FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO

Hits and myths

An introductory guide to investing

By Mary Holm

Contents

Myth #1	'I am not an investor'	2
Myth #2	'KiwiSaver isn't a real investment'	4
Myth #3	'Investing is just too risky'	8
Myth #4	'I'm not rich enough to invest'	12
Myth #5	'Real investors play the share market'	14
Myth #6	'Investing is too difficult and time-consuming'	16
Myth #7	'I'm too old to start investing now'	20
Myth #8	'Getting advice is too expensive'	22

This guide has been prepared for the FMA by financial columnist and author Mary Holm. The views and opinions provided in the guide are those of Mary Holm and do not necessarily reflect the views or official position of the FMA. Mary's advice is of a general nature, and she does not accept responsibility for any loss that any reader may suffer from following it.

Investing in financial products like shares, bonds, funds and KiwiSaver are all ways to grow your wealth. Regularly putting a little money aside today can reap rewards later in life.

But there are myths about investing that stop many people from taking part. They imagine investors as flash young risk-takers with money to burn. They remember times past when some investments did fail.

Investing isn't risk-free. In fact, if there's one single truth, it's that no investment is risk-free. That's why the proverb 'Don't put all your eggs in one basket' is especially true in investing.

As for the untruths about investing – the myths that may be stopping you or someone you know from taking part – there's no one better to dispel them than Mary Holm, who's been demystifying personal finance for Kiwis for several decades, in books, columns and on radio.

In this booklet written by Mary for the FMA, she sets the record straight on eight common myths about investing. It's a quick guide for anyone who's thinking about or already dabbling in investing – and wants to know more.

Myth #1

'I am not an investor'

If you've ever earned interest in a bank account, you are an investor. I define 'investing' as setting aside money where it can grow by earning 'returns'. Instead of spending it now, you can spend it later, and hopefully you'll have more to spend. So what's a return?

THE FOUR MAIN TYPES OF RETURNS

- **Interest:** The money your bank pays you, for example, on a term deposit. It's your reward for letting the bank have the use of your money for a while.
- **Rental income:** If you invest in a rental property, your tenant will pay you rent – or at least you hope they will!
- **Dividends:** If you own shares in a company, you own a small portion of the company. When the company makes a profit, it often keeps some of the money to grow but gives some back to shareholders as a dividend.
- **Gains:** If you invest in property or shares or any other asset whose value can go up and down, and you sell it for more than you paid for it, that's a gain. Sometimes, of course, you'll sell at a loss, which is a negative return. In a bad period, for example, your return might be minus 10% or more.

The idea is to earn total returns that are higher than any fees, tax or other expenses you have to pay on the investment.

What about bonds?

So far we've mentioned term deposits, shares (sometimes called equities or stocks) and property. Another common investment is bonds. These are issued by central and local governments and companies.

Bonds are rather like term deposits. You give the government or company your money for a period, and they pay you interest at regular intervals during the life of the bond. At the end, you get your money back – unless the issuer defaults.

Other investments

These include commodities, Bitcoin, gold, art and other collectibles. Most of these come with considerable risk, and usually work only for those who know what they're doing – and even then the outcome isn't always good. They're not for beginners!

What about KiwiSaver? We'll look at that in our next myth.

UPSIDE DOWN INVESTING

Paying off a debt has the same effect on your wealth as investing does. Getting rid of a negative is like adding a positive!

Let's say you have credit card debt that's too big for you to pay off with your next payment. You might be horrified to know that you're likely to be paying interest of around 20%.

But here's the thing: paying off a credit card debt that charges 20% improves your wealth as much as an investment that earns you 20%. Wow! What's more, it's 20% after fees and taxes. And it's risk-free.

If you have high-interest debt, make getting rid of it your first 'investment'. Set a goal of paying down the debt over, say, the next few months. You'll end up much better off.

Does this apply to a mortgage?

If you make extra payments on a 3% mortgage, that improves your wealth as much as an investment that pays a 3% return after fees and tax. That's still not bad for a risk-free investment.

On the other hand, paying a mortgage down fast often takes years. Meanwhile, you're not benefitting from spreading your risk over different types of investments. And you're not learning about how investing works – really useful knowledge to build up for later in life.

So I recommend that people with mortgages also invest through KiwiSaver, contributing enough to get all the government and employer contributions. Beyond that, it's good to put spare money into getting rid of your mortgage as soon as you can.

Note: If you have a fixed rate mortgage, there may be limits to how much extra you can pay off without penalty while you're in the middle of, say, a two-year term. Check with the lender. But you can always pay extra at the end of each term.

Does this apply to a student loan?

