The Australian Finance Podcast Episode Transcript

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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
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Owen:
Welcome to this episode of the Australian Finance Podcast.

Kate:
It is good to be back, Owen.

Owen:
Yeah, we're talking starter pack, episode six. We're talking investing, introducing people to the ASX, the Australian Securities Exchange, Australian Stock Exchange, and some of the options that are available. This one's a great one. If you're just looking for the primer on all the episodes, we've done deep dives on each of these topics throughout the series, so you can go back in the catalogue and have a look at those. But we're going to talk about what the ASX is, why you've

heard about it? What is investing? How to get started? Some of your different options available. This is a really basics primer on investing.

Kate:
And it's good to get the language and start hearing some of these words, because you'll see these acronyms in the word, ASX and market, and the word shares, and ETFs, and bonds come up a lot. So I guess we're going to explain some of these for you. And then if you're interested in any of these, we're going to dive in deeper in some of our other starter pack episodes. Plus we've done an episode on virtually every one of those topics many times on the podcasts, so just a primer episode to get you started.

Owen:
Yep. So don't be put off if you don't understand everything exactly. Feel free to go back into the catalogue and watch the full episode on that one particular thing. This is just about an introduction to what are the different things. Just imagine you have an investment menu in front of you, we're just giving you the description that sits below the item on the menu, and we're just giving you what you need to know. And then next time, when you tune back in, you'll be able to get the full banquet and you'll be able to understand it a bit better. But Kate, we're here in Melbourne, what is your favourite market to go and purchase things from?

Kate:
Well, most recently it's been Prahan Market because it's been a good escape during lockdown, to go there on the weekends, because it has stayed open the whole of the last two years. So that's really good. And you get to buy your favourite cheeses, and hams, and meats, and vegetables. So there's a bit of everything there, really.

Owen:
Yeah. Right. So it's a market where you go down with a bit of cash and you can get your groceries and yeah, like you said, vegetables, if you wanted to make something for dinner, you go and get some fresh ingredients, right?

Kate:
Absolutely.

Owen:
Yeah. So when we talk about the stock market, it's basically the same idea. You go to a place and you exchange something for something. In this instance, we're not getting a-

Kate:
A baguette.

Owen:
Yeah. We're not getting a baguette-

Kate:
Salad.

Owen:
... or we're not getting a broccoli, we're getting some type of ownership of a company, right? So on the stock market, we have businesses like Telstra, like Commonwealth Bank, and when you click buy inside your brokerage account, which is like a platform or a special account that you set up that allows you to transact, that's where you get a tiny little ownership slice. So if say Telstra is a $50 billion company, I don't know exactly what it is off the top of my head, you might buy one share worth $1. And therefore, you have a tiny, tiny, tiny ownership of that massive company. And that's the big difference between the Prahan Market and the ASX.

Kate:
Yeah. Instead of wandering around and buying piece of bread or cheese, you actually buy a piece of the company selling the bread.

Owen:
Yep. That's it. And so over the long term, if you do this again, and again, and again, you get to build up ownership in more companies, or in just one company, as we'll get to in a minute, there are other ways to do this, but you can slowly build up an ownership's sake in companies that grow, companies that make profits, companies that solve problems for society, or for our other businesses, or for their customers.

Kate:
And that's how you make your money work for you. In our last, not last episode, maybe the one before that, we talked about the idea of compound interest and growing your money over time. And one of the biggest ways that we know how to do that, is by investing in great businesses. And there's a range of ways we can do that as well.

Owen:
Yeah, there is indeed. And so we're going to show you how to do that. But basically, when most people think of investing, they think of investing in companies. Let's just hit some really basic ideas on the head. So when is the Australian stock exchange open, Kate?

Kate:
It's open every business day, Monday to Friday, from 10:00 AM to 4:00 PM, Melbourne, Sydney times. And if it's a public holiday, generally not open. If it's a national public holiday, sometimes... I think Christmas Eve it's usually open till like midday or something like that?

Owen:
I think they take national holidays, yeah. Yeah, there are some days where it's half days. But we don't go to the ASX Building in Sydney, do we, to place all our trades? How do we actually do the investing part?

Kate:
Yeah. So you can create an account with a broker, and there's that middle platform that execute the trade for you. So I don't know if there's an example with the market in mind, but you would potentially talk to a middle person at the market, and say, "Hey, could you help me buy a share of that business?" And they would find a seller and match you up. And so this happens all anonymously and it happens in seconds, instead of you wandering around the market, trying to find someone else who wants to sell you a share of a bread shop, the broker helps execute all of that for you, and helps you store your ownership of that company in one place. And there's quite a few different options when it comes to brokerage accounts, there's probably at least 50 or a 100 in Australia now, but there's all sorts of fees and things. It's like opening a bank account. There's lots of different options available, but some of the ones that are very popular in our community, are SelfWealth-

Owen:
Yep. SelfWealth.

