The Australian Finance Podcast Episode Transcript

Episode: Q&A: How often should I invest, super vs FIRE & separate finances
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
Good day Kate Campbell. Welcome to this episode of the Australian Finance Podcast.

Kate Campbell:
It is wonderful to be back, Owen, for our very first Q&A for 2022.

Owen:
I was going to say, as I was preparing for today's episode, when was the last time we did a Q&A? We're supposed to be doing these every month and we haven't done it for ages. When was the last time?

Kate Campbell:
Our producer, Monique, and I looked this morning and it was around mid-November. So it has been a while.

Owen:
Wow. Okay. We're well behind. So fortunately there's the Facebook group, if you are interested, the Rask Australia Facebook group. There are in about 3,000 people in there now, right?

Kate Campbell:
I think about 4,000, Owen.

Owen:
Well, that's geez.

Kate Campbell:
It's growing since you've been gone-

Owen:
Exponential, Kate.

Kate Campbell:
... with COVID.

Owen:
Yeah, yeah. So there are some fantastic answers to questions in there. I know every child thinks their baby is beautiful, but it is probably the best tempered, most respectful finance community I've come across. Not so many "What do you think of this stock?" Or "Here's why I think this stock is going up. No one disagree with me." It's actually a really productive kind of people that are in touch with the emotional side of money as well. So it's great to see. So if you have any questions, you can send them through there and we'll refer to some in today's episode.

Owen:
We might also add that, I'm coming out of COVID now, so if my voice does give way, I apologise. Maybe I'll lean on you, Kate, for much of this episode. We've got some questions on timing and when to buy ETFs and shares. We've got questions around having a partner who may not be on board with money. We've got a question around LICs or L-I-Cs and buybacks and a heap of kind of interesting stuff. There's a bit of meat on these questions, which is really good.

Kate Campbell:
Yeah. I had fun going through the podcast inbox because it has been a while, and there was a lot of questions. But just trying to find a few different ones that we haven't spoke about recently or at all before. And that's especially the first one about working out your ideal investment frequency. That really sent me down the whole rabbit hole. So that'll be a fun one to unpack.

Owen:
Yeah, for sure. Just before we get into it, some disclaimers. You reminded me to do two today. Any of the answers to the questions today are strictly limited to general financial advice. What that means is even if we read out a question, we might have anonymized it, we might have changed it. And the reason that we do that is because it cannot be specific to any one individual.

Owen:

It also means that if you are listening to this, and we answer a question about Super, your situation, your goals, or your needs and objectives could be totally different to the person that asks the question, if the question is indeed exactly the same as it was asked anyway. So what that means is you should always consider how the information relates to your situation before you act on it. So that means getting the advice of a licenced and trusted professional, someone that you can look up in the ASIC financial registers' portal.

Owen:
Because at the end of the day, we're not giving personal financial advice. We're giving general financial advice. In anything that we've mentioned like tax or performance, it's important that you understand the risks of those things as well. We're not tax advisors, we're not giving you specific tax advice and nor are we guaranteeing the performance of any investment.

Owen:
And I will probably repeat that throughout the show. We'll probably bring up that it is general advice because some of these questions are fantastic, but the people who have written into us or sent questions to us via social media have given us a lot of info. So we're just going to be extra clear about that.

Owen:
Kate, how can someone ask a question? What's the best way to do it?

Kate Campbell:
Yeah. So the best way at the moment is actually just via the Facebook community because then you can get some immediate ideas and responses from other people. And we actually look in the Facebook community every week. And if there are some questions that aren't quite answered or that are really popular and we see people, everyone saying, "Hey Rask team. Would love you to answer this." I'll be taking questions from there. Otherwise, if you want to ask it semi-anonymously, email us at podcasts@rask, R-A-S-K, .com.au.

Owen:
Yep. Cool. Okay. Podcast@rask.com.au. Get on it. If you haven't already, send us a question. We do get a lot, but we'll do our best to answer them.

Kate Campbell:
Yeah.

Owen:
So Kate, maybe if you read the questions there, just because my voice might give away.

Kate Campbell:
Yes.

Owen:

It might also be easier, especially this first one from Matt.

Kate Campbell:
Yes. We don't want you sounding hoarse all week. That would be annoying. So this is a question from Matt via email about the ideal investing frequency. And I think this question's coming up more and more because people are investing in ETFs, exchange traded funds, and they're trying to work out how often should I actually be investing?

Kate Campbell:
And so the question is that is there any benefits trying to work out your investing frequency? Should I be buying shares and ETFs fortnightly or monthly? How often and how do you work that out?

Owen:
Yeah. I mean, we often talk about just invest. I'd say that for most people that's the best advice is just invest. But the problem is every time you invest a certain amount of money, you lose a bit through brokerage. So some of the brokers now have driven down the prices to zero or near zero.

Owen:
Basically, you're not going to be a competitive brokerage firm in Australia unless you're below $10 for a small trade. And even then there are some that will do it for free. But as we've spoken about in our brokers series, there are normally strings attached if the brokerage is free.

Owen:
So what does this mean in practise? It just means that every time you make an investment, so let's say you invest 500 bucks or 1,000 bucks, you actually end up losing a tiny amount from the brokerage if it's... If the brokerage is 10 bucks and you've got 1,000 to invest, you're left with $990 that actually gets invested. Now 10 bucks on $1,000 isn't that much. It might not seem like it, but if you're doing that every month or every week or every fortnight for 40 years, all of a sudden it's a lot of money.

Owen:
So this calculator, Kate, I'll let you do the intro to it. I was just reading through some of the assumptions. It's quite interesting.

