Learn right lessons from experience

Noel Whittaker

INVESTING is difficult if you fall for rumours and half-truths. The following email is typical, referring to an article I wrote discussing assets with the potential to produce a return of about 9 per cent a year.

In it I said that part of my super is in syndicates that invest in non-residential property. This did not sit well with the reader, who wrote: "I was appalled you would recommend commercial property syndicates, which have a history of collapsing and returning nothing. Some friends lost all their funds in a scheme not that long ago".

I am sorry if that is the reader's experience, but the syndicates in which I have invested have performed well and I'm comfortable having 10 per cent of my super fund in that area. It's a matter of selecting the right ones.

The reader went on: "Your second recommendation was investing in the index. What if the market falls, say 30-50 per cent — a likely scenario? Why recommend at the top or close to the top of the market?"

It is accepted nobody can consistently and accurately pick the top and bottom of markets. It is also accepted the market, having fallen to a low point, has never yet failed to reach a record high at some stage in the future. This is why I'm relaxed about having at least 60 per cent of my super fund in shares.

A unique thing about shares is their performance is well documented. At my website www.noelwhittaker.com.au you can choose a start and finish date and enter a notional sum invested in a fund that matched the All Ordinaries Accumulation Index (which includes income and growth). It will tell you how much you would have had if the money was invested from any date you choose. For example, $100,000 invested in January 2007 — just before the GFC — would now be worth $173,000. That is a compound gain of 5.11 per cent a year, though you could hardly choose worse timing.

When in Boston I visited distinguished Harvard professor Ellen Langer, who has written books on mindfulness. She related the story of a friend who was having a house built and was injured in a fall at the site.

The friend said: "I have learnt my lesson."

Dr Langer asked: "And what was the lesson you learnt? Was it not to visit a construction site, not to stand on unstable objects — or was it simply to take more care?"

Her point was the lesson learnt depends entirely on a person's perception.

The person who wrote to me has either had bad experiences, or has heard about other people having bad experiences.

The question to ask is what lesson they think they have learnt? Was it not to invest in commercial property, or to buy shares when the market is booming? Was it not to buy speculative shares, or simply that they did not have the temperament for volatile investments? Should they avoid shares altogether, or simply use managed funds where the decisions are made by full-time professionals?

You may also note this reader interpreted my examples of investments as a recommendation to rush out and buy such assets, rather than a recommendation to investigate these assets and make an informed investment decision. By succumbing to half-truths instead of doing the proper research, my correspondent has potentially lost opportunities that are available to more aware investors.

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.

Loyalty no longer

Zoe asks: A couple of months ago I phoned my bank and they thanked me for being a customer for 29 years. OMG! Twenty-nine years of banking and nothing to show for it except $12,000 in credit card debt, a big mortgage and living pay to pay.

Then I read your book. I have now set up my "bucket" accounts with ME Bank, cut up three credit cards (and paid $2000 off them so far), renegotiated the mortgage interest rate, and increased my super contributions. I have learnt that, at 37, it is not too late to gain control. I am so grateful to you.

Barefoot responds: If I do the maths, it appears that you became a customer of your old bank when you were just eight years old.

Hmmm, I wonder . . . *Which Bank?*

That's the power of the Dollarmites program for Commbank. A survey last year by *Choice* magazine found that 46 per cent of Australians who opened their first account with Australia's biggest bank had not switched to another.

In your case, CommBank gave you some crappy colouring-in books and threw in a kickback to your school, then got to slug you with credit card interest for 20 years.

That explains why one analyst valued Dollarmites as being worth a staggering $10 billion to Commbank.

Kerching! Well done for seeing the light.

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

ASK THE EXPERT

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

Q We are considering selling a unit we've owned for 10 years. We lived in it for a year and it has been rented out since. Is there merit in moving back in (to claim it as a principal place of residence) when selling to reduce capital gains tax or does this simply lengthen the exemption based on the period of time we have lived in it when the CGT is calculated?

A Any capital gains tax payable will be apportioned on a pro rata time basis. When you rented the property out it was deemed to be acquired by you at that date for the market value at that date. You can choose to continue to cover the property with your main residence exemption for six years after you moved out, providing you are not covering another property at that time. As it has been owned for 10 years, and rented for nine years, you would need to start to use it as your residence for a long time to make a substantial reduction in CGT.

Time to ditch the annual performance review

WORKPLACE MATTERS

Gary Martin

WE have all been through it. It's that time of year when an organisation runs its annual "stock take" of employee performance.

This process, often dreaded and dismissed by many as pointless, involves an employee sitting down with his or her supervisor or line manager to review their performance before being "rated".

Many managers and employees don't like the process for a variety of reasons, including a view that the feedback is untimely and there is no mechanism — nor effort — year-on-year to act on anything in the review.

So why is it only now that times are changing and some organisations are ditching the practice of the annual performance review?

Shaun Ridley, a work colleague of mine, offers some insight.

"If it is such a good idea, why don't we use it with our children, our friends and our partners," Dr Ridley said. "The answer, of course, is that we would destroy the relationships with the people we care about most if we introduced annual performance reviews.

"So why then do managers think this approach will work with their staff?"

Dr Ridley further argues that annual performance reviews do not reflect the real world of interactions between managers and team members. He questions why, if you are having regular conversations with someone, you would want or need to have an annual formal conversation about performance.

The fact is that while they are designed to enhance performance, the annual review can do the reverse in many situations.

Many managers and employees would argue that annual performance reviews are political and subjective, and create schisms in their relationships.

And for many employees, the annual performance review can end up as a source of employee anxiety, frustration and annoyance.

These often one-way or one-sided processes are fraught with a range of problems.

Take, for example, the discomfort created by the formal structure that often scuppers the capacity of both the manager and the employee to have an open, transparent conversation that might result in real, honest and actionable feedback.

Consider also the fact that annual performance reviews fail to deliver "real-time" feedback.

Employees don't necessarily want to know what their manager thought of their performance six months back.

They would prefer to know right now.

And ask any manager to name the one task they dislike performing the most, and many will point to the annual performance review because they can be time-consuming, feel contrived and don't always deliver enhanced performance.

Of course, there are challenges with ditching the annual performance reviews given they are a well-entrenched process in many organisations.

Yet the fix is simple: replace the rigid structure of the annual performance review with regular "check-ins" to deliver real-time feedback. Having a process that managers and employees acknowledge as beneficial will go a long way to improving workplace performance.

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