The Australian Finance Podcast Episode Transcript

Episode: 6 financial myths Kate & Owen want to bust
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
Kate, welcome to this episode of the Australian Finance podcast.

Kate:
It is good to be back, Owen.

Owen:
It's always a pleasure to be recording in person, COVID free, which is nice.

Kate:
We hope, we hope.

Owen:
We've got six financial myths that we're going to bust for people today.

Kate:
Absolutely. And we talk about a lot of these things on the podcast and just in general, because I think we try to bust myths for our friends and family all the time because these things keep coming up again and again. Some of these myths just don't want to die.

Owen:
And so the problem that we have Kate, is that sometimes when people talk to us about finance, they come to us with myths, our friends and family. And it's just so much effort to rebut them. I could explain to you why you're wrong but it's so much effort. This is the podcast for those people.

Kate:
And some of these ones, unless you go on your own journey and learn about them, you won't bust them until you actually find out for yourself why they're not true.

Owen:
That's like me, I need to live through the experience, as sad as that is. I need to learn stuff, okay.

Kate:
Yeah. You need the data, you need the hard empirical evidence to disprove these.

Owen:
Yeah. And then you get the experience and the lesson learned. The first myth is finance is all about numbers, true or false?

Kate:
False.

Owen:
Why?

Kate:
Because so much of money ... Yes, it might be recorded in numbers but the way you invest it and what you do with it is very much verbal and emotional and goals based. And so when I'm thinking about the future and the way I invest, I'm doing a lot of research, I'm doing a lot of reading, there's actually not that many numbers involved, if I'm not investigating individual companies where I know you get really sunk into the balance sheets.

Owen:
Well, even there, right. We are trained in finance school to become like accountants, right. And we look at balance sheets, we look at profit and loss, cash flow, all this stuff but the best investors that I've ever come across have this point, they say, "Well, how do the numbers get there?"

Owen:
The way numbers get to the revenue state, the profit and loss and the way companies make profits is there are people who work in teams. And those people, if they're good teams and

they're efficient, they produce things which then is sold and creates value through marketing and through delivering the product. Then if they're good at that, they can charge a little bit more. They make a profit and the customer wins so they come back. And then that gets shown up as revenue, profit, costs, then you get taxed. 99.99% of the work is actually done before it gets to zero or the MYOB accounting statement and then it's sent to investors.

Kate:
Yeah. And as an individual, you don't even need to calculate things yourself anymore. If you want a compound interest calculator, you just Google for the MoneySmart one. You don't need to figure out the compound interest formula, which I could not tell you off by heart but there is one. No Owen, you're not going to rattle it off right now. I can see you coming for me.

Owen:
Yeah, yeah. No, I was going to say we could see this ... When we say finance, we mean investing and money. It's everything.

Kate:
Yeah, just your whole financial life.

Owen:
Yeah. And I'll give you an example of how we're trained to think that finance is about money but it's not, is when we talk about this concept of risk, this is a Morgan household thing, we're taught at school, at finance school, that risk is measured by the ups and downs of stock prices. If you get investing wrong, it's really volatile. It's going up and down. But really at the end of the day, after 20 years, all the studies show that doesn't really matter. Why do we measure risk that way when our long term financial goals really have no interest in that at all? The real risk is that you set a goal and you don't achieve your goal. And that really has nothing to do with money necessarily. Was your goal right or wrong? What was your goal? And so bringing it back to the personal side is really important. And so when people say finances or money investing is like gambling, that's only because there are numbers involved, but there's so much more to it than that.

Kate:
Yeah. And it's so much easier than it ever used to be. Maybe there was a lot more numbers back in the day but now if you have an app and you have a brain, you can really just get started. As long as you can turn on your phone and download an app and put in your ID details, it's so much easier now to sort out your budget, open different bank accounts, pay off your debt. You can do all of this really simply nowadays. And there's so many calculators online. The other day, I was like, "What is a mortgage repayment for this particular loan?"

Kate:
I'm just Googling mortgage repayment calculator and I get full breakdowns and comparisons on if I pay different amounts. Everything there is there at the tips of your fingertips. I don't think that's the right analogy but anyway, everything's there in front of you. It's more just going out

and doing it. And I think as we talked about in limiting beliefs a few weeks ago, thinking that you have to be a finance person to build wealth and invest and sort your financial goals out, is something that holds a lot of people back. Whereas you just need to have a bit of time and dedication to working out your goals and coming up with a plan.