Kate Campbell:
Yeah. So I was chatting to a few people who think about this a little bit more than me. And they said, there's a fantastic calculator which really works for anybody called an Investment Frequency Calculator. And the website is investcalc, C-A-L-C, .github.io. But I'll put it in the show notes. And what you do is you add in your income frequency, the amount you're getting to invest, how much interest you get on the savings, which in Australia right now is virtually zero, your expected investment returns and your brokerage per investment you make.

Kate Campbell:
And it puts together using some code I'm sure on the back end, an optimal investment schedule telling you how often and based off your brokerage amount makes sense for you to be investing. And so it does help, especially if you're investing in ETFs and you've already set up... you've decided, "Hey, these are my three ETFs I'm going to invest in. I just want to know how often I should be doing it. Should I be waiting until I have 1,000 or $2,000 in my bank account?" You can use a calculator like this.

Kate Campbell:
And then after I went down that rabbit hole, there's quite a few calculators that work on very similar assumptions around the web to work out how often you should be investing into your ETFs. That makes sense when you're looking at the cost of your brokerage.

Owen:
Yeah. I think this example's going to hit home for people here. Just for a bit of clarity, in the past, I would always say, "Invest at least $1,000 at a time." That's because brokerage, when I was saying that, was 10 to 20 bucks. If you're investing less than that and you're paying $10 brokerage to start, set up, $10 on a $500 investment in shares is 2%. So that's quite a high amount. We always talk about how investment fees can be high if they're 2%, 1% per year. We're saying this just for one investment. So it's important. It's important to consider, but maybe an example here will help, Kate.

Owen:
All right, Kate. So here we can see Pearl's website and there is an Investment Frequency Calculator. So here we can see that if we get paid monthly, each pay we save about 1,000 bucks. The bank account that where we put our money or in the brokerage account, if it pays interest, wherever we put that savings amount until we've got enough to invest is 0.1%, which is not many brokerage accounts or bank accounts offer that much in interest. And let's say the investments earn 8% per year and it costs $10 to make an investment.

Owen:
According to the calculator, with $1,000 added every month, we should be investing every two months.

Kate Campbell:
Yeah.

Owen:
So that would mean that we're investing $2,000 at a time. Now so what's the difference between the best strategy, as in every two months, investing every two months with $2,000 rather than $1,000? So if you leave money in your savings account, the calculator suggests that you might have $120,000 after 10 years. But if you invested at the optimal frequency, you'll have $178,000 after 10 years. And if you're invested at half the optimal frequency, you'll have a very similar amount too. But obviously the optimal frequency is every two months, which is about $2,000.

Now if you're saving $2,000 a month, well then what's the optimal frequency every month? So this is based on obviously a $10 brokerage.

Owen:
So the basic, I guess, idea here is that it's... for most people, if you can invest $2,000, do it. If it's not $2,000 that you can invest, maybe you can do it with $1,000. But let's say, for example, if your broker was charging you $3 and you only had $1,000 to invest every month, then all of a sudden it's still saying invest $1,000 every month. So we'll put a link in the show notes to this, but the basics is it's a relationship between how much you're paying brokerage and how much money you have to invest. If your broker is charging you 10 bucks, maybe it's worth investing $2,000 parcels. But if your broker's charging you three bucks, maybe you can invest $1,000 parcels.

Owen:
It's just a very simple relationship. There are flaws to this, we should add. Personally, I think it's a very complicated thing to think about. After a while, you'll begin to just be like, "Okay, just... " You'll have it on autopilot and you'll just go from [crosstalk 00:10:52].

Kate Campbell:
Yeah. And I think this one is a little bit more useful. If you are investing in a couple of different ETFs, you've decided your three ETF portfolio, because it doesn't make sense if you only have $1,000 each month to sometimes buy 330 in each of these three ETFs. And so it might make more sense each month to, month one, you buy $1,000 of ETF number one; month two, $1,000 of ETF number two and so on. And then you just keep rotating through that. So you keep topping up into each of your ETFs in your portfolio, or you might not exactly have a third in each one. So just depending on what that allocation is.

Kate Campbell:
And then some people choose to top up the ETF that has the lowest amount in it. It really comes back to working at your allocation. I think we've talked in the past about putting that investment plan together. So if you know what you want in each ETF, it might be 60:20:20. Then just topping up the ETF that's furthest away from that allocation.

Kate Campbell:
But again, I think this is a little bit more technical that people don't start off at this point. If you're going down the track and you're trying to figure out a long-term strategy at building this ETF portfolio, it sometimes can help having a look at these numbers.

Owen:
Yeah, for sure. You might as well use the calculator and put your situation in and see what works for you. What I would say is if you've got 1,000 bucks and you are worried, "Should I make my first investment or should I wait till 2,000?" Just invest.

Kate Campbell:

Yeah.

Owen:
That would be my... for absolute beginners, just invest. Get started, put the money to work, see how your emotions go. And you might get it wrong, you might get it right. But just remember that you've got to start. The hardest bit is probably just that first investment that you've got to make.

Owen:
Obviously, another thing, I think this is something you and I have grown on, Kate, and we've got a question in a minute about having invested for quite a while, but we often talk a lot about fees and keeping fees super low. Obviously, that's really important. However, once you get to a certain level, it's actually okay. And I think there's nothing wrong with charging fees, to be honest. I think in the beginning I was very fee conscious because I had a smaller balance. But once your balance is 10,000, 20,000, 50, 100,000, the fee that you pay, it's... I don't know. Am I talking out of turn here? Have you felt this? I'm not really that worried about it anymore.

