When things get tough, tough it out

Noel Whittaker

TODAY is the 10th anniversary of the collapse of Lehman Bros, which triggered the global financial crisis.

It's true those who don't learn from history are doomed to repeat it, so let's reflect on the lessons we have learnt from the GFC, the biggest crisis in most of our lifetimes.

In my view, the strategies adopted by the Rudd government when the GFC hit were wrong. It was a no-brainer they needed to pump money into the economy to keep it turning over, but sending $950 to most Australians, coupled with massive spending on insulation batts and infrastructure, was not the best way to do it.

A much better strategy would have been to cut taxes.

This would have pumped a mass of money into the economy from day one, with the unique advantage that tax rates could be restored the moment the crisis was over.

That's impossible to do if you are relying on expenditure projects that can take years to show any benefit.

You may be surprised to learn interest rates in Australia were on the rise in early 2008, with the Reserve Bank raising rates twice, in February and March, by 25 basis points to take the cash rate to 7.25 per cent. The Banks followed suit and by late 2008 the standard variable rate reached 9.3 per cent.

The RBA did not start dropping rates until September 2008, with a first reduction of 25 basis points. Reductions continued until August 2016 when the cash rate bottomed at 1.5 per cent. In August 2008, the average home loan balance was $270,000, requiring repayments of $2332 a month on a 25-year term at 9.3 per cent. When the GFC hit, I urged readers to maintain their current payments, if at all possible, to give themselves a safety buffer.

Anybody who followed that advice would now be laughing. They should owe just $28,000 on their housing loan and will have it paid off 15 years faster than if they had reduced their repayments as interest rates fell. The interest saved is close to $300,000. The first lesson? When things get tough, just stay on track.

There have been many stories in the media about people who lost life savings in the GFC and were burnt so badly they have never invested in any asset class apart from cash since.

But history shows that cashing out was a bad decision.

Think about a person who had $300,000 in a share portfolio that matched the All Ordinaries Accumulation Index, which includes income as well as growth. If they had left their portfolio untouched it would have dropped to $258,000 within 12 months of the GFC — a loss of 14 per cent. But by hanging in there that portfolio would now be worth $567,000, a return of 6.6 per cent a year over the past 10 years.

Now, I appreciate the All Ordinaries Index, of itself, hasn't kicked too many goals over the past decade, but keep in mind that the index pays a fully franked yield of about 4.5 per cent, which means your money is doing OK while you wait for the inevitable recovery.

The second lesson? When markets crash, as they do from time to time, hang in there. All you do when you cash out is turn a theoretical loss into an actual one.

The big question is where to from here?

Certainly, the world is in an interesting place, with hundreds of trillions of dollars of debt to be washed out of the system. But I believe if you take control of factors within your control, you will be OK in the long run. If you follow the basics, such as keeping spending under control and having a diversified portfolio, you should be able to face the future with optimism.

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.

their benchmarks in 2017-18, lending more ammunition to the case for passive (index) investing."

Vanguard Investment's Robin Bowerman said: "I don't think anyone is surprised by the results.

"Active underperformance is less about the investment style and more about the high costs. In investing, the more you pay, the less you get."

So, my final piece of advice is this: By all means join the class action if you think you can claw back some money.

But that's all in the rear-view mirror.

For the future, keep your eyes on the road and your hands upon the wheel.

Do not rely on the regulators, or your super fund, or lawyers, to look after you.

Instead, do what Frank didn't, and ask your super fund whether you'd be better off having your money invested in low-cost, passively managed index funds.

Tread Your Own Path!

The Barefoot Investor for Families: The Only Kids' Money Guide You'll Ever Need HarperCollins RRP $29.95

ASK THE EXPERT

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

Q I am 36, earn $120,000, and my wife is 30 and not working. We have no children. We own our home outright and have a $276,000 mortgage on an investment property returning weekly rent of $475. I have $300,000 in super and $40,000 in cash, and am considering buying another investment property for $500,000. Do you think this is a sound investment decision or can you recommend alternatives?

A You should be receiving about $18,000 clear on the investment property, which should go close to making it neutral geared, at least. I guess investment property is fine if you have the skills and the time to find a bargain, but I must admit I prefer shares as you can simply buy the index and not have to make difficult decisions. Of course, if you have your heart set on residential property, you could always make sure your superannuation is heavily skewed towards shares

Work hard to avoid becoming a workaholic

WORKPLACE MATTERS

Gary Martin

YOU regularly work long days, often on the weekends and during your holidays.

You are the first to arrive at work and the last to leave, and you are always checking your phone for messages and emails, even long after the work day has finished.

Does that mean you are a workaholic, or simply a hard worker?

Everyone has heard about the person who is so obsessed with their job routine they can't relax for a second. And it's a fact that those addicted to work do work long hours, though simply working long hours does not make them workaholics.

There are other defining characteristics of this addiction that help distinguish between working hard and being a workaholic. Those addicted to work, for example, put work above everything else, including their health, family and friends. They constantly think of work even when they are not at work.

A hard worker, on the other hand, is able to detach from work when a personal matter requires their attention.

And while most hard workers gain a sense of satisfaction and achievement from working long hours, workaholics often feel anxious, frazzled and overloaded.

The irony is that workaholics, despite their investment in work, often experience lower levels of job satisfaction than regular hard workers.

Yet another common characteristic of the workaholic is that they tend to prefer work to leisure.

Most workaholics have little, if anything, meaningful in their lives that takes the place of work and few, if any, other interests. In fact, in some cases work is their life — quite literally their raison d'etre, or what they believe is the reason for their existence.

It follows that some employees develop an addiction to work because of what might be described as gaps in their lives. Those gaps could include low self-esteem, being generally unhappy in life, or a burning desire for social validation.

Workaholics throw themselves into their work to try to address these gaps. But far from delivering a satisfactory solution, the more time they invest in work, the wider those gaps become.

There are a number of tactics those addicted to work can employ to overcome their obsession.

They can, for example, attempt to set some boundaries to divide their working life from their personal life. They can engage in regular digital detoxes during which they remove themselves from the temptation to attend to work outside regular work hours, and they can seek professional assistance from a counsellor or psychologist.

For those who prefer to continue to let their addiction to work go unchecked, the outlook for their long-term physical and mental health is poor.

While working hard is rarely linked to specific illnesses, being a workaholic has been linked to sleep problems, mental health issues and high blood pressure.

Time to take that break now?

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