Owen:
Yeah. And yeah, it's no surprise that the people that we see that are best with money have a really good temperament. It's not really about how smart they are. One final thing on this before we moved to myth number two, when I interviewed Scott Phillips, who's my old colleague from The Motley Fool and chief investment officer there, he said that he would get the annual reports from companies and they'd be 150 pages. He'd have to get them mailed to him and then he would calculate the ratios, dividend yields and all that stuff for himself. And he's like, "At the end of the day, none of it really mattered."

Owen:
Anyway, myth number two is that you need a lot of money or brains to invest. Do you need a lot of money?

Kate:
Absolutely not. You can get started with some of the apps, even a dollar nowadays. And we've talked about different micro investing apps and different brokerage apps in past episodes. It's easier now than ever to get started. I think back to talking to my grandma about her very first investments, and she had to call someone or send off a letter to buy some shares and she got sent a share certificate and it was all very manual, paying by check or various things like that. And so that was actually a whole process to finally get some ownership in a company. But now, I can set up an account in minutes. If it's an Australian share, I can buy it same day. Sometimes US shares might take a couple of days to get some US dollars but it's easier than ever now.

Owen:
Yeah and we've talked about many different micro investing apps. Just as an example, Raiz, you can set that up and you don't even need to think. You can literally just go and buy your coffee and then the extra 50 cents to round up can go into an investment portfolio. And many of them do that now.

Kate:
Yeah. And as I said before, you don't need to be a finance person to invest and get started. It is so accessible nowadays. If you want to spend lots of time getting to know everything you can, but you can also take a simpler approach and just understand the basics and just get started.

Owen:
If I had a hundred points and I could only say you have to put some in the EQ, emotional intelligence, or some in the IQ intelligence, if I was to do that, if I was to say, "Where am I going to put my hundred points?"

Owen:
I would put 90 into EQ and 10 into IQ because the behavioural side of investing, at least when you're getting started, is so much more important than the IQ. You'll accumulate the basics of what you need to know. I think there's actually a risk. We see this a lot in investing from finance professionals, is there's actually a risk of knowing too much.

Kate:
You can overthink it and overanalyze all the risks.

Owen:
That's it. The more you know, it's like the nurses that have children know every single thing that they need to give their child when they ... Their mothers, but then when they see someone in the hospital, they're like, "Oh, yeah. No, don't worry. Be okay."

Kate:
Yeah.

Owen:
Yeah. Number three, myth number three, is that talking about money is inappropriate. True or false?

Kate:
Absolutely false.

Owen:
Okay.

Kate:
I think talking about money is so important and it really should be encouraged. It does a lot of harm to ourselves and our family and our community by keeping this conversation secret, whether it's about how much you're paid ... We've seen the problems that not talking about salary and being open about that has caused with the wage gap, whether it comes to financial goals, that people are scared to talk about those things. And getting out of debt, which is another area that the shame and hiding of the debt has been really harmful because people have been stuck in these vicious cycles and haven't had the support and resources to get out. And we don't know all the answers but if we start opening up that conversation, our friend might be able to go, "Hey, financial counsellors actually free in Australia. You can call the national debt helpline and get some help with your debt. You're not going through it alone."

Kate:
And even talking about tips for negotiating salary, because suddenly it's not a secret anymore and you actually know some of the strategies to go in that conversation. And we don't usually want go in straight away to catching up with your friend for coffee and going, "How much did you earn last year?"

Kate:
That's a bit personal for those first conversations and not everyone's going to want to talk about everything but I think a really good place to start is just talking about some of your financial goals.

Owen:
Yeah, that's a really good one, exactly what I was going to say.

Kate:
Even just something like, "What are you saying saving up for at the moment?"

Kate:
I think that'd be a pretty safe one to ask a lot of friends and family. They might be saving up for a laptop or a holiday. People love talking about their travel plans. Even starting and just showing you're okay with talking about money to your friends and family and you're a safe person to talk to, because a lot of people, if they've never had this conversation with you about anything financial related, they might not feel that that's okay. And so by starting with small things like, "Oh, I found this really cool money saving tip to do X, Y, Z. Or I'm saving up for this particular trip."

Kate:
You're starting that conversation, you're showing it's okay to talk to me about money.