Kate Campbell:
Yeah. I think it's interesting as you do in... At the start, that first $1,000 is so critical to you and the decision you make with that $1,000 feels enormous. But I think as you invest and get comfortable and start building your portfolio over a number of years, the $1,000 decisions start to feel a little bit smaller when you're dealing with the 10,000 or $100,000 decisions. I do see some of our communities sometimes get stuck on deciding between the $5 brokerage versus the $10 brokerage. And they'll spend months agonising and not actually taking that first step, which I think is the most important thing to take that first step and to become an investor.

Kate Campbell:
And you can change brokerage accounts down the track. It's not a be all or an end all. Most of these things you can change. It's more you've just got to get started. And I think-

Owen:
Yeah. Agreed.

Kate Campbell:
I do think fees, if you're actually getting the service you want, are okay, but they do compound over a long period of time. But when you're talking about brokerage, when it's just a once off, when you make that purchase, it's not a ongoing fee necessarily.

Owen:
Agreed. So Sarah's asked... Our next question's come through the Facebook community summarised as, "What if I've invested for the required amount of time?" Maybe you can flush this question out a bit, Kate.

Kate Campbell:

Yeah. So we talk about investing for a longer period of time, five to 10 plus years. So what if Sarah was just asking, "Well, what if you have invested already for that five, 10 plus years time? You've invested for a long period of time and you are ready to do something with it." So you invested for a long-term goal such as buying a property in 10 years or maybe even retiring. So how do you approach actually getting to the point where you are ready to use the money that you've been investing for such a long time for, especially if the market's a little bit volatile and you're a bit scared?

Owen:
Yeah. So first things first. Remember to keep an eye on when your goal is coming up or how far away your goal is. Goal tracking is not necessarily just about like, "I'm going to get to $1 million and then everything will be fine. When you approach $1 million as an example, you'll also have goals around that time. Or if you say, "I'm going to get married in seven years and I want to start investing now for that." Well, you don't get to year 6.99 and then decide, "Okay, time to take all the money out."

Owen:
What you should be trying to do is effectively plan for the withdrawal as well. So just like you effectively plan to put money in, how do you take money out? And so as you get closer to your goal, you should be looking at thinking, "Okay, let's start to withdraw some money. What is the most effective thing for me not just now, but in the long term?"

Owen:
And so for example, one of the things in the short term might be, "Well, maybe I should take some of my lesser performing positions because that will incur less tax for me and then I won't have as big a tax bill when June 30 rolls around." Or maybe you think, "I've held this investment for a long time. Therefore, I get the capital gains tax discount. Whereas this other investment that I have, I've only held it for six months or something like that."

Owen:
And the final piece of this is we always, always, always talk about that money that's invested in the market probably shouldn't be in the market if it's needed in the next three years. So let's say for example, you had a goal to save, I don't know, $75,000 for your house deposit, and you knew that it was still five years away. Well, once you get to year three, you might have $50,000 put aside. But then any extra money that you put into the market from that point on, you would have to question if you're going to need that sooner rather than later.

Owen:
So again, it's a bit of forethought here. You should be starting to put that money into cash rather than putting that money to work in the stock market. It's because the goal posts do shift. They come towards you, they move away, depending on your goal.

Kate Campbell:

Yeah. And I think we get into a lot of things. We get into investments, we get into jobs, we get into businesses, and we don't have any concept of what an exit plan looks like for us. And I mean, I haven't really done that before. My goals are just pretty much right now financial goals and retirement financial goals. So I think that if I did have maybe a 10 year investing time horizon, if I had a specific goal for that, even when you're getting started, or maybe halfway along the journey, starting to work out, "Well, what does my exit plan look like? When do I need this money? Am I going to slowly take the money out of the market over a three year period or something that?"

Kate Campbell:
Sort of we talk about dollar cost averaging in. Consider maybe dollar cost averaging out of the market. And I think it is a hard discussion and I think you might have to sell something when you don't necessarily want to sell it. If that is really important that you buy the house this year. Yeah, you have to weigh up those goals against each other, what's more important for you right now.

Kate Campbell:
And yeah, I think we should have more of a discussion about what is our investment exit plan? We talked about reasons why we might sell shares recently on the podcast, but when do you sort of exit your portfolio because you've hit the target you want?

Owen:
You've talked about this before, at least we've talked about it, the two of us is the psychology of FIRE investors. This is actually really interesting around this time because... There's a question on that in just a minute. For so long FIRE investors are like, "I've got to save. I've got to invest. I've got to save. I've got to invest."

Owen:
And then they get to their goal and they're like, "Oh, actually now have to sell stuff. That doesn't feel right. I can actually spend money?" That's just a really poor generalisation of FIRE [inaudible 00:19:11] of course, but-

Kate Campbell:
Yeah. But even the self-managed Super funds. In Australia, there's a real mindset that you don't want to sell the capital. You just want to live off the dividends. Selling capital is the worst thing you can do. But actually the superannuation system is designed that you sell a bit of the capital each year and you don't just keep this huge amount of money forever. You're supposed to actually use it.

Owen:
Yeah, that's it. You talked about there, you should have your cash set aside. So that's the emergency cash that shouldn't be used for house deposits or that necessarily, and I'm sure we can say that and people still use it anyway. But the other thing is obviously to plan in advance. You start building that cash position in advance because it is true that when you sell anything, you may incur capital gains tax.

Owen:
Now there are some exemptions, of course, like if you are primary residents, but if you're selling an investment in shares or ETFs, you're going to pay tax. So you want to avoid paying as much tax as you can. You want to keep that as low as you can. So starting to build that cash buffer before you hit your goal, there's a hard end on that.

Owen:
You mentioned it, Kate. Right now when markets are volatile, stock prices are falling, or at least volatile up and down. And so you might be a bit more conservative and you might say, "Well, hey, my portfolio is out of balance anyway. I've only got 60% in shares and the other stuff's in bonds and all that other stuff that we've talked about, defensive assets, gold, whatever." And you might say, "Okay, I need to get back in balance."