Kate:
CommSec, Perla, which is a fairly new option that offers some auto investing features. Stake as well, is quite new to the Australian market. So there's different companies. You can create an account and we always recommend trying a couple of accounts, because all the ones I've mentioned at least, don't have any fees involved with just opening an account. So sometimes I think new investors go, "Oh, I should only open one. And so I have to do a lot of research before I open one account," but you can actually open a few, try them out, see what works for you-

Owen:
Get a feel for it.

Kate:
... and you can always just close them down to avoid having just empty accounts floating around. But once you set up an account and you find one that works for you, then you can actually use this account to place orders at the market.

Owen:
Yep. And so at this time of recording, which is December 2021, each of these brokers that we just mentioned, CommSec, SelfWealth, Perla, Stake, these are some of the more modern or bigger platforms. And each of these have something called an AFSL, which is a Financial Services Licence. They have the right to do this for us. So they are regulated by our regulator, which is ASIC, and they have to comply with strict laws. And so this is the most effective way and the safest way to invest in shares. There are other ways of investing in shares, but these platforms provide the most secure way, not just these ones in particular, but the ones that are regulated by ASIC, are the ones you should be going for. Now, there is one thing that we should add here is that, when we say ASX, we mean Australian Securities Exchange. So this is the one big stock exchange in Australia. But for example, if you wanted to own Apple shares, Apple's not Australian company, so how would you do that?

Kate:
Some of the brokerage accounts I mentioned, have a US functionality, so you can open a separate account with them to invest in shares that are listed in America on the New York Stock Exchange, which you'll see written as NYSE or the NASDAQ. And I probably don't know the full acronym of that one, but you can buy your shares like Apple and Disney, that way. So I know Stake has an ASX and a US trading functionality, so you have two separate accounts under the one company. So does SelfWealth, so does Perla, and so does CommSec, actually all the ones I listed. And it's a slightly different account under the same platform, but it allows you to buy shares of companies that you know, but on overseas markets, and it's a little bit different it when it comes to tax and reporting, but as far as ease of buying shares in the US, it's probably the easiest international market to invest in, for us.

Owen:
Yeah. So of these brokerage accounts, probably SelfWealth, Perla, and Stake, are the easiest to use. So they're the easiest, particularly for US shares. Imagine it this way, basically when you approach one of these brokers, you're going to apply online, you're going to need your ID and you're going to need a tax file number. You fill out all your information. It takes maybe one to two days to be fully locked and loaded, but keep in mind, some of them might only be minutes. You'll be able to log into the platform immediately-

Kate:
It's getting quicker and quicker, the process.

Owen:
Yeah. It's getting quicker and quicker. And so basically what happens is, you log in with your information, you set up an account, you fund the account, as in you deposit money into it, and then you can buy and sell. Now, typically what happens is, this is not always the case, but typically you start by opening an account that allows you to buy Australian shares. Then within that same account, you apply to invest in US shares. And that might require a few more digital pieces of paper, so you just go through a few more hoops and you set that up.

Kate:
And most large companies in the world, have their own market or multiple markets. So that's a good thing to keep in mind. As you come across companies, you might see a come that says you can invest in it, but it might not be on a market that you can easily access. There's a lot of markets internationally, that are a little bit harder for Australians to invest in.

Owen:
Yeah, so the countries can have their own exchanges and their own regulations. And so this is just one quick little thing just to add on here. You can go back and watch our full episodes on choosing a broker. We've done episodes on that, where we dive deep into each brokerage account, actually show you the screens. If you buy US shares, you'll note, as Kate said, there might be NYSE at the start of the letters there, or there might be a NASDAQ at the start there

too, that means that they're US companies, on the United States stock exchanges. And so if you buy those shares, they're going to be regulated slightly differently to the ones that are in Australia, which have the ASX at the start.

Owen:
So Telstra, for example, is an Australian company. Apple is a US company. You can buy them in your brokerage account, but you might be subject to different rules. It's not the end of the world, it's not that scary, it's just that they're different companies regulated in different industries. So for example, their annual report might look different and that's just because they're from different parts of the world. So Kate, what is investing? We've talked about how to do it, what is investing?

Kate:
Yeah. So investing, for me, is the way I use my money to work harder for me, essentially. So instead of just putting my money in a savings account, that we've talked about previously and maybe earning, what, a percent max, at the moment, interest on my money, because the bank's usually lending it out or doing something else to it. I might choose to invest my money in Australian and US businesses, that are in turn growing as a business.

Owen:
Well said, yeah.

Kate:
And then, in the aim that if I invest my money today, if the business is 10 times the size in 10 years time, my money will be worth a lot more than it is now. And this doesn't always happen because sometimes businesses don't do too well. And just because a business is doing well, doesn't mean the money you invest in it necessarily goes up all the time because there's a lot, like any marketplace, human behaviour comes into it, so it's not always logical.

Owen:
Yeah. So just to bring it home, what it actually means for most people is, if you invest prudently over a long period of time, your returns might average, say 5% to 10% per year, over a long period of time. So over say 20 years, you might get on average 5% to 10% per year. Let's just say for easy figures. But if you put it in a bank account, again, just rough numbers, you might get anywhere between zero, if they take your interest from you, to say 3% or 4%. And so you get more, it might not seem like a lot, but you get more by investing your money.