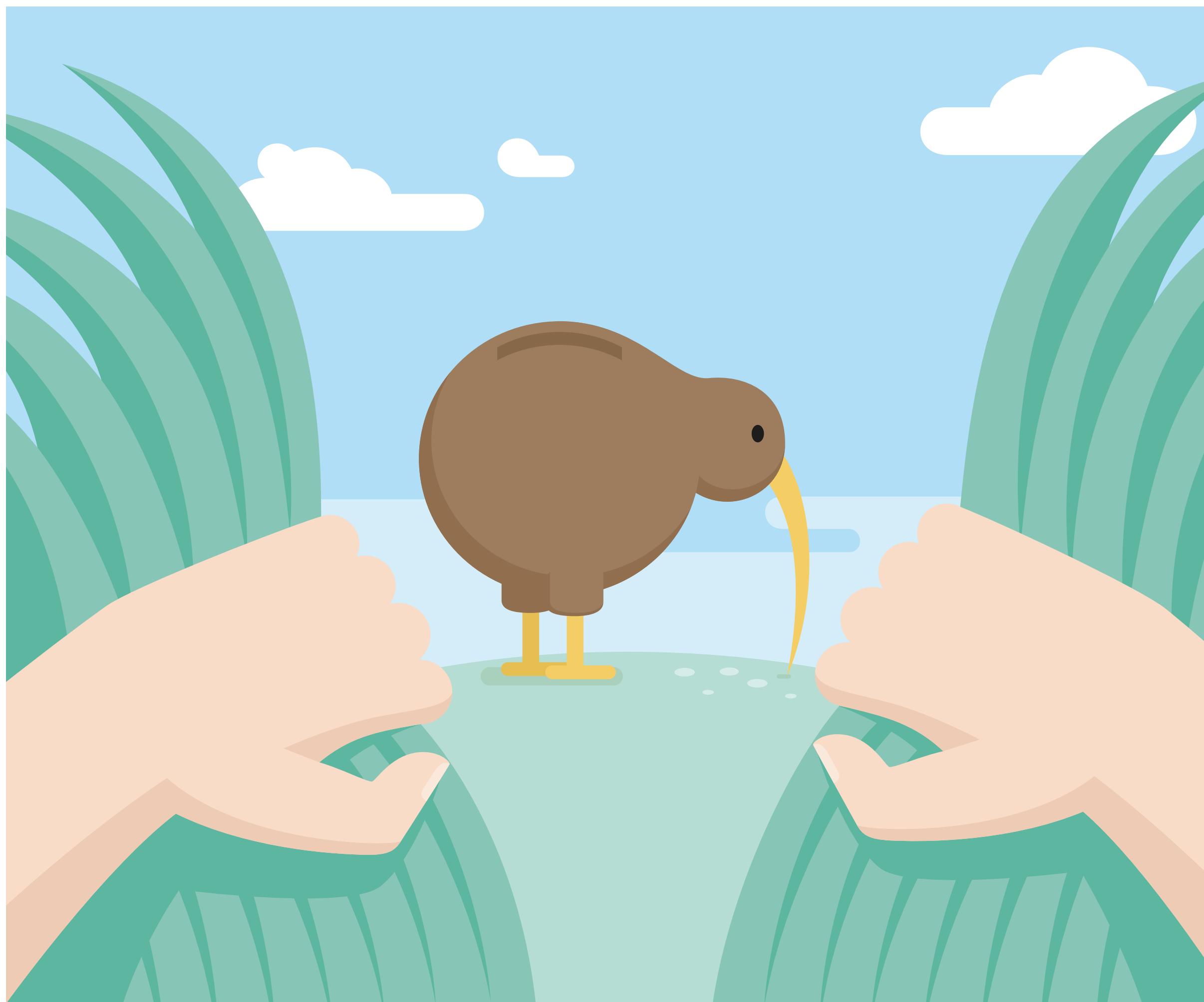
If you're living overseas, and therefore paying interest on the loan, get rid of it as soon as you can. But if you're living in New Zealand, the loan is interest-free, so it's different.

If you're working, you'll be paying down your student loan through payroll deductions. There's nothing wrong with making further payments to get rid of being in debt, but there's no big rush to do that.

Myth #2

'KiwiSaver isn't a real investment'

Thousands of New Zealanders have stumbled into KiwiSaver, by being auto-enrolled when they got a new job. And too many of them haven't taken much interest since. On the other hand, some other KiwiSaver members watch their accounts closely.



Whatever your attitude, your KiwiSaver account is certainly an investment, and a really good one at that. The government contribution of up to $521 a year, and employer contributions for employees, make KiwiSaver hard to beat compared with other investments at a similar risk level.

A KiwiSaver fund is a type of 'managed fund'. The managers of these funds pool money from many people and buy a large number of investments.

This means that, with even a small deposit, you are in a wide range of investments, which reduces your risk. And the managers take care of details such as receiving interest and dividends.

But you have to pay fees for this, which can make a big difference to your returns over the years. Look for funds with fees below 1% of your investment each year, if possible.

The main difference between KiwiSaver and other managed funds

Apart from the government and employer contributions, the main difference is that KiwiSaver money is generally tied up until you buy a first home or reach 65. In most other managed funds you can withdraw money whenever you want to.

Keep accessibility in mind when you invest. While it's great to contribute enough to KiwiSaver to get the incentives, you might want to do further saving in a non-KiwiSaver fund so you can withdraw the money if needed.

On the other hand, if you might be tempted to spend long-term savings, perhaps you should lock away your money in KiwiSaver!

Some non-KiwiSaver managed funds are traded on the stock exchange. Unsurprisingly, they are called exchange traded funds, or ETFs. From the investor's point of view, ETFs work very much like other managed funds.

For more on managed funds see the FMA's 'Funds for everyone' guide.

RISK LEVELS IN KIWISAVER AND OTHER MANAGED FUNDS

Both inside and outside KiwiSaver, managed funds come with varying levels of risk. Some funds hold only low-risk investments – such as bank deposits and high-quality bonds – so your balance is likely to grow fairly slowly but steadily.

Others hold largely higher-risk investments – such as shares and property – which means your balance will go up and down, occasionally falling a long way. In the long run, though, your balance will probably grow more in a higher-risk fund.