Owen:
Instead of rebalancing the portfolio, I might just sell some of my bond or my gold exposure, and then take that off the table first. So that way it puts the portfolio back in balance while you're also withdrawing some money for your long-term goals. And then once the stock market comes back or starts to perform well again, then you can start to take some of that capital back off the table.

Owen:
It's a really kind of grey area answer because it depends how far your goal is away, what you're saving potential is between now and then, and also your tax position. Remember that the tax man comes no matter what you say. So just make sure that you can manage that.

Kate Campbell:
Making sure you put money aside for any capital gains tax before you just jump into the next investment I think is really important.

Owen:
That's it. So the next question, Kate, comes from Ben. It's also in our Facebook community.

Kate Campbell:
Yes.

Owen:
Super versus FIRE/late start investor. Do you want to explain?

Kate Campbell:
Yes. So Ben is about to turn 40. I won't round it up for him. A little late to the investing game, but this is great, Ben, because we advocate starting at any age. And he's just wondering, at his age, is it better to just pump any extra income into his Super and wait it out until he retires? Or are there some shorter term investing options that can help him sort of on the way until then? He really wants to increase his financial freedom so he can travel and spend time with his daughter

as she grows up. So just wondering if there's any investment options in the next 20 years, or should he just focus on superannuation?

Owen:
Yeah, obviously I'm just going to reinforce the general advice warning here. This is not just for Ben, for anyone. If we talk about Super in particular, and he's given us one of his goals, which is to support his daughter as she grows up. This borders personal financial advice. So we've just made this a little bit anonymized, this question, but it's still limited to general financial advice.

Owen:
And the reason why I want to bring that warning up here is because as you know, Kate, once your money goes into Super, typically stays there for a long time. And typically the reason that you get it out is retirement or death, in which case it doesn't go to you. It goes to someone else.

Kate Campbell:
Mm-hmm (affirmative).

Owen:
And so I bring this up because... Okay, so let's talk about his two options. One is Super. If he puts money into Super, he could out of his own pocket, so he gets paid and then he puts money in. He could probably claim a tax deduction for that. And then inside of Super, superannuation, the returns inside Super are taxed at a lower rate than most people's income outside of Super, at least if you're working.

Owen:
Now if he puts his money into Super, the big drawback is that he can't get it out for a long time, and you'll get to that in just a sec. But the other side of it is he keeps his money outside of Super, meaning that he invests in a brokerage account, managed fund, whatever. And in that case, he's going to be taxed at his marginal tax rate on capital gains as well as any dividend income that he receives. So the drawback here is that he pays more in tax. He may also pay a little bit more in fees. So these are the important considerations.

Owen:
Now he mentioned his goals here. So I'll bring that up. He mentioned his goal was to provide for his family, and he mentioned that he's 40. So we know a few things about this person. I would just say just generally speaking, Ben, that it doesn't matter how old you are. You should just start. I would say, at first, maybe don't overthink it. Maybe don't overthink Super, outside Super.

Owen:
Yes. That's an important consideration. You want to do it right. But if you haven't invested before, maybe just try it out and see if you like investing. Start with a small amount of money. See if you like it. If you don't have the temperament for it, if you find yourself always worried about things or whatever, maybe Super is a good option, or maybe seeing a financial advisor is a better option even if it costs you money.

Owen:
So leading up into retirement, it's one of the times in your life where I think everyone should get financial advice.

Kate Campbell:
Mm-hmm (affirmative).

Owen:
I know it sounds kind of backward. Why would you get it at the end of your life when there's less planning involved? Well it's because your nest egg is bigger and you can afford it. Unfortunately, financial advice in Australia is so expensive for younger people.

Kate Campbell:
Yeah. And I think heading up towards retirement, when you do potentially only have a 20 year, 30 year timeframe, it is a good idea to talk to a financial advisor because they'd be able to simulate... What am I? That's the word I'm looking for-

Owen:
Yeah.

Kate Campbell:
... what that could look investing inside and outside of Super, how long you might want to work for. You might not want to work until you're 60. You might want to retire at 50. So what assets would you need inside and outside of Super?

Kate Campbell:
And I don't think it has to be all or nothing. I think we can get really stuck with that choice that I just have to invest in Super or just invest outside of it.

Owen:
True.

Kate Campbell:
And you might be able to find a really happy medium that takes you to your 60, and then you've got Super for after that. And so talking to a financial advisor, especially with this kind of question would be a really helpful thing to do to just map out what it might look like. Because you might want that flexibility to travel and have that money outside of Super for the next two decades. But it's also a good time to start focusing more on superannuation and retirement. And I mean, 20 years is still a great, long-term-

Owen:
Oh yeah.

Kate Campbell:
... investing time horizon. So you've got a lot of opportunity to do stuff both inside and outside of Super.

Owen:
Yeah. I might add two things here. One is you touched on it there, Kate, he's 40. And I think you did a calculation to work at his preservation age. That's when he could start to access some of his Super at 60. That's still a long time.

Kate Campbell:
Yeah.

Owen:
A financial advisor would sit down and do a risk profile and all that, but that's still a very long time. Most investors can't invest for a year, let alone 20 years without pulling their investments out.

Kate Campbell:
Mm-hmm (affirmative).

Owen:
So if you can find a way to do that, it's great. I'm going-

Kate Campbell:
Yeah. I was just going to say that age... If you go onto the Moneysmart website, and I'll link it in the show notes, it's just the page, when can you get your Super and your preservation age, if you were born after the 1st of July 1964, your age you can access your Super or your preservation age is 60. So that's good to keep in mind. Who knows if it'll change in the future, but that's what it is at the moment.

