Observer

Bringing you valuable wealth and financial information

Spring Observer

Psychological & Investing behaviours to be aware of

Market trends aren't the only factors affecting your investment portfolio–behavioural biases can significantly impact your returns. These psychological tendencies, like confirmation bias and herd mentality, often lead to poor investment decisions.

FUTURO FINANCIAL SERVICES PTY LTD
ABN 30 085 870 015 | AFSL No. 238478
EMAIL: info@futuro.com.au
www.futuro.com.au

INSIGHT INVESTMENT SERVICES PTY LTD
ABN 22 122 230 835 | AFSL No. 309996
EMAIL: info@insightinvestments.com.au
www.insightinvestmentservices.com.au

HEAD OFFICE:
Level 3 240 Queen Street
BRISBANE QLD 4000

PHONE: (07) 3018 0400

WA OFFICE: (08) 9388 9009

Behavioural biases are mental shortcuts or blind spots that can mislead us, even when our choices seem rational. Understanding the most common biases and their impact on our investment decision-making is crucial for achieving the best possible returns.

1. Confirmation Bias

Confirmation bias means that we seek out information that confirms existing beliefs or investment decisions while ignoring contradictory evidence. This can lead to a lack of diversification and increased risk exposure. For example, a person who holds significant shares in a company might ignore all negative news about that company.

2. Overconfidence Bias

This bias leads investors to overestimate their ability to predict the market or pick winning shares. It can result in excessive trading, higher transaction costs, and lower returns.

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3. Loss Aversion

People always feel the pain of losses more acutely than the pleasure of gains. As a result, investors may hold onto losing investments for too long in the hope that they will rebound rather than cutting their losses and reallocating their capital.

4. Anchoring Bias

Investors often fixate on a particular piece of information, such as the price at which they bought a stock, and use it as a reference point for future decisions. This can prevent them from adjusting their strategies in response to new information or changing market conditions.

5. Herding Behaviour

Herding behaviour occurs when individuals follow the actions of others instead of making independent decisions. This behaviour can lead to exaggerated market movements driven by mass sentiment rather than fundamentals.

How can we overcome behavioural biases?

The good news is that you can manage your behavioural biases and minimise their impact on your portfolio.

1. Awareness

Becoming aware of behavioural biases is the first step. This awareness can help you identify triggers that lead to biased thinking, enhance self-reflection to question your instincts and reactions, and improve your ability to regulate emotional responses like fear and greed, which often drive biased decisions.

2. Stick to a plan

Create a clear investment plan based on your goals and risk tolerance. Regularly review this plan to stay on track and avoid impulsive decisions.

3. Get different opinions

Don't rely on just one source of information. Seek out different perspectives and understand the reasoning behind recommendations. This helps you see the bigger picture.

4. Review regularly

Schedule regular reviews of your investment portfolio to ensure your investments are aligned with your goals and adjust for any changes in the market or your life.

Investing can be challenging, especially when dealing with behavioural biases. This is where a Financial Adviser can be incredibly valuable.

Advisers provide expertise and objectivity, helping you navigate and overcome these biases. They guide you through a disciplined investment process, regularly review your portfolio, and offer diverse perspectives to ensure better decision-making.

Don't leave your financial future to chance–work with a Financial Adviser to confidently navigate the complexities of investing and achieve your long-term goals.

Your Super:
A scammer's new target

In a recent media release, the Australian Securities and Investments Commission (ASIC) warned about a new scam doing the rounds. Scammers attempt, through cold calls to superannuation savers, to extract personal and super fund details by offering incentives in the form of gift cards, competitions or mobile phones. Some induce victims to create an account on their 'comparison website' to legitimise themselves and their advice.

Rosie's story:

When you get those phone calls in the evening, you know, around dinner time, you're immediately suspicious. But Steve rang mid-morning saying he represented a well-known investment firm.

He said that his area of expertise was superannuation, and that it would only take a moment for him to explain what he could do for me. He then guided me through the steps for creating an account on his website.

Naturally, I was cautious, but Steve reassured me it was just a comparison site, and I wasn't signing up to anything.

He showed me how to compare my super fund's returns with others, and the website seemed so legit that I felt a bit silly for initially having doubts. I listened to what he had to say, and it all made sense.

Gerry's story:

The first I knew about all this was when Rosie called asking me to transfer her super into an alternative fund.

A bit of background; Rosie has been a client since we first set up a retirement plan and savings strategy for her, twenty-odd years ago. As her lifestyle changed over time, we reviewed and tweaked her portfolio, and she was on track for a comfortable, self-funded retirement.

Rosie is an intelligent woman. She may not be a superannuation expert – that's my job – but we've had some quite detailed conversations about her retirement and savings portfolios. So when she asked me to facilitate her roll-over to this other fund, well, to say I was concerned was an understatement.

