Annual Member Meeting 2020 – Paul Clitheroe AM

And really, what we're trying to do is we're trying to get people to realise that financial literacy is simply spending less than you earn. It is that simple.

And we all know friends, colleagues. We all know people who may not have earned a lot of money, but they're well off. And the reason for that, of course, is it is not what you earn that counts. It is what you spend. And that rule, COVID or no COVID, that rule has never changed.

The other ones are also important, of course. And you understand them. Risk and return is true, one of the few truisms about money. Compound interest is the truth. These things are the truth. And so many spruikers, of course, are not speaking to us or the younger generations about the truth. I keep hearing, you know, get rich quickly.

The one I really hate and whether you're a retiree looking for higher income, which we'll come to during this presentation, whether you're younger in wealth creation, the one thing that will always be basically a fib is the idea that we can earn more for no more risk. Look, really, the only way we can get ahead through our lifetime, I don't care how much you earn and how rich you are unless you won the lotto every second Monday or something. The reality is it is spending less than we earn. And you listening tonight, you all know watching tonight. You know that works.

Now, what about the future? It's been a bit of a rattling year, this one. We've all been a bit rattled. Let's go to an important slide for me. And this slide simply looks at the world population.

Now, why do I want to look at this? Well, look, for me, moneys always been a little simpler. Maybe that, as my uni mate said, it's because I'm not too bright. And I accept that is a valid criticism. But basically, what I know is it is all about demand. If I'm going to buy a property, it is about population growth. If I'm going to buy shares, it is about demand for underlying goods and services.

And I don't need to be Albert Einstein to work out that demand comes from we humans. We are a little economic miracle. Honestly, it's really quite extraordinary. So take a look at these numbers with me, please. So what we've got here is world population of about 7.8 billion.

Now, what I've done with this, by the way, is I've actually cheated a little bit. I've taken the World Bank figures, and I've actually run them out to December 31. Excuse my little fib here. But look, unless we get hit by an asteroid the next two weeks, and it would need to be a darn big one, these numbers are going to be really robust.

So births this year about 137 million. Sorry about this one. Deaths this year, about 57 million. And then, of course, we've got, what does that all mean? It means we've got some 80 million people on the planet in this four-month period. Now, that's really important.

Look, COVID is dreadful. Not for one second would I attempt to say it was anything but that. And like you, I'm concerned about it. I'm concerned about where we're going. I'm worried about vaccines. Look, I'm worried about all sorts of stuff, basically. But I can tell you right now that even the dreadful numbers out of America we are not going to see, unless something really turns differently here, I do not believe we're going to see 80 million deaths from COVID this year. I certainly hope not, by the way.

So basically, the world population is going to keep on growing. And what does that mean? It means a lot. Let's just get rid of that slide. Thanks. And we'll just pop back to the main screen.

So what does it really mean? For me, it simply means, look, at school, I learnt this thing about aggregate demand. And that was pretty important to me as a youngster. I think it was first year of high school,

listening to a commerce teacher, I think. I don't think it was even called economics back then. I think it was commerce. But basically, it was about aggregate demand.

And we humans are primary generators of demand. Let's not forget. I know we're all very-- we should be, nervous about China and our export markets and so on. But let's not forget that we as individuals generate some 60% of economic growth, plus or minus. But basically, we're pretty important.

So as the population grows - and I follow with fascination world population growth. I follow with fascination what's happening in Australia. And I watch as the predictions see Melbourne and Sydney at slightly over 8 million people in only 30-odd years, taking Australia's population-- look, it depends which analysis you look at, I guess. But Bureau of Stats says, round about, there's 35 million people.

Now, what does that mean for things like property? More people. What does it mean for things like businesses? Do, for example, you think that if our population grows by an extra, what, 11 or 12 million people, maybe we'll eat less? Maybe we'll drive fewer cars or use less fuel.

Look, I really don't see that. To me, the logic and a lot of the logic we've had, the reasons we've enjoyed decent returns around the world from investment markets here in Australia through property is not because we're little geniuses. It's simply the growth in our population is pushing up demand, of course increasing life expectancy and so on. There's a lot of good stuff going on out there in the middle of some pretty bad stuff.

So let's switch to our next slide, please. And that looks at age-based strategies. Now, I need to be -look, it's hard here. I know I'm talking to people of all age groups. I'm 65, by the way, if you're wondering. So I fit into that that, I'm in that third category, preretirement, getting closer to retirement.

I don't really like the word 'retirement' by the way. The word I prefer a lot more is 'financial independence'. And I'm regularly speaking to people not about retirement, but about achieving financial independence. So you choose what behaviour, how you want to lead your life. But let's take a quick look at these. And we'll pop that slide away for a sec. Thank you.

So in our early years, well, for me, the early years you know, I get all this stuff about, what about kids and pocket money and grandkids and pocket money? And absolutely, much to my great joy for Vicki and myself, we have actually had a grandchild last year, and just in the recent weeks, we've had a second grandchild. So we're very excited.

And like many grandparents, I'd like to add some value to my grandkids without boring the daylights out of them as they get older. But we started out by doing what my Mum and Dad did for me and my sister. And yes, we have bought them a small investment. And basically, we tend to go-- we agree with MLC on this one. We do think Australia's a pretty small place, and the globe is a pretty big place.

And so we tend to buy just some sort of sensible, low-cost investment. You can talk to MLC about that. You can talk to all sorts of good people about that. And we do think by doing that and adding maybe a bit of money on birthdays and stuff, we do think that we'll really do well for them, as it did for myself and my sister over decades. Small amounts of money sensibly invested do amazingly good things over a couple of decades. Absolutely fantastic.