Owen:
There are some rules around that too. Just to know that the preservation age is when you may be able to access Super.

Owen:
The other thing that I was going to mention, Kate, is a really quick, rough, back of the envelope, not even type of thumb sucking exercise that anyone can do is if you go to the Moneysmart compound interest calculator, now you can run a scenario, right? Let's say you put $1,000 away for your investing, just like we spoke about before. And you can run a scenario and you can say, "What's the difference between putting it inside Super or out of Super?" You can say, "Okay, let's assume that I'm going to earn a 7% return, right." Well, if your tax rate is 30%, for example, from that 7%, eventually you're going to have to pay some amount of tax.

Owen:

You might bring that down. You might say, "Okay, I'm going to invest outside of Super. I could... I don't know, just as a guess, 7% return. I'm going to push that down to a 5% return after tax and then see what happens to the Moneysmart calculator." You'll notice that that extra 2% that you've lost has a big impact, right? But if you invest inside Super, there's going to be less tax to pay. The superfund's going to pay less tax than you, so your money's going to compound faster. So you might bring that return instead of saying 7%, you might bring it down to 6%.

Owen:
And you'll see that even though it's only a small return difference, over 20 years, it makes a big difference. And the reason I bring this up is I would think depending on... We don't know anything about Ben really other than what he's divulged in some of this question. But I would say that what might end up happening is he might want to have some resources available before he retires and not be entirely dependent on superannuation.

Owen:
So what he might decide to do is have... you said, Kate, basically fork his income, so half of it goes one way, half of it goes the other way. And what it does is he puts some aside in a brokerage account or wherever, right, now invest. And on the other side, that goes into Super, and that amount is for that bottom draw, long-term investing, let's kind of forget about it. Let's let it compound in a low tax environment.

Owen:
Whereas the first one, the one that he does himself, is the one where he also tries to invest in similar way for the long term, but he knows he's got more flexibility with that.

Kate Campbell:
Yeah. And I think it comes down to that flexibility piece and just having options. You can invest in very similar diversified ETFs that while it's completely different product to superannuation, you can get that diversified. You can get a balanced portfolio outside of Super. So yeah, I mean, I'm a big advocate for flexibility and that it doesn't have to be all or nothing. You can invest in both. And definitely, I think this is a good place to talk to a financial advisor.

Owen:
Absolutely, it is. Ben I'm sure the Facebook community's got you covered here, but yeah, you can talk to a financial advisor and if you do want to set up things particularly around for education for your child, there might be tax things there. We've talked about education bonds and insurance bonds. For some people, they're okay. For most people, they're probably not that useful. But there are various different types of things that might be beneficial. And that's where a great financial advisor comes in.

Kate Campbell:
Mm-hmm (affirmative).

Owen:

So yeah, you can pay for once off piece of advice and see how you go. Remember to head to the Independent Financial Advisers website and you'll get plenty of advice there. There are plenty of non-independent great financial advisors too, by the way.

Owen:
Okay, Kate. So we've got another Facebook community question, and this one comes from Lyndall. Lyndall asks about LIC buybacks. This is-

Kate Campbell:
Your favourite [inaudible 00:30:49] drink.

Owen:
Yeah. Oh, well, I get out of bed, I'll have a [crosstalk 00:30:53]-

Kate Campbell:
We talk about it every day.

Owen:
... and then I think about LICs. Go for it.

Kate Campbell:
And so Lyndall's invested in a few ETFs and LICs as part of his buy and hold strategy to have a dividend income stream. And one of his LICs has actually announced a buyback this year, but Lyndall doesn't really know what that means or why it happens. So he's just written in to ask that question, which is probably because I don't think most people would have experienced a LIC buyback before.

Owen:
Yeah. So this is an interesting thing. We were trying to figure out which LIC it was. We're not 100% sure. So we don't know the details. So what is a LIC? Let's just real quick. We've talked about it before. It's listed investment company. Think of it like a company that invests for you. We've explained this before. I'm trying to give the concise version.

Owen:
So the difference between a LIC and an ETF is in started ETF, you get all your shares, right? And you add up all the value of all those shares, of all the investors, and that's called the NTA. And typically the NTA is very close to the ETF's price, and the share price. You log into your Pearler or your Stake or your SelfWealth account and you see ETF at $10.26. Typically, $10.26 is close to the value of the investments inside that ETF.

Owen:
Now with a LIC, the difference is the value of the things inside can change compared to the value of the share price. So this is what we call a discount or a premium. So a discount is when

the share price of the LIC is below the value of what's inside it. And the premium's obviously the opposite.

Owen:
Now so what happens is say, you're a LIC, Kate. I give you my money to invest for me, and you give me shares.

Kate Campbell:
Mm-hmm (affirmative).

Owen:
With an ETF, you'd give me units, but in this case, it's a LIC, so you're going to give me shares. Now the only way that I can sell my shares is if another investor buys those shares from me. And so what happens is you keep the $10 or whatever I gave you to invest for the long term. You've got that investment portfolio and you're investing. I have to-

Kate Campbell:
Locked in.

Owen:
It's locked in. And that's what we call a closed-end fund. So meaning that the money is closed in. Whereas with an ETF, when I sell my ETF units, I'm actually redeeming it for cash, and I can redeem it straight from the ETF provider basically. We've been through that process. But with a LIC, you are actually trading the shares on the market, just like any other stock.

Owen:
Going back to this premium or discount, what happens is when the share price is below the value of the things inside of it, that's called a discount. But that's actually not a good thing because what you're effectively getting is you're saying, "Okay, my investment in this... " Let's use Argo as an example. Argo is one of the LICs. Let's say, "My investment in Argo is actually below the value of Argo." How can that be possible? How can I own a Bosch dishwasher, but then someone else can buy the same Bosch dishwasher at a different price? It doesn't make sense. So they should come closer together.