Here are the different risk levels:

- **Defensive** funds have the lowest risk. Usually all of their investments are in bank term deposits and the like – sometimes called 'cash' – and perhaps some low-risk bonds.
- **Conservative** funds come next. The managers add some shares to the mix, but they are never more than about a third of all the investments. The rest are lower-risk.
- **Balanced** funds have more shares. Typically they are roughly half shares (and perhaps some commercial property) and half bonds and bank deposits.
- **Growth** funds hold anything from about two thirds to nearly 90% shares and perhaps property, with a small chunk of lower-risk investments.
- **Aggressive** funds are pretty much all shares, with property sometimes added in. They are fairly high-risk investments.

Some managed funds invest in only one type of asset. For example, a fund that invests only in bank term deposits would be included in defensive funds. And a fund that invests only in shares or only in property would be included in aggressive funds.

If you're in a default fund – where you landed at the start – it's a good idea to check if the risk level is right for you.

The idea behind this wide range of choices is that people can choose the type of fund that suits them best.

The best type of fund for you

This depends on:

1. **How soon you expect to spend the money.** If you're planning to withdraw it within three years – to buy a first home, or spend in retirement – it's best to be in a low-risk fund. But if your spending time is decades away, it's better to be in a higher-risk fund. We'll explain risk more in the next myth.
2. **How well you can cope with seeing your balance go up and down – especially down!** Some people can take that in their stride, knowing that managed funds always recover in the end. But others worry too much.

Sorted.org.nz can help you find out which type of fund is best for you.

There you can also check your settings and get the most out of KiwiSaver.

How safe is KiwiSaver?

All investment comes with risk, and the government does not guarantee KiwiSaver. But the FMA monitors it closely.

If a provider gets into financial trouble, that should not greatly affect KiwiSaver members. It's the job of the supervisor of the scheme, which is independent from the provider, to supervise the provider's management of the scheme and its financial position. The supervisor (or another custodian) also holds the investments on trust for the KiwiSaver members. If your provider does get into financial trouble, your account would be transferred to a new provider.

A BIT MORE ABOUT BONDS

I said before that bonds are like term deposits. But one way they differ is that you can usually buy or sell a bond partway through its term. Because of this, bonds fluctuate in value. How come?

Let's say you pay $10,000 for a newly issued five-year bond paying 4% interest, but want to sell it after three years.

- If interest rates have fallen in the meantime, 4% will look good, so a keen buyer will pay you more than $10,000.
- If rates have risen, your 4% bond will be unattractive, so you'll have to sell it for less than $10,000.

Because of this, your balance in a managed fund that holds just bonds or bonds and cash can fall sometimes.

For more about bonds see the FMA's 'Bond voyage' guide.

Myth #3

'Investing is just too risky'

There are investments available at all risk levels. The safest investments are government bonds and Kiwi Bonds, which are backed by the New Zealand Government. However, they often pay low returns.

If you take more risk, over the years you will usually end up with higher returns and therefore bigger savings, although you'll have to cope with ups and downs along the way. However, there are ways you can reduce the volatility of your investments. But first, what exactly are we talking about?

WHAT IS INVESTMENT RISK?

Risk is the chance that:

1. **You won't get the return you want because of inflation.**

   You might have invested in bank term deposits, and you don't realise that inflation has risen above the interest rate. For example, you are earning 2% interest, but inflation has risen to 3%. When you withdraw your money, it buys less than when you started the investment.

2. **You won't get the return you want because of volatility – market ups and downs.**

   Let's say you've invested in a higher-risk KiwiSaver fund, which holds lots of shares. When you go to withdraw money to buy a first home you find the share market has fallen lately and you have less savings than you expected.

3. **You'll lose some or all of your money.**

   This risk depends on the financial strength and integrity of the company or provider. But it also depends on whether and how an investment is regulated.

WHAT CAN YOU DO TO REDUCE RISK?

Inflation risk

It's wise to invest the money you plan to spend within the next few years in bank term deposits or a defensive managed fund, because there's very little chance of your balance falling. And inflation over a couple of years doesn't make much difference.

But for longer-term money, you want returns above inflation. This usually means investing in something riskier – bonds or a middle-risk balanced fund, in or out of KiwiSaver. And if you choose shares, property or a higher-risk fund your returns are likely to be even higher.

Volatility risk

This is the opposite to inflation risk. The very investments likely to beat inflation over the long term – shares and property – are the most volatile ones! How do you cope with that?

Two keys to handling volatility risk

1. **Learn to stay cool when your balance falls.**

   In a major sharemarket downturn, your balance in a higher-risk fund or portfolio of shares could halve, or even worse. Picture that, and promise yourself you will leave your savings where they are. History tells us that as long as you have a wide range of shares your balance will recover, although sometimes it takes two or three years.

   If you're not used to volatile investments, but you would like to try them because of the higher long-term returns, put your toe in the water with a small investment. Most KiwiSaver providers will let you invest in more than one of their funds, so perhaps move a portion of your savings into a growth fund. Or start out with a small investment in one of the online share trading platforms.

   After you've learned the basics and been through a few market downturns and recoveries – to prove you can cope – consider switching more of your savings.

2. **Never be forced to sell a volatile investment in a hurry.**

   To achieve this, invest money you plan to spend:

   – within less than three years, in bank term deposits or a defensive managed fund.

   – within three to ten years, in high quality bonds or a conservative or balanced fund.

   – in more than ten years, in shares, property or a growth or aggressive fund.

If there's a downturn in the markets, you have plenty of years before you need to withdraw the money, and by then it will have almost certainly recovered.

WHAT'S THE WORST THAT COULD HAPPEN?

People are sometimes forced to sell an investment for less than they paid for it because of a financial crisis.