Kate:
Yeah. And over time, that difference in percentage that you mentioned, adds up substantially.

Owen:
Yes, substantially. So it might only seem like, "Oh, it's only 6% now, versus 4% or 10%, versus 5%." But the reality of it is, that over 20 years, that difference thanks to compounding, might be five or 10 times the difference. And so this is where the power of investing really kicks in. And as

you said, there is risk. So when you put your money in a term deposit, you just see that really it's bugger all interests, but you might see that just slowly trickle in. In investing, you might have some investments that go up and some investments that go down, and the difference therefore is predominantly the risk. And straight off the bat here, no one will guarantee your return on this podcast ever. Anyone that guarantees your return of 5%, 20%, 50%, "Oh, they listen to this person they've made 500% in three years," we're not going to ever do that because that's not realistic. We just can't guarantee your return. In fact, no one can.

Kate:
Yeah. And I think the other way to think about investing, if you go to your favourite shop, and you consume, and you buy goods at that shop, you're acting as a consumer, or you could also work for that shop and be an employee, or you could own that shop and you might be a franchise owner, but then you can also own part of the business and benefit from that whole value chain. And so it's a way to really be part of the economy, not just a consumer of the economy. So it's a different way to look at it, and I think that's how it becomes really interesting to some people.

Kate:
They might just start with a company going, "Oh, I love Disney. I pay for Disney+ every month. I won't really want to go to the Disney theme parks one day." And then they realise, "Oh, but I could also own a part of the business, that everyone wants to consume." So it's just a different way of looking at the world. You don't have to necessarily just be a consumer, or an employee, or a small business owner, for your rest of your life, you can actually be part of the whole value creation chain and own part of these companies.

Owen:
Yeah. And this is where we probably advocate for everyone to start, is start with very small amounts of money. So if you do make a mistake, when I say if, it's a matter of when, when you do make a mistake, you can get used to that idea. Because a lot of people come to investing and they think to themselves, "Oh, my shares fell 20%, therefore shares are like gambling. Shares are risky. Shares are not worth the time." But that actually is just investing. Doesn't matter necessarily if your shares fall 20% in the next one, two or three months, what matters is, if those shares go up over the next five or 10 years, and a lot of us don't acclimatise to investing very easily. We see the shares go up and down, and we think, "This is really scary. I need to get out now."

Owen:
And that's actually probably the worst thing you can do. So the first thing I would say for you to do is, think of really interesting businesses that you know and like, and buy those first, because it might not be a good investment, but at least you understand the business, you're engaged with it. You can be very proud when you say, "Oh, I own part of Coca-Cola." "Oh, I own part of Disney, and Apple," and whatever it is that you choose to buy, it might not be a great investment, but at least you're getting used to the idea. So Kate, just quickly, just investing in

general, so not just through a brokerage account that we talked about, but just investing in general, how much do you need, because people are often put off by that?

Kate:
Yeah. Well, it's crazy easy now that there's platforms that allow you to start investing with just $1, and some that we've interviewed in the past include Sharesies, which allows you to buy a small amount of a share. There's even Raiz, which is a micro investing platform that invests in a large array of different companies and investments. And you can just start with a couple of dollars and automate it. There's Spaceship. So there's a lot of ways you can dip your toe in the water without even having to decide which company you want to buy. So there's really no reason why you can't just start with a couple of dollars and have a go.

Owen:
Yeah. You can have less than a $1,000, is what we mean to say. $500 used to be the minimum, which still shocked people like, "Wow, only $500?" And now it's even lower than that if you use one of these micro investing platforms, or even Sharesies.

Kate:
Yeah. Three years ago, we were saying $500, but there's been so many advancements and the technology is better, fees have come down across the world really, when it comes to investing. And so you can get started really easily nowadays.

Owen:
Yeah. Absolutely.

Kate:
But there is a lot of choice, which is-

Owen:
Probably hardest thing.

Kate:
... one of the challenges, because I know many of our listeners, once they start exploring and they're like, "Oh, there's so many brokerage accounts I could choose from. There's so many different things I could buy. There's so many different types of investing," that that amount of choice can paralyse people.

Owen:
For sure. So Kate, what are some of the common investing myths?

Kate:
Okay. I know we get this one a lot, Owen, but, "Investing is like gambling."

Owen:

Yeah. So when we gamble, say we put 20 bucks on the horses down at the TRB or on our app, or even if we put 50 bucks on the outcome of an AFL or rugby match, what ends up happening is, we put that money down and we know the odds in advance. So we know what the payoff is and we know what we stand to lose, which is our $50, or our $5, or whatever. But the difference between investing and gambling, one of the key differences in my mind, is that at the end of the day, you own something. If you put this money down on a horse, you don't actually... Even if you place a good punt, you don't actually own anything as a result. You don't have anything to show for it, other than maybe some more money.