Owen:
Now what the LIC providers can do is they can start buying back shares. So they can take money and they can effectively say, "Kate or Owen, I want your shares back and I'm going to buy them back at this price. Would you sell them to me?" Sure. And then eventually that pushes the share price up towards the NTA.

Owen:
Now so we don't know the LIC in question of this, but if this happens, I'd like to see the value of the shares being below the value of what's inside. So a discount. If they start buying back shares and they are above NTA doesn't make sense?

Kate Campbell:
No.

Owen:
And I know this is a complicated and technical object, but just know that in my opinion, it makes sense to buy back shares when the shares are sufficiently below the NTA. But if they're at the same level, they shouldn't be buying them back. They should be investing.

Kate Campbell:
I just thought it'd be interesting to touch on maybe some of the reasons why LICs do end up trading at a discount.

Owen:
Oh yeah.

Kate Campbell:
And sometimes that can happen just because there's a poor awareness of that product. Not many people know about it, so no one's actually wanting to buy it. Maybe there's some issues with management. They've just done a bad job marketing. There might be some poor performance. But there's a few different reasons. I mean, I've been to one investor meeting for a listed investment company before, and there was actually questions in the audience of people saying, "Why aren't you doing a buyback? The share's been trading at a discount for... well, this LIC's been trading at a discount for quite a significant period of time."

Kate Campbell:
And if you've invested in that LIC and you want to sell it, you want to sell it at fair value, close to the NTA. You don't want to sell it at a discount. So you want that company to actually do some marketing and get some more awareness of that listed investment company so more people want to buy it.

Owen:
That's it. That's it. I'm actually just logged into the SelfWealth account now, and I'm just looking at Argo, which is one of the big LICs. And I can see was that-

Kate Campbell:
Was that the one Scott Pape mentioned in his book, or was that AFI?

Owen:
AFI. I think he might have mentioned both, but it was one of the... Oh, maybe it was one of [crosstalk 00:36:29]-

Kate Campbell:
It's [crosstalk 00:36:29] Australia's-

Owen:
Someone in our community is definitely going to pick us up on this, Kate. We're in trouble. I think it might be AFI. So-

Kate Campbell:
Don't have the book in front of me.

Owen:
No, me neither. So we can see if you go into any brokerage account, it might have a link. You click on the link. This is the share that you find in your brokerage account. And why don't I just share my screen with those of you who are watching just real quick. So you'll log into your brokerage account, whichever broker you use. They basically all provide this information, and you can see here that the Argo investments LIC trades under the ticker symbol ARG. You can see the share price is $9.55.

Owen:
And then if there's a ratio in here, and I'll zoom in a bit, you can see that there are two things. There's price to book right here, which is 1.16 and then there's price to tangible book, which says 1.22, or they're basically the same figure. So what does this actually show you? This is effectively comparing the price to the value of the assets inside the company. That's basically it.

Owen:
Now, if it's one or above, it means it's trading at a premium. Meaning that the shares are worth more than what's inside the book value. And if it's under that, it means that they are trading below [inaudible 00:37:49] discount. Now the-

Kate Campbell:
And you can always go to Argo's website to look at what the NAV... the NTA is for the LIC as well.

Owen:
Yeah, that's it. So if we look at another one like BKI Investment Company, and if we come down here, and I know this sucks for people that are listening, but it's just an example. We can see for BKI, it's about 1.02. So it's basically the share price is matching it. So there's no discount and there's no premium. It's basically the same. So it's only when that number goes below one that then you start to ask questions because you're saying, "Well, my shares are worth less than the actual company's assets. How does that make sense?" And that's where questions are asked.

Owen:
And to your point, Kate, that can happen because the company investors have lost interest. The company's not communicating properly with its investors. And that tends to happen in the lower down LICs, not the real big ones.

Owen:
Let's just put a bow on this. Let's put a bow on this. I want to give a real of this. I was speaking to a fund manager on the Australian Investors Podcast, and this was episode three, I believe, with Tony Hansen. And during the global financial crisis, he realised that he could buy the shares in a listed investment company for 60 cents on the dollar. You know that classic, "Ah, buy it for 50 cents on the dollar."

Owen:
He could buy the shares for 60 cents. And then he could see that the investments inside the company were worth a dollar. Now all the company would have had to have done is wound itself up. They could have just closed its doors and said, "We're giving all your money back." And then what would have happened is Tony would have got a dollar of value back for every 60 cents that he purchased. And that's an example of how the buyback mechanism works to try and basically say, "Hey, we know that it's below where it should be. We'll try and return money by buying more shares back." And that's it.

Owen:
Took us a while, but it was kind of a deep dive into LICs and discounts and all that sort of stuff. Kate, what's the next question. Let's get someone else going on here?

Kate Campbell:
Yeah. Okay. Our very last question is quite interesting, and it's a little bit different in the fact that it's about money and relationships and managing semi-separate finances. So Amy sent this via email and it was a big question. So I'm going to take a few key parts from it, but essentially Amy has been getting serious about her finances during the last couple of years during COVID. And she's starting a little bit later on in her journey. And she's listened to the podcast, done some of the courses. So she's ready to go. She wants to really-

Owen:
Go Amy.

Kate Campbell:
Yeah? Go Amy. Yeah.

Owen:
Just as [crosstalk 00:40:31], go Amy.

Kate Campbell:
Create some long-term goals. But her husband has zero interest in talking about any long-term financial goals, long-term investing, anything like that, and is really focused on just day-to-day cash flow. There's a bit of background about his father being a successful stock broker in the '80s, and then losing everything in the crash. So there's a bit of history here. So there's some reasons why he might not want to talk about it. But Amy really wants to start building wealth

slowly, and she really wants to start now because she's heard us talk again and again about just getting started early and having time on your side.

