Earning your fair share of stock success

Noel Whittaker

IN a recent article on the magic of compound interest I used the example of 9 per cent a year. This resulted in several emails asking how to get a "safe 9 per cent" on your money and how to get started in shares.

But the word "safe" is misleading. Every investment has a downside and an upside — the trick is to understand both. You may think putting your money in the bank is a "safe" investment, and there is no doubt it is ideal in the short term. But over the long term, it is a risky investment because the small amount of interest you make will be eroded by tax and inflation, and there is no chance of capital gain.

If you opt for property, you leave yourself open to the risk of repairs, maintenance, vacancies and capital loss. If you choose shares and pick the wrong company, you can lose the entire investment.

So, a better question would be: "How can I obtain a reasonably reliable 9 per cent a year on my money over the long-term?" For example, in my self-managed super fund I have investments in property syndicates providing a running yield of about 9 per cent annually. They provide diversity and allow me to invest in high-quality shopping centres, which I could never do on my own. The disadvantage is my money is tied up until the managers decide to sell a centre, as I am effectively a part-owner of a building.

I also have a holding in the Investors Mutual Equity Income Fund, a conservative managed fund designed to pay a monthly income. The return over the past five years has averaged 10.1 per cent, consisting of 8.4 per cent income and 1.7 per cent growth. But, because the fund invests mainly in Australian shares, there are years when the returns are low and years when they are high. A major benefit is the fund pays a high degree of franking, which enhances the after-tax yield.

Further diversification is obtained by keeping about 40 per cent of my super fund in international managed funds. They may have been volatile recently, but over the past decade have averaged better than 12 per cent a year.

So, I do believe it is possible to get a reliable 8 to 9 per cent over the long term if you are prepared to accept the volatility of shares. But this begs the question of how you choose them.

There will be readers who have a great track record in picking stocks. Unfortunately, I'm not one of those, and I believe few people are.

One option is to consult a financial adviser. A good one will cast an eye over your entire financial situation and recommend strategies to speed up your journey to wealth.

They will also recommend quality managed funds, which often outperform the index.

If you are just starting off, or your affairs are simple, you could start with Acorns, which will do the asset selection for you. Its main fund has averaged 13.99 per cent a year since inception two years ago.

Or simply invest in an index fund. The one I use has the ASX code STW, is run by State Street, and tracks the leading 200 stocks in the ASX. The management costs are just 0.19 per cent a year and it is currently paying a franked income of about 4.5 per cent a year. Since inception in 2001 it has returned an average of 7.89 per cent after fees.

Just keep in mind that this is an index tracker. If the market falls 2 per cent tomorrow, your portfolio will fall with it.

I hope the above information can lead you to achieve solid, long-term returns. But remember, the aim of this column is to educate, so it should just be a starting point for you to do your own research about how to get yourself on the right track.

Noel Whittaker is the author of *Making Money Made Simple* and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

Barefoot responds: You have nine kids? That's very impressive. I have 66 per cent fewer kids than you, and my life resembles the Teletubbies.

Now, with nine kids you're in danger of setting a very expensive precedent by bailing out your eldest. Even if you could afford it, I still wouldn't recommend it. Your son is in desperate need of a life lesson, and if you go the hook for him you're denying him that opportunity (at best) and screwing yourself financially (at worst).

The Barefoot Investor: The Only Money Guide You'll Ever Need (Wiley) RRP $29.95

It takes a lot of guts for a parent to sit back and let their children learn from their experiences. Be courageous.

Besides, your son's problem isn't the interest rates he's paying — that's the symptom. His problem is that he has out-of-control spending. The sooner (and more brutally) he works that out, the sooner he'll start behaving like an adult, take responsibility for his actions, and move forward.

There are no magic wands, but all the answers he needs are waiting for him in the book you've already given him.

ASK THE EXPERT

Send your questions to Noel Whittaker noelwhit@gmail.com or tweet @NoelWhittaker

Q If I withdraw all my super at age 61 to buy a four-wheel-drive trailer to live in self-sufficiently, will I be penalised by the age pension system when I reach 65?

A For social security purposes, a person is considered a homeowner if they are living in a campervan, caravan, transportable home or boat owned, or partly owned, by themselves. Irrespective of the person's choice, social security law provides for the exemption of that home from the assets test, regardless of value. If you choose to live in the trailer you would be considered to be a homeowner and it would not be assessed as an asset.

Psychopaths in the workplace no bad dream

WORKPLACE MATTERS

Gary Martin

A FRIEND of mine was complaining to me about his boss. He quipped that he thought his manager displayed a raft of psychopathic tendencies, but quickly retracted his statement and said: "That's not right — after all, psychopaths are killers."

Not so, many experts would argue. Only a small number of psychopaths — psychopathy is often described as a form of antisocial personality order — are criminals. Others make use of their traits to navigate or take hold of the workforce.

Our perception of a psychopath being a violent criminal, or even killer, stems from an array of television shows that portray psychopaths as serial killers who simply cannot function in a normal society.

Yet the reality, if you believe the many anecdotal accounts from those in the workplace, is that there are literally hundreds of non-criminal but self-serving, egocentric, conceited, self-loving people in the workplace, some who lead major organisations or hold senior leadership positions and qualify as psychopaths, or at least possess psychopathic tendencies.

Taking the criminal element out of the equation, ask the average worker to describe the characteristics of the workplace psychopath and the traits pour forth — an exaggerated sense of self-worth, pathological lying, a heightened lack of emotional intelligence, a lack of empathy, a skilful manipulator, a parasitic workplace style, a master of persuasion, a lack of self-control and a remarkable absence of social conscience.

And this list is by no means exhaustive.

Just to mitigate the impact of these characteristics, workplace psychopaths have another set of characteristics. They can also be absolutely charming, masters of disguise and amazingly charismatic.

And the danger is some experts believe that in many organisations the positive characteristics, such as charisma, conceal narcissistic behaviours in such a way as to portray the workplace psychopath as emerging leadership talent.

Once in a leadership position, those with psychopathic tendencies will use their traits to carve out distinguished careers for themselves while leaving behind them a path of destruction, with the professional lives of subordinates the carnage along the way.

And a further warning: psychopaths are attracted to organisations that allow their negative traits to go unchecked. It's a call to anyone working in a human resources department to be on high alert.

And the alert needs to be extended to all of us.

If inappropriate and poor behaviour goes unchecked in the workplace it provides a foundation or fertile breeding ground for the wrong type of leadership.

It allows those with psychopathic tendencies to take hold of an organisation in such a way that their negative characteristics and behaviours appear to become the norm. And, once they are entrenched in an organisation, they are there for a very long time.

The lesson for all of us is to spot the warning signs early and use a positive workplace culture to nip psychopathic behaviour in the bud.

Professor Gary Martin is chief executive at the Australian Institute of Management WA