

Fear and Greed

If there is one thing that the collapse of so many finance companies has confirmed it is that bad investment decisions are almost invariably based on some combination of fear and greed. Whether it is company management more concerned with lining their own pockets, or investors chasing high returns with no regard for risk, or the NZ Government's ill-advised intervention by way of the retail deposit guarantee scheme.

The recent collapse of South Canterbury Finance should have been no more than a passing interest to those investors who have made prudent and appropriate decisions. Unfortunately the Government's guarantee changed this with all tax payers forced to pay for others mistakes. While it can be argued that the government was forced into setting up the scheme due to the global financial crisis, there appears little to justify the recent extension of the scheme and even less sense in the overly generous terms agreed. Paying back both capital and interest (at the inflated rates) is wrong in my opinion. At best investors should have received a proportion of their capital back. Instead, they effectively took no risk and reaped all the rewards at our expense.

I note some parties are calling for more "safe products" to deliver returns for investors in the wake of the GFC, particularly for those who require regular income to support them in retirement. This completely misses the point that higher returns mean higher risk and that a poor investment remains a poor investment regardless of the wrapper. There has been and will always be prudent ways to save and invest. For example, at NEWTON ROSS we have been able to manage client portfolios to deliver regular income, tax efficiently and with no failed assets throughout this period.

We do not require more products put together primarily to benefit those who are making or distributing the offer. What is required is a change in investor mind-set. We need to change from focusing on yield (the interest rate offered) at the expense of all else, to a focus on total return and being concerned about the risk of the overall portfolio not just the individual products. Rolling out yet another product solution just opens the door for a mismatch of objectives and the opportunity for fear and greed to take precedence once again.