Kate Campbell:
So they've got some savings, no assets, no major debt. And really she just wants to get started, but he's not really on board. So she's wondering, what's the best way to approach it?

Owen:
It's actually a tremendous question because-

Kate Campbell:
It is huge.

Owen:
Yeah. It touches on so many different aspects. Obviously, the big one is psychology, obviously, and not just in this situation, it's actually in everyone's situation. I guess the personal lived experience with the trauma of investing, as Amy pointed out, is real.

Kate Campbell:
Yeah.

Owen:
You see your parents, your father in this case, invest so much and probably be very confident in that field as a profession, and then everything just turns to crap and you lose everything. That's a big thing. So we've obviously got to talk about the psychology and the value systems. How does he treat money? Does he just get super anxiety about any conversation? Unfortunately, it's hard, but maybe the key there is to abdicate his responsibility.

Owen:
So what I mean by that is maybe it's okay for one person in the couple to take the reins and be like, "This is what we're going to do. What do you think of this? I'm happy to do it for us." I do see that quite a bit with some couples, but one couple might be... have one person might be stronger in one area than the other person. So savings and investing. There might be two different skills or there might be both in one person or together.

Owen:
I would say there is probably the number one trick around this is maybe to try and motivate him in a different way. So Bedford has date nights, of course. That's a really easy icebreaker. Like you kind of take him to the pub and then all of a sudden spring finances on him. No.

Owen:
You might be inclined to try and find something that he's interested in. So rather than talking about investing in shares, because that's what his dad knows is scary, maybe you can say to him, "Well, what about a property? What about a home for our family? Let's talk about investing

in that." And if that's not really appealing, maybe you can talk about, "Well, hey, why don't we turn it into a game? Here's $500 for you. Here's $500 for me. Let's start with that and see what we do." Or there's the Raiz App. Just break it in slowly.

Owen:
Maybe trying to make a deal with him in some way. I go, you go type thing. He could get something in return and you could say, "Well, if you listen to one episode of Kate and Owen's podcast and pick one that is a little bit... acknowledges the risks of investing and all that sort of stuff," so he feels he's also validated with his fears. But then we also talk about long-term principles. Maybe you can do that. Maybe you can say, "You do this. I do that." And quid pro quo.

Owen:
The other thing, obviously family dynamics are really important too. So understanding his goals for your family and trying to maybe sit around the table and say, "Hey, I just want to teach them good money values."

Kate Campbell:
I was even going to say, just trying to work out what kind of cash balance would make both of you feel comfortable because we say, "Let that basic emergency fund of three to six month expenses." But if you add in cost of kids, if you add in someone who's really anxious about investing to begin with, it might just need to throw out the numbers of what makes sense to keep in a cash balance and actually just find something that works for you. So if that might be 20 or 30,000, don't worry about what that could mean if you had invested that money. But work out what that means to actually help your family start investing.

Kate Campbell:
Because I have spoken to a lot of people, and that to get started, they need a much bigger cash balance to make them feel comfortable or to make their partner feel comfortable because they just like seeing that money in the bank. I know a lot of people who just to see they've got that safety net in the bank. And for some couples, it might be a lot bigger than others.

Owen:
Yeah, yeah. The psychology of money is very powerful. You might find that it takes a year to get him across the line because you might be starting with, "Hey, let's build up this cash balance." Just having the conversation about, "Okay, where do we put the cash? Is it in a savings account with Macquarie? Is it ING? Is it Up Bank? Let's talk about it." And you might just have to win one thing at a time, rather than trying to scale Everest, it might be one thing at a time.

Owen:
That I would say is just try to find what motivates him. If he's anything like me, he'll probably be super stubborn. I know a lot of men are like this. We're always super stubborn. We've got the answers. "Don't worry about me, love, I've got this," when we don't got this. So those types of people can be pretty hard to break down. It can be pretty challenging.

Owen:
So maybe you can talk to friends about it. Maybe you can talk to family about it and see what they think. See if they can help this person get motivated. I know some of my friends don't want to talk about finance as much as I'm, "Hey guys, what about these investments?" They're not going to talk about it. So I know what it's like.

Owen:
But also at the end of the day, I think the question here, Amy, is you may also have to pull yourself together for the kids and you maybe have to pull the finances together. So that may mean starting to even dollar cost average a little bit more money into Super. It may mean starting with a micro investing app, starting to invest more amounts that way and occasionally saying, "Hey, did you see this? Hey, did you see that?"

Owen:
Just doing it. Getting shit done really is what it might take. And that's okay. You don't have to let it come between you. I know plenty of couples where one person does take ownership of it, and that's okay too. And then you can work on the other side.

Kate Campbell:
Yeah. And I think if there's any, maybe one day you'll come across a particular video or a TED Talk that explains it in a really good way that you think will interest him, and even just sending that across. I mean, I'm always the person that sends little videos to friends and family, and hope that maybe one day they'll watch one and want to talk about it. But I don't send it with any strings attached. And I kind of just let it sit there and maybe spark a conversation when they're ready. So I think just as long as he knows you're there and you can talk about it when the time's right. And maybe you just have to get started and start taking action and then slowly bring each other on board over time.

Owen:
What does Scott say in The Barefoot Investor? Like, "Ladies have more tools at their disposal than they realise when it comes to motivating men with money." It's the date nights work, right.

Kate Campbell:
Mm-hmm (affirmative).

Owen:
So it's-

Kate Campbell:
Yeah, well, if you haven't read The Barefoot Investor, I'm sure Scott Pape has some good tips on having a money date night for you.

