What's Happening to my Investments?

By Terry Villiers

Most of us are understandably concerned at the drop in value of any of our investments. "Why has my superannuation/pension/managed fund value gone backwards this year? What should I do about it?"

On the one hand, fund managers, advisers, and finance writers say things like, "Look to the long term". "Keep to your game plan." "Don't panic and bail out at the bottom of the market", and so on. But aren't they really just looking after their own interests, making sure we leave our (sometimes diminishing) money with them?

Perhaps — but there is a more fundamental question we need to ask. *Am I investing or speculating?*

Investing is placing your money thoughtfully and carefully, knowing who and what you are investing in, being aware that markets will go up and down. Having investigated, you have confidence the manager or business you have partnered with will produce a viable return in the long run. So an investor (1) knows what he is investing in, and then (2) ignores the urge to respond to the short term.

Speculating, on the other hand, is opportunity focused. It isn't so much concerned with what or where the money is placed — as long as it yields a profitable return. It looks for winners, for the latest tips, for new information, and is as ready to exit a position as to enter it. A speculator (1) trades on the short term, and (2) looks to beat the odds.

My advice? If you're a speculator, stick to the TAB where the odds are decidedly better! But if you're an investor, do your homework. Know what and who you are partnering with when you are placing your hard-earned savings. Have confidence in the long-term prospects and resist the urge to respond to the short term, however much you're tempted.

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Save As You Earn

By Trevor Blanchard

New Zealanders are constantly being admonished for their poor savings record, both by the Government and by the Governor of the Reserve Bank.

What can we do about this, given that there are very few of our population who do not have a mortgage and probably other debt in addition? This means that direct saving is unlikely to be a practical option.

There is one way however that will enable a mortgage holder to save a significant sum over the term of the loan. This is achieved by changing the mortgage payment frequency from monthly to fortnightly. This results in 26 payments annually, equivalent to 13 monthly payments rather than 12 if paid monthly. The effect is to reduce the repayment term because you will pay less interest over the term of the mortgage. This produces a significant saving to the borrower.

Let me illustrate how this is achieved:

A mortgage of $250,000 for 20 years at 7.5% interest will involve monthly mortgage repayment instalments of $2015.20. Interest paid over the term of the loan amounts to $233,642. Now, if repayments were made on a fortnightly basis of $1007.60, the loan would be repaid in 16 years and 9 months. However, the interest content of the payments would be $188,772.

The interest saving is impressive, and of course the term of the mortgage is shortened appreciably. All this at an additional cost of $2015.20 per annum, there being an equivalent of 13 months when paying fortnightly.

It is worth your while to change your repayment authority so that mortgage payments can be paid fortnightly. No approval of the lender should be necessary, but it would be courteous to advise them of your proposal.

The rewards are well worth a little effort!

Trevor Blanchard is a retired bank manager, with 50 years' experience in the banking and finance industry.