Owen:
If you lose, you just get completely wiped out. In investing, it's actually, if you invest reasonably, and what about by reasonably is, you don't just go out swinging for the fences, it is very, very, very unlikely that you'll lose a 100% of your money, whereas in gambling, that can happen as quick as that. The other thing is that, even if you do get the investment wrong, let's say it falls 20%, let's say you buy Telstra shares and it falls 20%. Well, you'll still own Telstra shares. They'll just be worth 20% less. So you own something at the end of the day. And I'd say one of the fundamental differences is here, the thing that you own is something that creates value for society.

Kate:
It's a company with employees, with products, with services, and you can even learn more about it. You can research that company or that investment you're in, which is quite different, I guess, to just taking a gamble on something at the casino.

Owen:
Well, you wouldn't say buying property's like gambling, right?

Kate:
No.

Owen:
Well, some people maybe if they use a lot of debt, but the reality is, it's the same thing. The only difference is, you're buying a business, you're buying a tiny little share of a business versus buying a house, which you can touch and feel. So that's the fundamental difference, but you still own part of Telstra. It might only be a legal contract that binds you to the company, but you own part of it. And so that's why investing is not like gambling. The only reason it is like gambling is because it's scary for a lot of people, and so that brings emotion into it and it involves money. If you take the emotion away, they're very different, in terms of the outcomes.

Kate:
Yeah. And also, a lot of people come to this belief because they just get a random investment recommendation-

Owen:

Oh, yeah, the barbecue tip.

Kate:
... from a friend, or the Uber driver, or from the internet, and often they can lead people astray. And as we probably won't dive into on this episode, but we've talked about in the past, there's a lot of different incentives for people talking and recommending different companies, and sometimes they're not always aligned with yours.

Owen:
No, that's right. And so the next thing, Kate, the next myth would be that I don't know enough, "It's not my passion. I don't really care about this thing called investing."

Kate:
Yeah, and I was saying to a colleague before, we don't come out of the womb knowing about investing, we've just learned this over time and it's just a skill we keep developing. And the amount of information, like starting with our podcast and our free courses, but there is so much information out there to learn about the basics. And once you've got the basics, you don't have to go back to the start line again, it's not a skill you have to keep relearning. Once you understand how the mechanics of investing works, how to open a brokerage account, you're set. And you can choose how much or how little you want to spend on investing and running your portfolio. And as we'll talk about in some of the future episodes, there's really simple ways to invest, that don't actually require too many decisions at all. And you don't have to see too many professionals and you don't have to look at your portfolio every day. In fact, that's something we usually recommend not doing.

Owen:
Yeah. Don't do that. Yeah.

Kate:
And it also doesn't have to become your passion. You might have to invest maybe 10, 20 hours of your time, but once you've set up something that's simple for you to manage going forwards, you don't have to spend every week learning about it. You don't have to suddenly start working in the finance industry. We have many listeners who work in all different types of industries, and once they've got a strategy that works for them, once they know enough to get started, they don't keep coming back to it. It doesn't have to take over your life. It can just be something that runs in the background.

Owen:
Yeah. Yeah, a really key idea is that you really don't have to invest your entire life at it. Kate and I, we are finance people, but we have very different strategies. Kate does like to automate a lot of our investing, and so that means she can just put money aside and then there's BPAY, it automatically deposits into our investment account and someone else handles that. Or you could be like myself, which is more engaged with day-to-day investing. There's really no right or wrong answer, and you can have a bit of everything. And don't listen to people, they'll say things

like, "Oh, you need to be a trader. You need to be an investor. You need to invest in blue chips. You need to invest in Bitcoin. You need to invest in this. You need to invest in that. You shouldn't invest in this." You don't have to do any of that. Or you can do all of it or you can do some of it. It's really up to you. Kate and I are both in the industry, we're both professionals and we do things very differently and that is perfectly okay.

Kate:
And the best strategy is the one that actually works for you.

Owen:
Yeah. That's it. If you are committing to investing regularly and you know how you behave under pressure, that's like 90% of the game. So just master that and you'll be okay. So the next one is, "I don't have enough money. It's only for rich people." I think we covered this. You can start with less than 500 bucks.

Kate:
It's easier than ever to get started. Technology has done wonders for people getting started and just all of the education out there. It used to be hard to actually get that information. The information about investing and shares used to be held up with very few people, but now there's research out there if you want to learn about companies. There's so much research about exchange traded funds, really everything you need, can be found on the internet if you're willing to put in a little bit of time. I mean, we've even curated some of it into our free ETF and Share Investing Courses, but it is definitely not just for wealthy people. And in fact, investing is a great way to actually become wealthy eventually on your own.