Before making higher-risk investments or borrowing to invest, work through a 'worst case scenario'. Imagine that you lose your income, or develop health problems, or your relationship breaks up, or your property has big maintenance expenses, or whatever else might mess up your financial situation.

Would you have to sell the investment – perhaps when the markets are down and you get a low price for it?

Thinking this way might seem negative, but these are the situations that set people back enormously, so it's wise to be prepared for them. Make sure you have access to rainy day money, or the ability to add to a mortgage – or you have a generous relative! If you are in big financial trouble you may be able to withdraw KiwiSaver money, but that's not an easy process.

The risk of losing money

If you follow the 'rules' above, you shouldn't lose money because you had to sell a volatile investment when its value was down for a while.

But with some investments, the value goes down and stays down. Shares in a company that goes out of business will be worth nothing. And the value of a property in a neighbourhood that deteriorates may plummet.

Sometimes an investment with a finance company or adviser loses some or all of its value because of incompetence or dishonesty.

A good way to help protect yourself from losing money is to use investments that are regulated. The Reserve Bank watches over banks, and the Financial Markets Authority (FMA) watches over KiwiSaver providers and other fund managers, other licensed market services providers, and those providing financial advice.

The government doesn't guarantee investments (although government bonds are, effectively if not technically, guaranteed by government). But regulation makes it much less likely you'll lose money because of a financial provider's misconduct.

CHECK THE EXIT

It's important to note that people sometimes lose money on an investment because, when they want to sell it, nobody is keen to buy.

Always check how you can get out of an investment before you go into it! Is there an organised market, like the stock market or property market? How long will it take to get your money out of a managed fund? In some investments, the managers say they will help you find a buyer, but when the time comes, the only buyers are real bargain hunters, if anyone at all.

DIVERSIFICATION – SPREADING YOUR RISK

Risk and return go together, as we've noted. The higher the risk, the more likely you will receive high returns in the long run, although there will be ups and downs along the way.

The reverse is also true. You can't get high returns without taking risk. If anyone ever tells you otherwise, run a mile! They are almost certainly scammers.

Generally, you can't reduce your risk without reducing your return. But there's one exception to that. By spreading your money over a range of investments you greatly reduce your chances of losing a lot of money. And yet your average return is unchanged.

Let's look at an example. In a single share, the range of likely returns within a year might be minus 100% (if the company goes bust) to plus 200% (if the company does really well). And in a managed fund that holds many shares, the range of likely returns for each of those shares might be the same minus 100% to plus 200%.

But not all the shares will rise or fall together. When some fall others rise. And it's pretty much impossible to imagine all the companies going out of business at once. So the range of returns on the whole fund is more likely to be, say, minus 50% to plus 150%. Your average return hasn't changed, but your volatility has. Some experts call diversification 'the only free lunch in investing'.

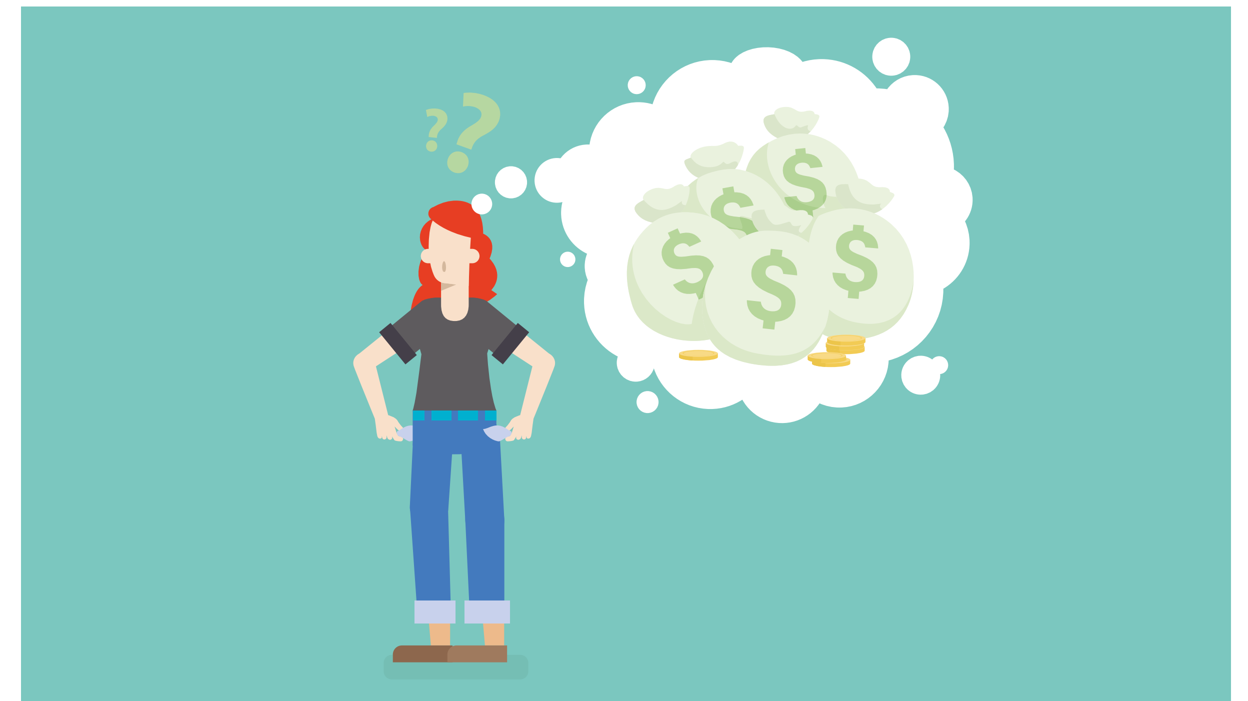
There are several types of diversification