Owen:
Yeah, it's totally taboo to talk about some things. Things like mental health, people don't talk about that, particularly older, I can be stereotypical, men, don't like to talk about mental health but it's a hugely important thing.

Kate:
Yeah. I feel like growing up, they said at dinner parties, "You don't talk about money, politics, religion."

Kate:
Probably mental health as well, though it's quite fine to talk about your broken bones. But I think especially our generation, it is okay to talk about all of those things and it's becoming more and more common in dinner conversations with my friends. We're talking about those big topics that maybe in our parents' generation weren't okay to talk about at dinner.

Owen:
Yeah. And it's all positive. I think we saw ASIC, the finance regulator, crack down on Finfluencers, people that use YouTube, Instagram, Twitter and whatever to talk about investing and share their money stories. I understand why but I think the biggest bug bear that I have, is that it further enforces this idea that we can't talk about money. The next generation relies on

those mediums to hear stories of money. And we had Emma on the show recently, she talked about relationships with money. It's so important. It starts with communication. I never talked about it growing up, wish I did, really wish I did.

Kate:
Yeah. And you could be the person that changes it for your family and your friends.

Owen:
And through the podcast, podcasts are a very intimate medium, people hear us talking while they're driving, while they're exercising, then they probably switch it off and they don't talk to anyone about it because you don't think you can, but you actually can. And it starts with those goals. If you know a friend that's buying a house as a family, going on a holiday, how are they saving?

Kate:
Yeah, people are more than happy to talk about their property journey usually. Talking about your first investment is a bit scarier but talking about your first property purchase, that's something you can put on Instagram. I think we should also celebrate buying your first share or ETF because that is just as big of a milestone.

Owen:
Yeah, for sure. Okay. Myth number four is, it's too early or too late to sort out your retirement and super. Basically, "Ah, it's too late."

Owen:
Yeah.

Kate:
There's nothing that can be done.

Owen:
Yeah. Or, "It's too early, that's ages away."

Owen:
True or false?

Kate:
I think it is absolute false, and that it is never too early or too late to start with these things, with anything on your finance journey, unless you get to the point where you're dead, it's a bit too late to think about your super but anytime in the lead up to that point, I think is a good time to start. And I always think it's challenging for us to think about retirement and super and all of that stuff that's happening later in life because we find it really difficult to visualise ourself 60 plus years old. And I think it's one of those ... If you use those face tune apps, I was reading a study that

actually said, "If you visualise yourself using an app or a technology that makes you seem a lot older and you can put that picture up ... "

Kate:
And then when they did the study, people that saw this image of themselves that was a lot older, they found it a lot easier to put money away for retirement. Maybe we just need to put a picture of us on our fridge and say, "This is what we're putting money into super for."

Kate:
Because our brains really struggle between the, "Use the money now, versus lock it away forever."

Kate:
... which it's not locked away forever but it's hard to ... If you're weighing up whether I go on this holiday now or I put more into my super, it's quite hard to weigh that up.

Owen:
We've all heard The Marshmallow House.

Kate:
Oh, you love that one.

Owen:
Yeah. And whether or not that's a legit thing is up for debate. But yeah, if you put a chocolate in front of a child and you say, "You can have one today or you can have two at the end of the week."

Owen:
They're going to take the one today. That's the same for us. And it's never too late. We've had people write into us to say, "Hey, I'm 42. I'm getting started. Hey, I'm 50 ... "

Owen:
We've actually got some listeners, particularly in the Australian Investors podcast, that are in their 70s and 80s, and they're still learning about new investments, about new things. And it's never too late. And by the way, it's never too early. In fact, you'd rather be early than late if I'm honest. We've had so many people start listening to the podcast at 16, 17, waiting to become 18 so they can start investing.

Kate:
And even just small changes. If you have multiple funds, considering whether you can change to one fund, obviously keeping in mind your insurances there, looking at your fees, is there a lower cost fund option? Are you in the most appropriate investment option for you? You can call your Superfund, most of them will have help on call now, so you can chat to them. And just seeing maybe you could put an extra $5 a month, and just exploring different options because

small changes can actually have really big impact. And I think there's another money smart calculator that does ... It's a super calculator, and you can see what the impact of a $5 extra month contribution would have on your balance for 10 or 20 years.