Scammers pose as financial planners or investment managers. Traditionally, they have targeted individuals searching online using words like, 'safe', 'superannuation or 'long-term'.

Recently, they've gone to the next level and begun cold calling.

Rosie:

When I phoned Gerry, he seemed reluctant to organise my roll-over. He asked me for the details of the fund I was rolling into and said he'd get back to me. I thought he was just a bit miffed that I was talking to someone else.

Gerry:

Alarm bells were going off in my head. I asked Rosie to sit tight for a day while I researched the fund. I contacted the company this Steve fellow claimed to represent and asked them a few questions. Of course, neither Steve nor the fund existed.

Then I checked whether the fund had a USI (unique superannuation identifier). Nothing for that either. I rang Rosie.

Rosie:

I was shocked, I mean, Steve sounded so genuine – and the website! Wow. What a close call! Gerry told me to report the scam to Scamwatch. They contacted me and said this kind of thing was increasingly common and recommended I join the 'Do-not-call register'.

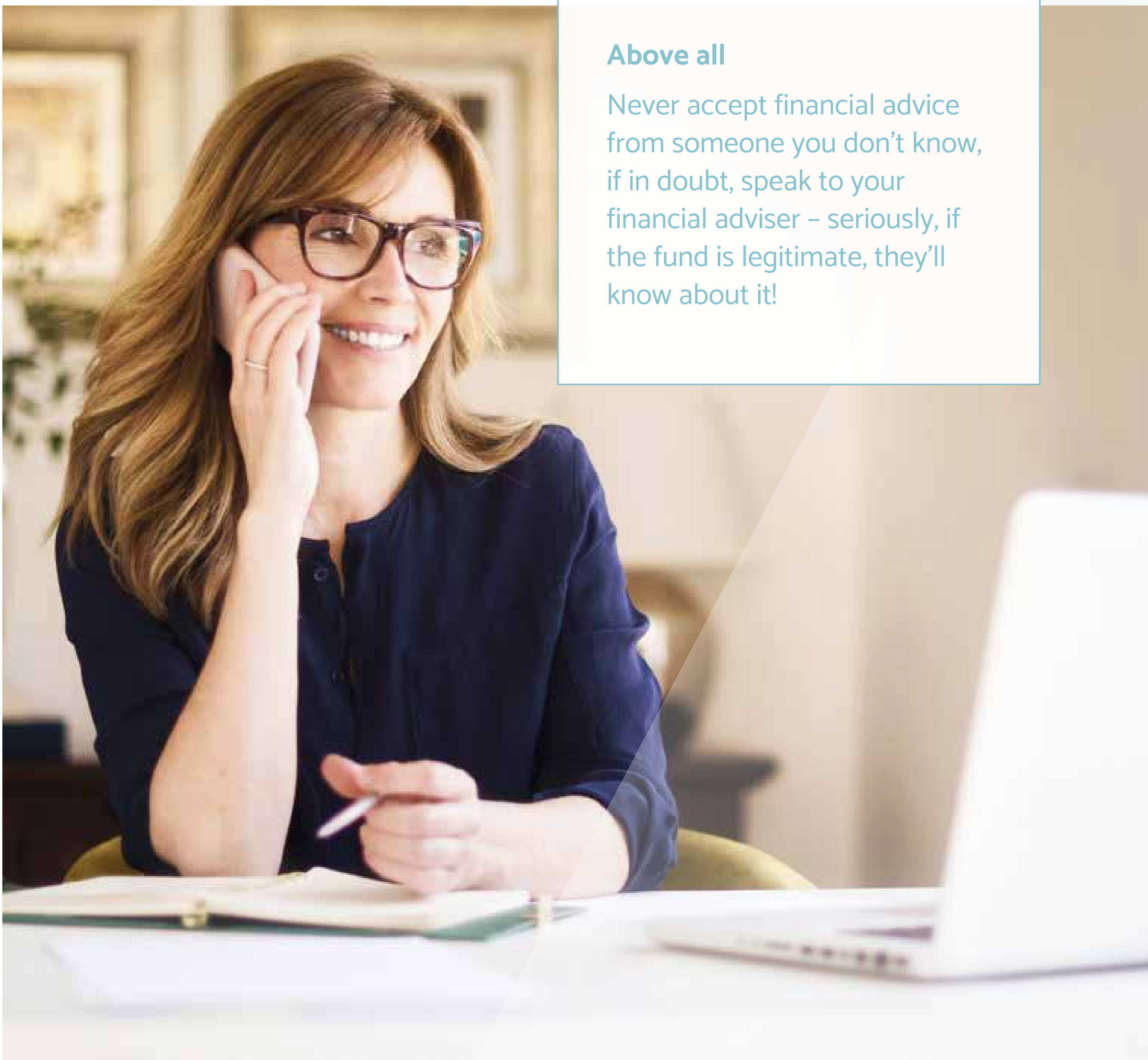
Lesson learned. I've had a great working relationship with Gerry for years, there's a reason for that! I'm due for my annual review next month – Coffee's on me!