Owen:
That's it. If you look at the Forbes rich list, someone said to me the other day, they said, "Oh, everyone on the Forbes rich list is rich, because they own property." And I was like, "No, that is not the reason that they're on the rich list. They're on there because they own businesses and the businesses made the money, which allowed them to buy their lovely houses. It's got nothing to do with the houses". I can tell you right now, you don't make a $100 billion if you're Jeff Bezos or Elon Musk, by buying houses, you do that by owning businesses like Tesla or Amazon, and then having that on the stock market and watch it grow. And so if you want to be wealthy, look around you at the people that you know, who are the, financially, the wealthiest people that you know. I'd say most of them own businesses, or own part of a business, or something like that.

Kate:
And even from an Australian perspective, the Australian Financial Review does a under 40-

Owen:
Yeah, BIW. Yeah.

Kate:

... for Australians. And you can actually go in and see what are the different companies they've created. You can learn more about Australian companies. Some might be on the market. Some might be private companies that you as an individual, can't buy shares in but it's just really interesting to see how all of these per people built their wealth. And you'll start to realise there's a lot of amazing businesses out there, that you can learn more about.

Owen:
Yeah, for sure. And so it's not only for rich people, it is for everyone.

Kate:
Absolutely.

Owen:
And you can start very small. We typically do say though, if you want to invest in individual shares, which we'll get to in minute, maybe start with 500 bucks, because that's a good amount for Perla, for CommSec, for SelfWealth, for Stake. Okay. So, "I can't do it myself." This is a myth that I can't do it myself. I'll be really quick here. If you've got 10 hours, you can listen to the starter pack series, and you can go away doing some of the activities. That's really all you need to get started. And in these 10 episodes, we'll tell you basically what you need to do.

Owen:
And one of the things that I'll tell you to do right now, or at least after this episode is, go back and listen to our episode on something called VDHG, V-D-H-G. It's one of the ETFs that we've talked about, and we'll talk about what those are in just a minute. You can go and you can learn about this ETF and what it can do for you, and how I'll tell you what, it's as simple as a few clicks and the rest of it takes care of itself.

Kate:
And it's a great way to learn about ETFs if you research. Just Google, ASX VDHG, or Vanguard VDHG, we'll put the link in the show notes, but I think that's a great starter, it introduces you to the world of ETFs and how they're constructed.

Owen:
Yep. And we'll explain what ETFs are in just a minute. One more myth though, we've got one here, which is, "I'll never have any money, so why bother starting?" And this is, when the ASX does its massive survey and it estimates how many people are not investing but should be, this is one of the most popular reasons why people never get started, "I'll never have any money, so why bother starting?"

Kate:
And I think this myth can hold us back from saving money, from paying off debt, from trying a new career path, that, "I'll never actually get there," or, "It's too hard. So why even bother trying?" And I think we have shown in our listener stories and we have shown throughout our podcast in our community, that it is worth getting started. And even just $50a week, whatever

you can find, if it's $1, you can make a change to your financial future just by getting started. And it's taking those small steps because, like compound interest where the money can grow over time, small steps that you take to take control of your financial future, do accrue over time as well.

Owen:
For sure. Kate, so we've got some particular types of investments here. What we might do to try and keep it concise for people, maybe we go, I go, you go, where we take maybe 60 seconds to 90 seconds to explain what these things are as quick as we can?

Kate:
Yep.

Owen:
Keeping in mind that, if you're watching this on YouTube or if you're listening to it, just remember we've done episodes on each of these things. In fact, some of them we've done whole series on, and so you can go and learn as much as you want to hearts content. But what we'll say is, this is just a primer and we're going to cover the absolute essentials. So the first would be shares. Share investing, and what I'm talking about here is individual shares. I'm talking about, if you want to go and buy BHB or you want to go and buy Telstra, or you want to go and buy Apple, or Microsoft, those are what we call shares and shares are just a part ownership of a very large business.

Owen:
So for example, if you have your own business, let's say you have a bakery and you are the one that runs that business. You own 100% of the shares in that business, but let's say you broke it up into four shares. That is 25% each, you might sell me one of those shares, and then I become a share owner in your business. The only difference between your bakery and Telstra, is the size. And because Telstra is so big, you can't just go around to each individual person say, "Hey, do you want to buy this?" "Do you want to buy that?" "Do you want to buy this?" It's on the ASX, meaning it's ASX listed. It's a public company therefore, and anyone can buy shares in it. And that is what a share investing is. You get dividends, which are like cash that come into your bank account every, say six to 12 months, but you don't always get dividends. Sometimes the company keeps that money for itself and grows [crosstalk 00:28:04].

Kate:
Absolutely. And if you can't decide which share to buy, as many of us-

Owen:
Which is very common.

Kate:
... there's so many decisions to make, because there's so many companies out there. If we're even just looking at Australian companies and you are going, "Oh, do I buy BHP, or Telstra, or

Afterpay?" Instead of having to make that decision, you can buy what's called an exchange traded fund, as you'll see ETF, you'll see that word ETF everywhere.

Owen:
ETF, so not F pause, not EFT, ETF.

Kate:
Yes. I don't know if anyone says EFT transfer anymore.

Owen:
I feel like they do. There is people Google EFT investing and I'm like, "Mm, not quite that." So, yeah.