- **Within one type of investment.** You might hold lots of different shares – preferably in many different industries. This could be through buying all the shares yourself, or through investing in a managed fund that holds shares. Or you might hold lots of different bonds, or several properties, perhaps including commercial and residential properties. Again, you can use a bond or property fund.
- **Across types of investments.** It's a good idea to own some shares, some property, some bonds and some cash – in or out of managed funds. They almost certainly won't all lose value at once.
- **Internationally.** You can reduce your exposure to one economy by holding investments in several different countries. An easy way to do this is through a New Zealand-run managed fund, so you don't have to worry about international tax issues and so on.
- **Range of terms.** If you invest in term deposits or bonds, you could have some that mature soon and some that mature later. Then they won't all come up for renewal at a time when interest rates happen to be low.

It's a good idea to diversify in all these ways. The easiest way to diversify is to invest in a managed fund.

Myth #4

‘I’m not rich enough to invest’



Anyone can be an investor, even if you don’t have much money to spare. Careful investing is a way to build wealth over time.

These days there are several ways you can invest small amounts. On some online investment platforms there is no minimum investment at all, and you can make tiny regular investments.

And if you save only a small amount but do it regularly, it’s surprising how your savings add up.

Let’s say you invest just $10 a week into an investment with an average return of 4% a year after fees and taxes.

- After 10 years you’ll have nearly $6,400.
- After 20 years you’ll have nearly $15,800.
- And after 40 years you’ll have nearly $50,400 – which could make a big difference to your retirement!

If you can save twice as much – $20 a week – your final total will be twice as big.

To check other amounts, use the Sorted savings calculator. That calculator gives you results adjusted for inflation. But you can turn that off if you wish.

Compounding returns

Note in the numbers above how 20 years of saving gives you much more than twice as much as 10 years. And 40 years gives you way more than twice as much as 20 years. That’s because of compounding.

When you earn returns on an investment, it’s great if you can ‘reinvest’ that money – leave it in the investment. Then, in the next year, you’ll get returns on those returns. And the year after that it will be returns on two years of returns. And so on.

Over long periods, compounding makes a huge difference. In our 40-year example above, you’ve invested for 2,080 weeks. At $10 a week, your total investments have been $20,800, but your savings come to $50,400. Compounding returns have way more than doubled your money!

In most managed funds, including KiwiSaver, your returns are automatically reinvested for you, setting you up to take advantage of compounding.

Even better in KiwiSaver

In KiwiSaver you’ll do better than the numbers above. That’s because the government – and your employer if you are an employee – add to your savings.

The savings of a typical employee in KiwiSaver will be roughly doubled by employer and government contributions. Where you would have saved $100,000 out of KiwiSaver, you will save about $200,000 within the scheme. That’s powerful stuff.

And the savings of a non-employee who puts in $1042 a year to get the maximum $521 government contribution will be multiplied by 1.5. What would have been $100,000 will be $150,000.

If you are an employee, and you can’t afford the minimum 3% contributions for a while, you can take a savings suspension but continue contributing a smaller amount directly to your provider. If you put in $100 through the year, the government will add $50.

SETTING GOALS

The key to making small investments amount to something is to start investing now. The sooner you start the more time compounding returns can work their magic.

And the key to starting now is to set yourself a savings goal. It might be to save $10,000 for a better car in four years, or to save $100,000 for retirement.

If the goal is big, set yourself milestones to reach along the way, and give yourself a small reward when you reach each milestone.

One more thing: research suggests that if you tell others about your goal you’re more likely to achieve it.

KEEP AN EYE ON COSTS

It’s always important to check the costs of investing. High fees and other costs can eat into your savings total.

In KiwiSaver and other managed funds, you can use Sorted’s ‘Smart Investor’ tool to check your fees.

For example, you can rank all the defensive KiwiSaver funds by ‘lowest fees first’ and ‘highest fees first’. In mid 2020, their fees ranged from 0.3% to 1.5%.

All of these numbers might seem small, but they matter. Let’s say both those defensive funds earned a return, after tax but before fees, of 3%. After fees are deducted, the lowest fee fund has a return of 2.7%, but the highest fee fund has a return of 1.5%.

How much does that matter? If you had a total of $200 going into the fund every month for 30 years:

- In the low-fee fund you would have nearly $111,000.
- In the high-fee fund you would have nearly $91,000.

That’s $20,000, or 22%, more. And over 40 years the gap would be even bigger – $41,000 or 31%. Especially over long periods, fees matter a lot.

You might be saying, ‘Yes, but if I pay a higher fee I would expect to get a higher return.’ Much research shows, though, that high fees are no more likely to give you high returns than low fees.

Myth #5

‘Real investors play the share market’

It’s probably true that people who tend to talk about their investments are more likely to be regularly trading shares – and perhaps bonds, options, cryptocurrencies, foreign exchange or gold.

But that doesn’t make them any more ‘real’ than people whose only investment is KiwiSaver or some bank deposits.

And what many people don’t realise is that those who frequently buy and sell their investments usually do worse than those who simply ‘buy and hold’, or steadily drip-feed into their investments over the years.

Research shows this time and again. Basically, it’s because most investors are not good at picking:

- which shares or bonds will do particularly well.
- when is the best time to buy or sell them.

By the time the ordinary investor has bought shares in a company with good prospects, the share price has already risen to reflect that outlook. And by the time our ordinary investor has bought because the market is rising, or has sold because the market is falling, it’s too late.