Owen:

Yeah, for sure. Yeah. And these are just little things, right? These are not necessarily like they're not motivated by money in the first instance. They're motivated by other things. Sort of find out what else he's motivated by.

Owen:
If you get him to sit down and read, you say, "Hey, you've got to read this book," he's going to be like, "Well, maybe not." But if it's something that's interesting like you might watch a movie on money, you might just try and build intrigue in some other way that he's not necessarily aware of straightaway. So there's the Theranos series. There is The Big Short. There's a bunch of fun shows that talk about money in new and exciting ways. Maybe don't play into The Wolf of Wall Street with him because it sounds like-

Kate Campbell:
Yeah, I'm not sure The Big Short's-

Owen:
... I'm not sure his background is.

Kate Campbell:
... the right one to watch in this situation.

Owen:
Yeah. But my point is just have the conversation because a lot of people just don't have the conversation. We know Natasha Etschmann from Tash Invests always talks about this. She always talks about how money is not spoken about, and therefore that's the real problem. So the more speaking about it you can do, the better.

Owen:
But Amy, you're definitely not alone. If anyone is in a Facebook group is in a similar situation, everyone is similar in this regard, but also different. And so the strategies that people have will be varied, but we would love to know more about what you've done to motivate your partner. We've all experienced this. I've experienced this not necessarily in my relationship, but with friends and family. I see this all the time. It's the hardest part.

Owen:
So tell us, what have you done? How have you overcome that? Give us some strategies. Maybe we can save the favourite finance movies for another podcast, okay.

Kate Campbell:
There's a lot of new ones recently. So I think we'll have plenty of material to add financial scams are the-

Owen:
Yeah. That's [crosstalk 00:50:13].

Kate Campbell:
... flavour of the year.

Owen:
Don't show them either. Do not show them either.

Kate Campbell:
Yes.

Owen:
Let's just focus on the good stuff. Give him like a, I don't know, a Warren Buffet documentary or Jack Bogle documentary.

Kate Campbell:
Yeah. The positive aspects of money where it has really changed someone's life or helped them reach financial goals that they never thought possible before. I think the more and more we speak about it and hear about people that have turned their financial life around, I think those stories are really empowering to help other people get started. And I think that's why we like sharing some of those listener stories last year and hopefully we'll be sharing some more this year. Just because you can see what money can do for you and you can see the positive impacts.

Kate Campbell:
Sure, there have been some really horrible negative impacts, but there can be some amazing stories coming out of it. So focus on those and yeah, maybe just have exposure to those different sort of sources.

Owen:
Yep. Yeah. Yeah, we've rambled and raved in this Q&A session, Kate.

Kate Campbell:
We have, we have.

Owen:
But there's-

Kate Campbell:
I think we need to practise for our next one. The first one back in 2022 needs-

Owen:
Yeah, it's been-

Kate Campbell:

... [crosstalk 00:51:12].

Owen:
We've been a bit rusty, but there are some great questions. So just in terms of Amy's long question here about managing finances semi-separately, you can do it separately. You can do it semi-separately. If it was me, I would start investing and then try and can feed him little things along the way to get him excited. Linda likes about LIC buybacks. They're okay I think if it's below the NTA. Ben in the Facebook community, Kate and I both kind of alluded to that you can just start investing. 40 is not too old. Sarah in the Facebook community said, "What if I've invested for the required time? Now, what? I want to do my thing." Kate had a financial goal of going to Europe. We didn't talk about it in today's show, but we often do in the Q&As.

Kate Campbell:
That didn't happen.

Owen:
That didn't happen. Sometimes things get in the way of goals, and that's okay. Or sometimes they creep up when you're quicker. Just prepare for them. The way you accumulate assets, the same thing for unwinding some of those assets.

Owen:
And finally, Kate brought to the table a great calculator. It's particularly good if you're just starting out. How do you put money in, when do you put money in and how much should you buy at one go? So there's so much to go on.

Owen:
Kate, I just want to give one thing, one special call out on this episode. I know it's going live shortly after we record this. If you haven't enrolled in a Rask course and you want to, I would strongly encourage you to do that soon because some of our courses are changing. Some of the courses are going from free to paid. We are rolling out new courses, new free courses, and also new paid courses on the Rask Education website. But I would highly encourage you if you want to be in our popular courses to jump on there now, as in today because in the next couple of days, they're changing to paid courses. We've got nearly 15,000 students enrolled, Kate, which is just-

Kate Campbell:
Amazing.

Owen:
... unbelievable. It's just totally awesome. And when I announced this via the mailing list last week, you told me that everyone basically went to the education site and put every course in their cart and then checked out of their cart.

Kate Campbell:

They did. Yes.

Owen:
Yeah. And the simple thing is if you enrol now and it's free, it's going to stay free for as long as you have the enrollment. So just do it. We're cutting off our nose to spite our face a bit here because I'm telling you to enrol now before they become paid.

Owen:
Now that said, we will also be rolling out free courses in the next probably month or two, a lot of great new courses. Kate and I are actually recording this week. Got to get my voice in check.

Kate Campbell:
Yes. Hopefully Owen's recovered by them, or you might have some really interesting sounding videos your way.

Owen:
Yes, yes. COVID-esk videos and audio from now on. No. So yeah, seriously, head to Rask Education. You can just Google Rask Education and it will come up. Just add all the courses to your cart and start them. Cost you nothing, but only for a bit longer. So cool. Kate, this is always fun. Thanks for doing a Q&A with me. It's great. So thank you.

Kate Campbell:
We'll be a bit more rehearsed next time, but thanks everyone for tuning into our first Q&A for the year.

Owen:
Thank you.