Kate:
Okay. Exchange traded fund, ETF. So instead of having to decide which share to buy, you can buy units in this fund, that also you can buy and sell on the market we've been talking about, which would buy all of the top 200 Australian companies. And they do all of the work of buying them and holding them for you. So you can buy what's called units in this exchange traded fund, on the same market that you can buy Telstra and BHP. And so instead of having to make a decision on which of the top 200 shares you want to buy, you can get exposure, instant exposure and diversification to all of these amazing Australian companies, through just one trade. And so if you invested in something like VDHG-

Owen:
Which we just talked about.

Kate:
... which we referenced before, that would give you instant investment in all of the top 200 Australian companies, plus a lot more. And so this makes investing easier than ever, because instead of having to make so many decisions and build this portfolio, and research all these companies, we can actually just get the best of both worlds. We can be invested in Australian businesses, just through one transaction.

Owen:
Yeah. So you probably heard people say things like, "Oh, my portfolio has this in it." "My portfolio has that in it." In the past, everyone created their own portfolios out of individual shares. But now, you can basically get one of these straight off the shelf. So a good analogy would be like, up until about 10 years ago, everyone was cooking their own dinner. They were going to the supermarket, picking their own ingredients. And now you can just go and get a basket, you got all the ingredients in it, and you can and buy that basket. So the basket is delivered to you and you say, "I want all 200 shares, please?" And someone will go and put all of those things in the basket and you'll just get the basket. It's such an easy way to invest.

Kate:

And this is not just the top 200 Australian companies. You can do this for the top 200, 500 US companies, or the top 50 Indian companies, or the top 50 robotic companies. It's getting more expansive, so there's more and more choice for you to get someone to do the work of picking everything for you. And you just pay, usually a small fee, which is called a management fee, which will dive into in our ETF episode, for the convenience of this.

Owen:
Yep. So the next one that I'm going to talk about is bonds. And I'm not going to spend long on this. So bonds are different to shares. You won't come across them very often because they're boring as anything-

Kate:
But they're a new super fund.

Owen:
But they're a new super fund, they are everywhere in the financial markets. So to give you an idea of what a bond is, imagine if you have a mortgage on your house, imagine instead of owning the house, you own the mortgage. And so imagine if I give Kate a mortgage to go and buy a house, Kate would then pay me interest. And I own the mortgage until Kate pays me back, all of my money, I still have that over her. And so Kate would keep paying me the interest and then she would slowly repay the principle. And I'd say, "Kate, this loan giving to you, is due in 10 years. You would keep paying me back." And that is a bond.

Owen:
So a bond is like, you know how people say, "My word is my bond?" That's basically a promise. And so that's what a bond is, a promise to repay some sum of money with interest. And we don't come across them very often. You can get them inside ETFs. Remember that basket thing? They're you can get bonds inside that. But other than that, you don't come across them very often in real life, but just know that they exist. If someone says bonds, it's like a mortgage, and you don't need to worry about it unless you are picking those for your ETFs. If you do need help on this sort of stuff, you should reference our other episodes because it does get a little bit complicated. There's one thing, Kate, you just mentioned something about a basket, like an ETF?

Kate:
Yes.

Owen:
And you can buy one of those inside your Perla, your CommSec, once you have your account set up, you can buy all those things, right? Then what are these things called managed funds? They sound similar?

Kate:

A little bit similar, but instead of just checking things into a basket, based off a set of rules or something like that, that they've decided, a managed fund is typically a group of people who will actively put things in this basket. Depending, they might be looking for high growth companies, the companies they think are going to be the next Amazon, or they might be looking for blue chip companies like Telstra. And so they're deciding in a more active manner, what to put in this fund, and usually you apply for it differently.

Kate:
So instead of buying it through your brokerage account, you might have to fill in a form and show your ID details, and start with the larger amount of money. So it's less likely you'll be able to start with $50 or a $100 with a managed fund. And there'll be a group of analysts looking at these companies or whatever that is invested in, on a day-to-day basis, making the decision of what to invest in. So it's maybe a bit more of a human touch and they've been around for a lot longer than exchange traded funds. But I think there is little bit more friction to getting invested in a managed fund.

Owen:
Okay. So this would be like, if we go back to the basket and the supermarket analogy, if I just say, "I want everything from the cereal aisle, I want one thing of everything." That would be like an ETF. But then if I paid someone, or you've paid someone to go-

Kate:
"I want Gordon Ramsey's select cereals."

Owen:
And then Gordon goes down these cereal aisle and picks out the stuff, and chucks in a basket, that would be a managed fund. So they're basically, you're paying someone to go and do these things for you.

Kate:
Yeah. So instead of paying for a computer to screen and do all of this process, you're paying humans that have got experience in this area, to do it more actively, with the hope that it might out perform the typical exchange trader fund, whether that happens or not, is a different question.

Owen:
So you pay an expert, and you trust them, and they go and do it for you?

Kate:
Yes.

Owen:
Okay. Got it. So that's a managed fund.

Kate:
And they were what people used before exchange traded funds were readily available.