If you suspect a scammer has called you,
ASIC recommends you:

- **hang up immediately,**
- **contact your superannuation fund and bank and block withdrawals,**
- **join the Do-not-call register.**

Above all

Never accept financial advice from someone you don't know, if in doubt, speak to your financial adviser – seriously, if the fund is legitimate, they'll know about it!



10 Common Financial Myths BUSTED!

Navigating the world of personal finance can be challenging, especially with the myriad of myths that can cloud your judgment.

From misconceptions about debt to misunderstandings about investing and retirement planning, these myths can lead to poor financial decisions and missed opportunities. So, we thought we'd bust them once and for all!

Myth: "I'll never be "good at" money."

Fact: Financial literacy is a skill that can be learned and improved over time. Resources such as books, online courses, and financial planners can help you develop better money management skills. Many successful people have improved their financial literacy through education and practice.

Truth: You can be "good at" money. Give yourself some credit; you've got this!

Myth: "I'll be able to start budgeting/saving/investing once I start earning more money."

Fact: Effective money management is about making the most of what you have, regardless of income level. Starting small with budgeting, saving, and investing can build good financial habits that benefit you regardless of income. The key is consistency and discipline, not the amount you start with. Even high-income earners can face financial challenges if they don't manage their money wisely.

Truth: Let's be real; you can start now. What's the harm in trying?

Myth: 'All debt is bad.'

Fact: Good debt, such as mortgages or student loans, can help build wealth and invest in your future. The important factor is managing debt responsibly and ensuring it fits within your financial plan.

Truth: Shopping on a credit card you only pay the minimum balance on = bad. Investing in high-quality wealth-building assets = priceless.

Myth: 'You need to buy a home.'

Fact: Whether to buy or rent depends on individual circumstances, including financial stability, career plans, and lifestyle preferences. While buying a home offers its advantages, renting can be a smart financial decision depending on your circumstances. It provides flexibility and can sometimes be more affordable than homeownership.

Truth: The Great Australian Dream doesn't have to be your dream… and that's ok.

Myth: "It will never happen to me."

Fact: Unfortunately, unexpected events can happen to anyone regardless of age or health. Insurance provides financial protection and peace of mind in case of an emergency, accident, or illness.

Truth: The person 'it' happened to probably thought 'It will never happen to me'"

Myth: "I don't have enough money to invest."

Fact: Small, regular investments can grow significantly over time due to the power of compound interest. Many investment platforms offer a range of low-cost options that allow you to invest with minimal amounts, meaning you don't need a lot of money to get started growing your wealth!

Truth: No more excuses! Investing isn't only for the wealthy!

Myth: "Investing in the stock market is too risky."

Fact: While the stock market does involve risk, diversification and long-term investing can mitigate this risk and provide substantial growth opportunities. Educating yourself, alongside seeking advice, can make stock market investing accessible to everyone.

Truth: Some might say not investing in the stock market is risky.

Myth: "I don't need to worry about retirement until I'm older."

Fact: Planning and saving for retirement early allows your money to grow through compound interest, ensuring a more secure financial future. Early planning also provides strategic opportunities, such as taking advantage of concessional super contributions, which can reduce your taxable income. The earlier you start, the more you can benefit from these strategies, allowing you to build a substantial retirement nest egg over time.

Truth: One day, you're fresh in the workplace, experiencing a half-decent disposable income for the first time (cha-ching), thinking you don't need to worry about retirement… Then, suddenly, you're 5 years out from retirement, wondering where the last 30 years went!?

Myth: "You don't need a will or estate plan unless you are rich or have children."

Fact: Everyone should have a will or estate plan to ensure their assets are distributed according to their wishes, regardless of wealth or family status. Estate planning can prevent legal complications, ensure your wishes are honoured, and simplify the process of administering your Estate.

Truth: Make sure you have an Estate Plan in place… if for no other reason than making the lives of your loved ones easier.

Myth: "You need to have a lot of money to have a financial planner."

Fact: Financial planners can provide valuable advice and strategies for people at all income levels. They can help with budgeting, saving, investing, and planning for future financial goals, making their services beneficial for everyone!

Truth: What came first… the chicken or the egg?

Whether it's starting to save and invest early, understanding the true value of good debt, or recognising the importance of estate planning, challenging these misconceptions is crucial for making informed decisions and taking control of your financial future.

If you've experienced a myth-busting today and are ready to "face the facts", contact us to find out how we can support you on your new path forward.