smart TALK

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FROM THE DESK OF PHILIP ENGER

Dear Reader,

You may have wondered many times in the past why it is that the US market, (as represented by what happens on the New York Stock Exchange – which we read and hear about every day in the media), regularly outperforms the local Australian equivalent, the ASX 200 Index. This is despite the fact that the US economy is hamstrung with debilitating debt, high unemployment, and a weakened currency, and near zero interest rate: while the Australian economy is performing strongly with low unemployment, manageable debt, (budget is scheduled to be in surplus by 2013–14), a rampaging dollar that has soared past US dollar parity in recent times, and relatively high interest rate levels to attract foreign capital. This contrasting circumstance is the direct fall-out from the GFC and the great economic meltdown of the past two years.

With the mining boom seemingly underwriting our future prosperity into the blue yonder, one would expect our share market performance to be reflecting this mass of good fortune and be outperforming its US counterpart. Or so the Lucky Country syndrome portends. Alas, it is not the case.

The simple answer to this counterintuitive situation is that the question of an existence of a symbiosis between movements in the two indices, is itself a non sequitur, (the inferences do not follow from the premises), because it does not follow that the two markets should, for whatever reason, perform in tandem in some notional synergistic embrace. The reality is that the two economies, as summarized above, are vastly different in scale and nature, and despite our usual practice of following US trends, most market movers and shakers ultimately respond to local cues, and global events and pressures.

Of course, the biggest and most influential player on the block is China which has become the catalyst to a complex dynamic in an unpredictable global economic landscape.

As investors or as keen observers of the machinations of the business world, we should never be diverted from the real task and purpose at hand: to recognize that it is far more important to understand the strengths and weaknesses of specific businesses and the appropriate corporate sectors they operate in, than to focus myopically on equation derived market indices. **The smart investor usually focuses on the specific business entity and its competitive environment**. It is this part of the investment equation that has to deliver the bacon.

The moral of the story, is that it is wiser to keep our feet on the ground than to suddenly fall out of the sky. If at some stage we all have to suffer a fall it is better to fall from a lower height, because that way we don't have to fall so far, and will have a better chance to recover and prosper. Investing is inherently dangerous so caution needs to be exercised. Vivre la difference, the French would say! Yes, but it would be better if it didn't hurt in the pocket quite as much.

BUDGETING

Smart ways to use and handle money is a poorly practiced art form. Budgeting belongs in this category, but please don't stop reading(!), budgeting is not just about a tedious or onerous task of rummaging through what you spend and earn. Budgeting is much more about how to analyse your financial situation rationally, to improve your cash-flow and reduce wasteful and unintended leakage of scarce funds. It is a mental process to identify alternatives ways to looking at the same problem.

That is, you can achieve similar results by cutting expenditure or increasing the 'productivity' or usefulness of your financial practices. You can spend less or get more from what you spend. For example, you can spend your tax refund or use it to reduce your credit card debt. By doing that you are effectively using your money productively, rather than wastefully. There is an opportunity cost attached to that ATO cheque. Remember *opportunity cost* is the cost of any activity measured in terms of the best alternative forgone. It is the sacrifice related to the second best choice.

Similarly, you can pay for a purchase by using EFTPOS instead of a credit card. In this way you are using your own money and not borrowing to pay for the item, which is what you would be doing if you used your credit card. By doing that you are also saving on credit interest which is not insignificant.

CRISIS EVENTS

There are situations that eventuate out of the blue that demand purposeful action and clear thinking. Take four typical crisis events that often leave our emotions in disarray and our actions wanting:

- you get retrenched
- you can't pay your bills
- you get an unexpected windfall
- there is a major change in your family/work situation that requires action.

CRISIS events

WHAT SHOULD YOU DO WHEN YOU GET RETRENCHED?

The first thing is not to panic – easier said than done, you say. That's true, but you can't afford to go off the rails at your greatest moment of need. After you have recovered from the shocking news and swallowed the injustice or humiliation that has been heaped on you, make sure of your entitlements and the best way to handle any money that may be owing to you. Most importantly, don't make any hasty decisions and don't sign anything before you get professional advice, or you could live to regret it.

These are times that require you to gather information, seek advice, go to seminars, and assess your overall financial situation and even your life goals. You need to assess the implications of your superannuation benefits, tax arrangements and how to cope with this large and stressful disruption to your life.

If you find all this too stressful and difficult to organise, don't hesitate to come and see us and we will do it with you.

WHAT SHOULD YOU DO IF SUDDENLY YOU CAN'T PAY YOUR BILLS?

Once again, don't panic! Do the most obvious thing: sit down and calmly add up what you need to live (rent, mortgage, credit cards, school fees, etc), and make an assessment about the money you can draw on while you sort out a way to re-establish higher cash flow. The next thing to do is contact your creditors – those you owe money to – and explain your predicament; make some sort of offer to service your debt with a time scale and secure commitment to at least cover the interest rate and charge components. Try to negotiate some workable deal with your creditors and then confirm those arrangements in writing.

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WHAT IF YOU GET AN UNEXPECTED WINDFALL?

A good situation, you might think! And you would be right. There is, however, a lot to consider in this fortuitous situation. There is no doubt that a windfall can become a poisoned challis or can disappear as quickly (and mostly painfully), as it appeared. The key to successfully accommodating the newly acquired asset and potentially leveraging its value, is to think and plan carefully without haste and foolish spontaneity. For all this to happen you will need help from a financial planning expert. Without such professional help much of what you have acquired will simply disappear as the tax and legal landscape is complex and bewildering.

WHAT IF THERE IS A MAJOR CHANGE IN YOUR FAMILY/WORK SITUATION THAT REQUIRES ACTION?

This scenario is a real sleeper as no two situations are the same in either nature or in personal impact terms, but one thing is for sure: this where it can get tough and where the tough will get going. In other words major changes in family and work situations represent not only structural and emotional challenges but opportunities for growth and better outcomes. To be able to take advantage of changed circumstances (either in diversity or new opportunity), requires a state of mind that is able to focus on the task at hand with a can-do and must-do attitude. This state of mind requires but one decision: immediately seek advice from a trusted source that can handle the full range of financial and personal management issues.

We are always here to assist you in all these tasks, in good and bad times!

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