Owen:
Yep. So one more thing here. I might actually just keep it on you for a second, which is superannuation. So you talked about ETFs, you talked about managed funds, and this thing called super, the super funds. We know them. We all have one if we're working. What is that? Is that investing?

Kate:
Yeah. Absolutely. So I assume most listeners will have a super fund, but this is the money that's going to fund your retirement. And so when you are 60, 70, 80, whenever you decide to retire or whatever the age is, if we're living to 150 by then, this will be the money that supports you when you're not working. And so typically, we start paying it when we start working part-time or full-time, and this money is invested in, you might have seen the word balanced, or growth, or cash, or conservative, so there's different portfolios within your AustralianSuper, or Hostplus or Rest Super account. There's a lot of super funds in Australia.

Owen:
There is. Yep.

Kate:
And they will put together an investment strategy for you. So if you're in the balanced fund, you might have some Australian shares, like we mentioned. So there could be some BHP and Telstra in there, probably, quite likely. You'll have some bonds, you'll have some property, you'll have some shares from other countries. You might even have some private equity in there. So companies that aren't listed on the market, but really big businesses as well. So there's even hospitals, and prisons, and office buildings. There's a bit of everything because super funds are so big, and because they've got a really long investment timeframe, because they've got your whole life, they invest in quite different things to what Owen and I would generally invest in ourselves.

Owen:
Yeah. So we all have a super fund and you can use a super fund to invest for you. Just remember that if you do invest via your super, it's probably going to be locked up until you hit retirement. So if you're a 25 year old, you might not get your money until you're 65. So that's 40 years. And the easiest way to invest money in super, if that's what you want to do, is just to get more money deposited into it, via your employer, or to make a direct deposit yourself into your super fund. You just need the bank account details and you just deposit that money in.

Kate:
And there's not that many choices you have to make, because you choose which super fund you want to use and you choose what investment option, portfolio, really, whether it's a balanced, or a growth, or a high growth within it, that you want.

Owen:
Yep. And just remember that the people say, "Oh, I'm going to switch super funds, because I don't think it's the right one for me." That's like saying, "I'm going to switch banks because my bank account isn't right." But sometimes there are multiple different types of bank accounts. You've got savings, you've got transaction accounts, you've got online savings accounts. Sometimes the super fund that you're already with, is the right one, you just need to switch strategies from say balance to growth, from growth to high growth, et cetera.

Kate:
And you can call them to say, "Hey, look at my account right now. Look where I'm invested. Is this kind of where I want to be in my 20s, 30s, 40s, 50s?" And they can give you general information relevant to you, that's going to help you make a better decision. You can say, "Well, what am I actually invested in?" And they'll go, "Well, this is what you're invested in." And you could even ask, "What are some examples of companies or assets that I'm invested in?" If you want to go one step further and you can also often find this information on their website as well.

Owen:
Yeah. You can log in via your member portal and you get control that. If you need to change super funds, it's the easiest place to go is your super, which is the government run website, and it's linked to your myGov account, which handles all that. You can do it with a couple of clicks of a button. And just remember that if you are a younger person, so I'm saying someone say below 40 in this case, you probably should be questioning, "Should I be in a high growth strategy?" Because you can't touch your money anyway, as long as you have the stomach for a bit more ups and downs, you should be focused on growth, not necessarily only on conservative style options. So there's one more final thing here, we have property. You can invest in property. You will know you can buy your first home and you can use your first home as an investment, that's a genuine investment too.

Owen:
The thing to remember, is that this is a long term investment, it requires a lot of money up front. And there's typically a lot of cost involved, you've got stamp duty, you've got conveyances, you've got lawyers, you've got whoever you need to consult to do that. And then you've got things like your mortgage, which costs your money, and that's a big life decision. The one advantage of owning the property that you live in, versus say shares, from a tax perspective, is that if you live in that property for long enough, well, you don't even pay any capital gains tax at all.

Kate:
Your primary residence.

Owen:
Your primary residence. That means that there is an exemption. So let's say for example, you own a house and you buy it at $500,000 and you sell it at $600,000. So you sell it for a 100,000

more. You don't have to pay tax on that a $100,000. Whereas say, if you bought $500,000 worth of shares and you sold it for $600,000, you've made a $100,000 as well, but you might need to pay tax on that. And so that's a key difference between the house that you own and live in, you have to live in it, versus shares. However, shares you can access with less money. You can diversify outside of just one thing. You don't need to take out a loan.

Kate:
It's easy to sell them.

Owen:
It's easy to sell. So you can sell today and have your money tomorrow. It's very easy in that regard, so there are some differences. Investment properties, obviously different. You do pay tax on that and it does require a second loan or just one big humongous loan, which to me, is pretty scary. But you-

Kate:
Yeah. With all these investment options we've mentioned, there are different fees and costs involved with each one, and different tax things. So we will explore that more as we go through each of them in our starter packs as well. And always, when you're doing your research asking what are the costs? What is the tax implications? Just make that a common question you use.