Owen:
Perfect, yeah. Myth number five is the only way to invest in property is by buying a home. That's a big one. This was dealt with in Barefoot Investor's book as well, Scott Pape. Is this true?

Kate:
Absolutely not. And I think this is a challenging one for people.

Owen:
Controversial, Kate.

Kate:
There is something really tangible about owning your own property and part of the great Australian dream, but there's actually a lot of different ways ... You might not be able to invest in exactly the same thing, like an individual home, but you can invest in the general real estate industry and the industrial property industry through your Superfund. Your Superfund's probably already got you invested in property in some respect. You might be invested in hospitals or student accommodation or new building sites. You might be invested through real estate investment trust, which I think we've mentioned previously on a podcast.

Owen:
We haven't done a deep dive but we probably should.

Kate:
Yeah. And also, managed funds that give you exposure to property and real estate. And there's even new companies popping up where you can buy properties with multiple people. There's the ones I've seen in the past where you can buy a single brick, a fractional, which I have ...

Owen:
Yeah, I'm cringing if ...

Kate:
Yeah, there's some challenges but it just shows there's more options than you potentially already know about. It doesn't have to be your entire net worth into one individual property now.

Owen:
That's it, yeah. And yeah, your brokerage account is basically a gateway to a lot of these things. You can invest in ETFs or ...

Kate:
Yeah, it's amazing that you can invest in property just through your brokerage account.

Owen:
... REITs or real estate investment trust, REITs as they're called. You can invest in all these through a brokerage account. There're fantastic ways to invest in property indirectly as well. That's good. And yeah, we've got a property course online that's for first home buyers. But for investors, there's plenty of options. Number six, lucky number six, my partner or financial advisor manages the finances Kate, so I don't need to know this. I don't care, it's not my problem.

Kate:
Yeah. And this is one I really strongly disagree with. And I don't know if everyone believes this but I definitely think this is a myth that needs to be busted because at the end of the day, you're the one that cares the most about your finances or you should be. And even if you outsource it to a partner, a financial advisor, whoever it is, your parents, at the end of the day, it's not their money. They're managing your money on your behalf. And you really need to take an interest in your own financial future because money is tied to everything we want to do in life. And I think even if you get those professionals on board, which we're definitely fans of experts here, using accountants and financial advisors, you should still have some idea of what's going on, what's coming in and out of your life, where your money's invested. I don't think you should ever completely abdicate those responsibilities, just because money is so important at the end of the day.

Owen:
Yeah. Even if you're not a financial wizard, seriously just at least ... I don't know, listen to this podcast, take a beginner investing course, beginner finance course. Have the essentials, but there are likenesses between finance and eating and I guess, health in general. You know that McDonald's every day wouldn't be good for you, you know that Coca-Cola isn't good for you every day. But people lack the basic financial hygiene when it comes to high fees, understanding what you're invested in, long term investing over trading. You don't need to be an expert to hold a conversation. Just learning those essentials is really important, but also just for the confidence factor as well. If something happens to your partner or your financial advisor no longer does it ... I'll give you two examples. One, speaking to a retiree over the weekend, their financial advisor had advised them for the last 10 or 20 years but then their financial advisor said, "Well, your balance is too low. We're not going to advise you anymore, it's not worth it for us."

Owen:
What does the retiree do there? Another one was someone that was approaching retirement. They said they had more than half of their money invested in a single investment property on the financial advisor's guidance, and much less than half invested in the stock market. If something happened to that property, that's a huge part of their retirement and they hadn't retired yet. I was like, "You should get this checked out."

Owen:

And I said, "Also, how did you get onto this advisor?"

Owen:
"Oh, it was through my accountant."

Owen:
"Okay, so they know each other."

Owen:
"Oh yes, they do."

Owen:
All of a sudden, this person's in a situation where they're at a disadvantage. By the way, they set him up in a self managed superfund, too.

Kate:
Classic.

Owen:
Yeah, classic. They're at a disadvantage because they don't understand what's going on. They got two experts that could have a relationship that's stronger than your relationship with the expert. At the end of the day, who's looking out for who? And you don't want to end up in those situations. Having at least basic understanding ... They're obviously later in life but even early in life, [inaudible 00:19:30] should probably make these decisions.

