it means things like tax is simple, it means things like reporting all of your results and dealing with situations is simple. It's like power laws, the more complex you make one little thing, the next thing is 10 times more complex. So just keep it simple the whole time.

Owen:
So Kate, we've got some key learnings from this episode, which are we made some great questions about bonds. It's quite a discussion there. It's important to under the role of bonds and how they move in opposite directions of stocks. Typically, not always, but typically there are things within things, there are bonds within bonds, there are different types of bonds. You can get bond exposure through your super fund, you can get bond exposure through ETFs, you can go to a bond fund manager directly, although there may be a minimum like $20,000, for example. Bonds are typically used in portfolios because during a market crash, they tend to fall less or they tend to go slightly positive from time to time during a market crush.

Owen:
But at the end of the day, it's important to remember that you probably shouldn't have the majority of your money in cash and bonds, because that would be too conservative if you're a younger person. But it depends on your temperament. If you've got your emergency fund set up and if you truly believe you are a long term investor who has some experience investing. We mentioned that a 60, 40 portfolio is probably what's considered balanced. So either side of that more shares as a percentage would be more aggressive, less shares would be conservative. Most younger people probably don't need that as much bonds as people that are slightly older. And we had a great question from Mary and maybe you can summarise the idea of what Mary's question about what happens in 30 years?

Kate:
Yeah. I think when it comes to rebalancing and changing the portfolio as you age, you don't need to stress about it too much in your 20s and 30s and 40s. And that can be something you start to look at more in your 50s when you get closer to retirement and start adding more defensive assets, which you can do both inside and outside of super. And I think, going back to that question and the one before is a good revision there. Certainly, something we'll talk about in the future. And if you're interested in active investing and learning about that, diving into the world, doing your research, looking at jobs and other people on LinkedIn, talking to people, going to events, hopefully in 2022, and just really immersing yourself and being curious about the world and start actually doing the thing. Buy some shares and ETFs and get the feel for it.

Owen:
Buying some shares. Yeah. And the final question was just around moving brokerage accounts. You don't feel like you have to graduate. Many people do and many people do graduate from micro investing apps into brokerage accounts. Please go back and review our brokerage

account episode, where we talked about all the big brokers in Australia, as well as the difference between shareholder reference numbers and hold identification numbers, all that wonderful stuff that no one really thinks about when they're picking a brokerage account. We've talked about a lot today, Kate, so we hope you made it through the bond discussion. It's pretty boring, but we think it's important. There'll be some great resources to learn more about why bonds matter and why people freak out. So that's why they have bonds in portfolio.

Owen:
There's lots to talk about. If you're interested in engaging on this conversation, please jump into the Rask Australia Facebook group. We've had so many conversations about this lately. I did not think that when I posted that video in reply that we would get many more questions following up. So maybe I didn't do a great job, but I could probably jump back in there over the next week and try and clear things up. So if you have any questions, chuck them in there or you can find us at podcast@rask.com.au.

Owen:
Kate, as always, it's a pleasure. So thanks for joining me.

Kate:
Wonderful. Thank you to everyone who made it to the end of this episode. It was a long one.