Once you add the costs of trading, such as brokerage and perhaps tax, frequent traders often do worse than other investors.

Buying and selling for entertainment

Some people will say they enjoy trading frequently and trying to ‘beat the market’. That’s fine, as long as you realise that your entertainment will probably mean your savings don’t grow as much as if you bought and held.

Are you confident that you – trading in a market with experts who do it all day, every day – are going to be on the winning side of the trades more than half the time?

Sure, if you’ve been trading shares for a while, you’ve probably made more gains than losses. But that doesn’t mean you’ve done better because of your trading. Over the long run most investments in shares grow.

Investing to maximise your savings

The investor who wants to maximise their savings buys a wide range of shares or bonds – either individually or via a managed fund – and sticks with their investment through market ups and downs.

Myth #6

'Investing is too difficult and time-consuming'

The language of investing can seem difficult. There are many options. And all the rules about what you should do, when, can seem confusing.

But investing doesn't have to be hard. It's great to be in there, learning how rising and falling markets affect your KiwiSaver or other investments – perhaps including some individual shares bought through online platforms. But you don't need to be watching daily or even monthly price changes. And you certainly don't need to be buying, selling or moving your money around in reaction to market movements. The hands-off investor often ends up with more than the busy one.

You should keep track of your investments, and check every now and then that they are still appropriate for you. But that's all.

4 WAYS TO KEEP YOUR INVESTING SIMPLE

1. **Use managed funds including KiwiSaver**

   The fund manager selects a wide range of investments, so you don't have to.

   And as discussed earlier, fund managers do a lot of the work for you, keeping track of dividends and interest earned, and making any decisions to be made by shareholders.

   Of course it's fine if you prefer to buy your own shares. But it is undoubtedly more work. For tips on DIY share investing see the FMA's 'Share this' guide.

   Note that if you are under 65 and you use KiwiSaver, you won't be able to access the money, under normal circumstances, until you turn 65 or use the money for a first home. So you might prefer to use non-KiwiSaver managed funds. However, over-65s can access their KiwiSaver whenever they want to.

2. **Invest regularly**

   It works better to invest a certain amount weekly or monthly than to try to pick when it's a good time to deposit or withdraw money.

   If you're an employee in KiwiSaver, your regular contributions will be taken care of by your employer. For others in KiwiSaver it's great to set up a regular transfer from your bank account to your KiwiSaver provider. The same applies to other managed funds or online investment platforms.

   There are two advantages to this:

   – You don't have to think about when to invest.

   – You benefit from what is called dollar cost averaging.

HOW DOES DOLLAR COST AVERAGING WORK?

Let's say you're contributing $100 a month into a KiwiSaver or other managed fund. When you deposit money, the manager uses it to buy units in the fund for you.

If the investment markets have been performing well lately, the units might be worth $20. Your $100 will buy five units.

But later the markets fall, and the units are worth just $10. That means your $100 will buy ten units.

You buy more units when they are cheap and fewer when they are expensive. This reduces your average price. Great!

What if you have a lump sum? Is it better to drip-feed that into, say, a managed fund, to take advantage of dollar cost averaging? The mathematicians say 'No' because, more often than not, you'll make more in the fund than if you leave some money in a bank account for a while.

But if you get your timing wrong, and move the whole lot into the fund right before a market downturn, you will be really annoyed. To avoid the chance of that, it's good to drip-feed the money into the fund in three or four lots, perhaps a month apart.

3. **Take little notice of the performance of different funds**

   That seems crazy. Of course you want to invest in managed funds that will perform well. But which ones are they?

   The problem is that looking at which funds did well in the past is no help. Research shows that past performance is no guide to the future. In fact, top-performing funds in one period quite often do badly in the next period – perhaps because they are higher-risk.

   I say 'take little notice' rather than no notice at all. If a fund has repeatedly performed badly it may be because of poor management, so it's best to avoid it.

   You can check how KiwiSaver and other funds have performed in the past at Smart Investor or the KiwiSaver Fund Finder.

4. **Find easy-to-read and easy-to-access information about investing**

Websites like the FMA's site, fma.govt.nz and www.sorted.org.nz have heaps of information written in a jargon- free way.

Other sources:

- NZX, the company that runs the stock exchange, has several resources in the 'Investing' section of its website.
- The NZ Shareholders' Association offers education, courses and events.
- Some universities run share clubs.

HOW TO CHOOSE A MANAGED FUND

So how should you choose a managed fund, if it's not by past performance? As I said in Myth #4, go for a fund that charges low fees. Research shows they perform just as well, on average, as funds that charge high fees.

If you want proof of this, go to the FMA's KiwiSaver Tracker.

This tool includes scatterplots showing different KiwiSaver funds' returns and fees. Start by looking at all the defensive funds over five years. Whenever I've done this – over different time periods – I've found that the high-fee funds don't necessarily have higher returns.

Now try it for conservative funds, then balanced, growth and aggressive funds. Sometimes it might look as if high-fee funds do better in one fund type.

But sometimes it's the opposite, with low-fee funds doing better. In general, there seems to be no correlation between fees and returns.

You may also want to take ethical considerations into account when choosing a fund. The Mindful Money website will help you with this, at www.mindfulmoney.nz

WHAT YOU DO NEED TO DO WITH YOUR INVESTMENTS

1. Before making any investment, read the disclosure documents. For example, if you're investing in a managed fund, read its Product Disclosure Statement (PDS), quarterly updates and annual report, which will be on the provider's website. For shares and bonds, check out the company's annual reports and financial statements, and the PDS on newly issued shares.