Owen:
Yep. So Kate, just for some episode takeaways here, I guess the first thing is you can buy shares. You can buy ETFs. You can make all those types of investments by using something called the Australian Stock Exchange and the way you access this market, which is like your Prahan Market or South Melbourne Market, you can do that by using a broker. We've named four, CommSec, Perla, SelfWealth, and Stake. You can go online and check out these. We have no affiliation with any of them. We don't get money to recommend them or to suggest them. They're just things that you should go and try out. And you can use that brokerage account to access both the Australian Stock Exchange, ASX, and also international shares, if you want to buy things like Apple. Kate, we've also busted some myths.

Kate:
Yes. So after you heard some of the myths, we mentioned like investing's like gambling, or you need to be rich to start, if you identified with any of them, spend a bit more time thinking about that. Researching, maybe taking our courses on RASK Education to really bust those myths, because it helps to sort them out at the start, because they might rear their ugly head later on in your investing journey, and you might end up doing something you regret. So have a think about them, do some research, talk to some friends and family. Maybe you want to talk to a financial advisor as well, but try and bust those myths up front.

Owen:
Yep. Totally. We've also said why investing is different to saving. So investing involves risk, saving involves putting your money in a bank account or a term deposit, where you get a small

amount of interest. Investing requires risk, but you also get, over the long, long time, a bit more of a return, which then leads to big, big results for your future. And if you need to wonder why that works, just go to the AFR Rich List or the Forbes rich list, and see all of the wealthy people on there, have owned businesses and have owned those businesses for a very long time. The final one, Kate, is that there are many options available.

Kate:
Yep. So investing isn't one-size-fits-all. There's a lot of different ways you can invest, and even sometimes a fun place to start, is just by looking at what your super fund's invested in. And that starts to help you realise there's different ways to invest out there. And it's not, you have to be a 100% in one thing, you can actually mix and match in your portfolio. So we've done heaps of episodes on all the things we mentioned, exchange traded funds, shares, property, bonds, managed funds, and superannuation. But we'll dive into some of those in a bit more detail, throughout the rest of this starter pack series.

Owen:
Yep. So the two takeaway points here, if you have something to do right now, this is what we're telling you to do right now. Kate, what is the very first thing that people should do if they haven't done it already?

Kate:
The first to do, if you've been listening, just go out and open a couple of the brokerage accounts, maybe the ones we mentioned, maybe you do some research and find some other options out there, maybe your bank already has a platform you can use. So just open a few brokerage accounts, don't be afraid of messing something out. If you don't put any money in them and you don't place any orders, you can't do too much damage. And so just add a few shares. So maybe you go, "Oh, I really like this company. I've heard about it." Can you add it to a watch list, so you can keep an eye on it? Maybe you look at an exchange traded fund, like VDHG, and add that to your watch list, just to get a feel of how it all works and explore the platform. And most these platforms also have education sections as well, so you can get to learn a little bit more that ways.

Owen:
I'd say the thing is, start with one of those baskets, the ETFs that we started talking about, those are the things you want to start with. We've got an episode coming up on that now, starter pack, so be sure to listen in on that. If you've listened to our episodes for a long time, if you're one of the veterans of the circuit, you've been with us for more than three years, thanks for watching this beginner episode. But also, you can go back and I would encourage you to look at some of the different assets that we've talked about. We've talked about super, property, managed funds, ETFs, and shares, as well as bonds. If you don't already invest in one of those, go and research one of those things. Don't have a bond ETF in your portfolio, well, go and find out which are the best bond better ETFs.

Owen:

Spend some time now, maybe just half an hour, having a look at those different investment options. Because if you're like me, you might have gone through a long period of time where you think, "Oh, I don't really want to invest in a managed fund," but now you've got the money and now you've got the knowledge, you're thinking, "Well, maybe I'll do that. What are the options available to me?" Go and check that out. So that's your action point, the advanced action point for this episode. Kate, the starter pack is well and truly on its way. We've got a few more episodes. I'm looking forward to it.

Kate:
Yes. Absolutely. And we've got lots more to cover, that we've started to touch on today, plus some on tax and superannuation coming up. So be sure to stay tuned for that. And also, if you want to learn more about anything we mentioned this episode, if you head to RASK Education and there'll be a link in the show notes. You can enrol in our free courses on share investing, property investing, really any type of investing, we've got covered for you.

Owen:
Yep. So you can go and check that out after you turn off this episode. Kate, as always, thanks for joining me.

Kate:
Thanks for listening, everyone.

Kate:
Thanks for tuning in to this episode of the Australian Finance Podcast, where our mission is to improve the financial futures of all Australians. If you'd like to learn more, create a free account at rask.com.au/account. To download free episode workbooks, bonus resources, and take our amazing free personal finance courses.

Owen:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snappy review on iTunes, and you can follow us on Twitter and Instagram, @raskaustralia. Kate and I are also on both of those channels. Finally, if you have any feedback, suggestions for episodes on guests on the show, or you just have a question for us, shoot us an email at podcast@rask.com.au.