Kate:
Having that understanding gives you a lot of confidence and also control and choice over the direction of your life. Because even if you're getting the help or someone else is mostly managing it, you know how much you have, you know what choices you can make. And just having that foundation. You don't need to know all the intricacies. You don't need to spend all weekend learning about different finance concepts, but just having that foundation will really set you up. And these things don't change, the basics of personal finance have been around for thousands of years. Once you learn the basics and figure out what you want, it's so much easier for the rest of your life.

Owen:
It is. And yeah, it's confidence, right. At the end of the day, you're confident. You're empowered. You're independent. Even though you might be in a relationship or whatever, you're independent, strong, you know what's going on. And of course, we're talking about open conversations here. We're talking about people being able to speak fairly. If you're in a relationship where there's financial abuse or domestic abuse, seek expert help, because that is genuinely the best point of call, is talk to your friends, talk to your family because financial abuse is ...

Kate:
Really common in Australia.

Owen:
It's really common. That can be things like not talking about finances, refusing to share bank accounts, even though you agreed to, money going missing.

Kate:
Debt's taken out in one individual's name.

Owen:
You having issues around ... Maybe they've got a gambling or a drug addiction, even though that might not seem like abuse towards you, it could be. Speaking to a financial counsellor ...

Kate:
And most of the major banks now have specific hardship teams to deal with this as well.

Owen:
Yeah, yeah. Yeah, obviously financial advisors are a bit out of touch and love that respect, but you can, and talking to your accountant. There are experts around you that can help manage that transition as well. Okay, excluding that type of situation, which is unfortunately more common than it might seem, we're talking about two people working together or even individual relying on a financial advisor, please just either listen to other podcasts or somehow just have that basic financial acumen. I talked to a lot of financial advisors as we both do, Kate. And they basically say the only way to not retire wealthy in Australia is to F up, and that's to make a mistake. And typically, that happens when you lose sight of your own goals. And how does that happen? Well, someone else enters the fray and pushes their will upon you. Understand that and you'll be okay. Listen to the Australian Finance podcast, it's free twice a week.

Kate:
There are so many resources out there. You just need to start with a couple. It's overwhelming but I think just to bust all these myths ... I guess, I'll just round them up. But the first one is finance is not all about numbers, I'll say that. There's a lot more to it. Numbers might be the language of business but most of it is actually in our day to day conversations and goals and things like that. The second one is that you don't actually need a lot of money or to be a finance person to start investing. It is easier than ever, check out our episodes on micro investing and brokerage accounts. It is so easy to get started nowadays, the hardest part of getting started is really in our head, of taking that first step and making that decision. The third thing is that talking about money is really important. It's empowering, it gives us confidence and it starts that conversation. It really has a ripple effect across our community.

Kate:
We've had listeners write in before that they've spoken to one person who's spoken to another person and suddenly, their whole family's opened up the conversation about money that hadn't

been had for decades. The fourth one, it is never too early or too late to start doing something about your retirement plans and your superannuation. And I'd really recommend getting started. We've still got our super course that you can use there. The fifth one is that there are many ways to invest in property that don't only involve buying a home. There's a lot of ways to invest and many are accessible to you just by a brokerage account. And you probably only invested in property through your superfund. And the sixth one is that even if your partner or your financial advisor or your accountant manage most your financial pitcher, I think you should always be involved in some respect. You should understand the foundations, you should at least have a broad understanding of what's happening in your life, what's coming in and out and where your money's invested.

Owen:
Yeah, finance is getting easier. It is the industry, what you can do with your money ...

Kate:
They're simplifying it for us.

Owen:
Yeah. Things are getting easier. No more checks sent off to buy shares. [inaudible 00:23:57].

Kate:
No, you don't need an economics degree.

Owen:
Yeah. And you don't need millions of dollars, you can do it with a few dollars. You can do it without a degree, you can do it on a low budget and you can do it with a lot of protections in place from regulators and that stuff. If anything, now is the time to be optimistic about money, about investing, about life in general, because there are so many great things being created or that already exist for us.

Kate:
Yeah. Really, there's been no better time to get started taking control of your financial future. If you just take one thing from today, I think it's just being a bit more optimistic and involved with your own finances, and not letting these myths run wild in your head for decades just because someone told you them a while ago.

Owen:
Yeah. Start talking about money. Join the Rask Australia Facebook group if you want to talk about money and you don't have anyone in your life that you can do that with. That's a great place to start. Kate, as always, thanks for joining me on the Australian Finance podcast.

Kate:
Thanks for listening, everyone.