   These documents are usually fairly short and written in clear language.

2. Read the personal statements from your provider, telling you about your particular investment.

   Your KiwiSaver annual statement includes an estimate of your savings at retirement and how much that's likely to mean in weekly spending money.

   Note that the numbers are adjusted for inflation, so if it says, for example, that your savings are likely to total $200,000 at retirement, it will actually be an amount that buys as much as $200,000 buys now. And if it says weekly spending of, say, $200, you will be able to buy as much as $200 buys now.

   Check these numbers. If you would like to have more savings at retirement, you need to do one or more of:

   – Increase your contributions into KiwiSaver.
   – Switch to a higher-risk fund that is likely to grow faster – although it will be more volatile.
   – Switch to a fund that charges lower fees.
   – Plan to retire at an older age than 65.
   – Choose an additional investment to KiwiSaver. Consider talking to an adviser to help you develop a financial plan that works for you.

3. Set up your investments depending on when you plan to spend the money.

   If it's within less than three years use bank term deposits or a defensive managed fund. If it's within three to ten years use high quality bonds or a balanced fund. And if it's more than ten years away use shares, property or a growth or aggressive fund.

   Once a year cast your eye over this. For example, if you are approaching the time when you'll spend the money on a first home or in retirement, gradually reduce your risk.

4. If you find you can't cope with a market downturn that temporarily reduces your savings, do not move your money to a lower-risk investment at the time of the downturn.

   As long as your investment is well diversified, perhaps in a managed fund, it's almost certain to recover in time, although it can sometimes take a few years.

   But if you find this is all too nerve-wracking, consider gradually reducing your risk. The best way to do this is to divide your money into three or four lots. Move the first lot at the time, the second lot a month later, and so on. That way you won't end up moving all the money at what turns out – in hindsight – to have been a bad time.

5. If you see signs that something might not be going right with the management of your investment, see the FMA's 'Managing your investment' webpage.

Myth #7

'I'm too old to start investing now'

While it's great to start investing when you're young – so you can really benefit from compounding returns over the years – it's never too late to start.

Use KiwiSaver

People in their 40s, 50s and even their early 60s can take advantage of the KiwiSaver incentives to boost their savings. Even if you are, say, 62 and not employed – so you don't get the employer contributions – you can still receive three years of government contributions, totalling $1,563. That's a good bonus for your retirement savings.

What about older people? Anyone of any age is now eligible to join KiwiSaver, and many people over 65 are finding the scheme useful, as they can withdraw KiwiSaver money whenever they want to.

You don't receive government contributions when over 65, and compulsory employer contributions also stop, but some employers continue to contribute.

Retired people should keep their shorter-term spending money in a low-risk KiwiSaver fund, but might want to put money they plan to spend in ten years or more in a higher-risk fund.

These days, with many people living into their 90s, it makes sense to use the full range of KiwiSaver funds when you're in early retirement. As you get older, gradually reduce your risk.

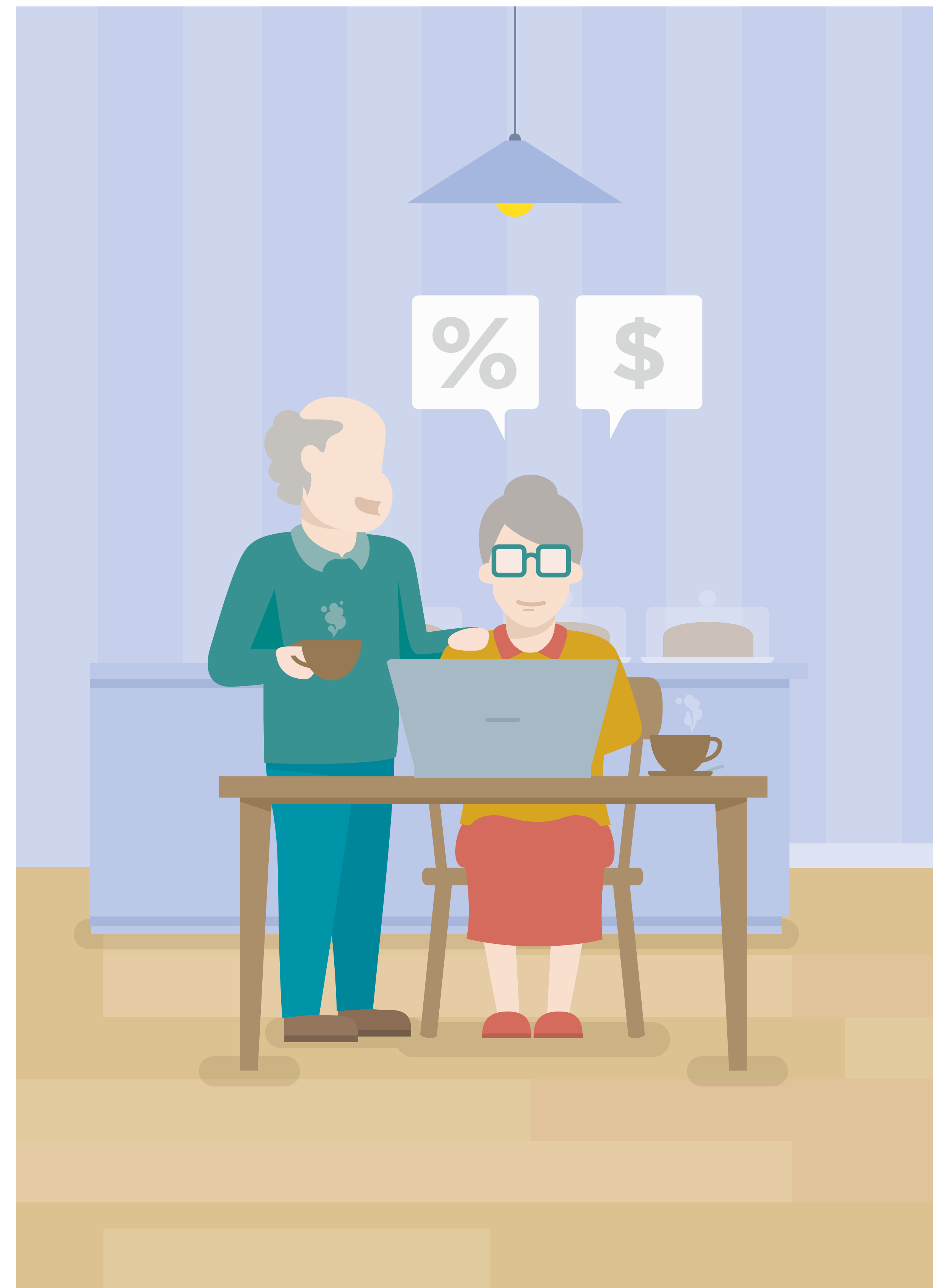
Other investments

Other types of investments can also work well for not-so-young investors. These include a diversified portfolio of shares for longer-term money, and non-KiwiSaver managed funds.

Many New Zealanders invest in rental properties, which can also work well. But once you get to retirement you can't gradually spend the money you've invested in a property, whereas you can sell off some shares or some units in a managed fund. So perhaps sell the rental at retirement.

Seek advice

Many older people find it useful to use the services of an adviser. A good one will consider all your needs and come up with a workable plan for you.



Myth #8

‘Getting advice is too expensive’

There’s plenty of free financial advice out there, including helpful guidance on the FMA website, fma.govt.nz, and sorted.org.nz. But sometimes people need personal advice about their specific circumstances.

Advice can be particularly helpful when your situation is changing. Perhaps you are starting a family, buying your first home, receiving an inheritance or approaching retirement. It can also be helpful when markets are volatile, as in early 2020, during the Covid-19 crisis.

You can often get free financial advice from banks. This should help you to choose between the different products the bank offers, and how to best use them.

And a growing number of financial service providers are offering digital financial advice – sometimes called robo-advice – on their websites.

But if you want high-quality independent personal advice – on which of the wide range of financial products out there would work best for you – you’ll have to pay for it. It might cost a few hundred dollars for some basic advice, or a few thousand dollars a year for comprehensive help. But it can be well worth it.

Before choosing an adviser, read about getting financial advice on the FMA website.

To be sure you find an adviser who seems to be on your wave length, ‘interview’ several. Most offer a free first consultation, usually in person. Ask lots of questions about their qualifications and how they could help you in your specific situation. A good adviser won’t try to apply a ‘one size fits all’ approach.

One sign of a good adviser is whether they ask you not only about your investments and plans, but also your debt. If you have any credit card or other high-interest debt, they should help you plan to get rid of that before making any investments. And if you have a mortgage, a good adviser should also discuss whether paying that off faster is a good move for you.

Take your time before choosing an adviser. Don’t feel pressured into making a decision quickly.

In many cases, an adviser will draw up a financial plan for you. They should discuss their recommendations and why they are suitable for you.

For more on what the plan should cover, see the FMA’s ‘What good advice looks like’ webpage.

How advisers charge

Some advisers charge you a flat fee, or an hourly rate. Others charge a percentage of the money you are investing through them. Always ask upfront:

- How you will be charged, and an estimate of all costs to you.
- Whether the adviser receives any money or other compensation from anyone else. Some advisers receive commissions or other incentives from financial product providers. I don’t recommend you use such an adviser, unless they pass the commissions on to you in full. Otherwise there’s an incentive for the adviser to recommend products that better reward them.

Get the answers in writing.

A FINAL WORD ON ADVISERS

It’s not uncommon to hear stories of people feeling intimidated by their adviser, who grows impatient or condescending about answering their questions.

This is not acceptable. You probably know heaps about other things, but not investments. That’s why you have hired an expert! She or he should welcome your questions and be happy to explain whatever you ask about.

If you ever feel intimidated by your adviser, ask them to change their ways or move to another adviser.

More information

There are many resources available to help you on your investing journey.

Hits and myths is one of four investor guides by the Financial Markets Authority. The others are:

- 'Bond voyage' – a guide for investors on choosing, buying and owning bonds
- 'Share this' – about choosing, buying, owning and selling shares
- 'Funds for everyone' – about managed funds and exchange-traded funds (ETFs)

Free copies of all four booklets can be requested by emailing communications@fma.govt.nz

Copies can also be downloaded via the Resources section of the FMA website – fma.govt.nz

The FMA website offers investor information on its 'Ways to Invest' webpages.

Mary Holm is the author of six books. The latest is *Rich Enough? A Laid-Back Guide For Every Kiwi*, 2020 (HarperCollins). Her new book is out in 2021.

Mary's archive of personal financial advice in newspapers, magazines and on radio can be found in the Articles & Audio section of her website – maryholm.com

Other sources of information on investing:

- **Sorted.org.nz** has free, impartial information and calculators to help manage money, with guides and online tools. Run by the independent Commission for Financial Capability.
- **New Zealand Shareholders' Association** offers investor education, including seminars and branch meetings with guest speakers explaining share market investing (www.nzshareholders.co.nz)

fma.govt.nz

FMA

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