So in the early years, then we move into unis and so on. I'm really huge on education. And you've probably seen me banging on about this in Money Magazine and the Money TV show, whatever it may be. I really think youth is about knowledge.

And if a youngster said to me, look, I've got a bit of money put aside. Do I work an extra, do I keep up my part-time job and work two days a week, or do I take that trip once we can travel again, for heaven's sake? Or do I take that trip away?

I'd still be saying, take the trip. I think life at an early age, that experience, knowledge, that learning, please encourage them to do the extra qualification. Do the extra part-time thing. Part-time work is great.

Yeah, look, pocket money for younger kids is all very good and well. The way kids learn most-- I'll tell you this, mum and dad. Where kids learn most is watching Mum and Dad's behaviour. I think that's really pretty important. They learn a lot from what you do right and what you did wrong. And what I would ask you parents, the most valuable thing you can do for kids and grandkids is don't let money be a taboo topic. Talk about it.

It is really still - we know from our research we do through government bodies and private sector bodies, community groups, is that money is still a bit of a taboo subject. I understand that. If the kids say, Daddy or Mummy, how much do you earn, it's a pretty hard question to answer. You don't need to answer it directly. But you can get into the ideas about every family has so much money and a budget. And can we have a car or a holiday? Please talk about money. I thank you.

The next one we can do on our little slide there was your mid years. I know in my mid years, three young children, big mortgage. And certainly in my mid years, I'll never forget January 1990, when our mortgage hit 18.75%. And there wasn't much point talking about investing money.

Basically, we were struggling to pay the mortgage. We were struggling to only spend what we earnt, let alone save anything. And of course, no compulsory super back in those days. Things happen. But basically, in the mid-life, you kind of do what you can do.

But where it does start to make a big difference is kids get a bit older. Maybe your job has gone a bit better. Your business has gone a bit better. Yeah, look, reality isn't always bad news. Lots of good things happen to people as well. And life regularly gets better. And then, of course, we can start to invest.

Then we come to, of course, our preretirement stage. And the only thing I would say that's important about preretirement- and gee, you know, myself and many other people out there- there's many sensible people talking about money out there. But basically, what the sensible people have always said is that as you get to this stage in life, please have a couple of years of cash on hand.

Now, look, Vicki and myself do that. And I know we're earning 0.24% or 0.3% or something like that. But what I can't do, is if I go too heavily into growth assets, and my dividends fall away or I get a bit of a rent issue with the property, the reality is I need to eat. My income is falling. I'm eating off the assets I've created over my working life along with my family. And we really like the idea of a bit of a cash buffer. So if tough times come along, we are not selling quality assets at discount prices. Remember March. Market fell, what, nearly a third due to COVID. GFC- it fell nearly half. Markets tend to recover, of course. But I don't want to be selling quality assets, particularly things like property, in a downturn. So I need a few reserves.

Retirement - we'll talk about that a little bit more as we go along because it is very different in that the one hugely different factor is, of course, where we are on the interest rate side. I never predicted this. I don't think anyone else really did. And seeing rates where they are is really quite extraordinary. But I would like to come to that coming up next.

And in fact, it very quickly takes us to our next slide, which I think is important to many people listening tonight -- not all of you, I know, but many people. We'll try and cover everyone.

Income strategies in a time of historically low interest rate. Now, I've got friends my sort of age who have taken a very conservative strategy and have an overweighting of things like term deposits in their portfolio. That, of course, is not an ideal situation. The solution, of course, would to have been I think what hopefully most of us have done throughout our lives. And that is run a diversified investment strategy.

I find it really interesting. For me, the GFC, I was probably still working pretty much full time there. But particularly for me, COVID has been fascinating now working a couple of days a week and, if you like, using it to stress test my strategy as I get closer to full retirement, when I'll be utterly reliant with my wife Vicki and fam and so on around the asset base that we've created. And the stress test has been really interesting.

It reminded me of something, you know, the old thing. For heaven's sake, I know we tend to be driven by fear and greed. I'm as bad as anyone else here. When stuff's going really well, gee, I like the idea of buying it. Boy, when stuff's going badly, I really like the idea of selling it. I generally don't bother.

Because what I find is even if I do sell closer, usually by accident, in my case- to a market high and I've got a bit of cash on hand-- let's say, for example, that I had sold-- I've been incredibly clever, which I'm not. And I've sold just pre the COVID downturn in March.

The trouble in that, of course, is then you're sitting on cash. And then you watch the market rise in April and May. And you're probably thinking, oh, it's just a dead cat. It's just a dead cat bounce. This is going nowhere.

And I suspect I'd find myself still holding cash today when, of course, the market has got back nearly to where we were in March. And in fact, big overseas markets like the States have actually enhanced their position. So it may not be - it's because I'm just not a genius, I guess. But if we were, we'd all be billionaires.

Let me tell you, market timing is a mug's game. I think we'll end up doing what all humans do. And I think we'll end up probably buying when stuff's too expensive and probably selling when it's too cheap. So I tend to go with sensible, diversified strategies and hang on to them. I'll let population growth, growing world economic growth, and so on do the hard lifting for me with the magic of compound interest.

So back to our income issue. What do you do from that position today? And, well, Vicki and myself have re-evaluated that as well. I don't particularly like earning about a quarter percent of my money. I know it's safe. And I know we could buy shares - more shares, sorry. We've only got a certain proportion in cash. I guess we could buy more property and seek higher rental returns.

But we've actually decided that our asset allocation, which I, what percent of money we've got in what places. We actually reckon we're about right. And that is, that if we assume that dividends might halve or worse, we assume we don't get a bit of rent for a while, and so on, we actually think the cash we've got with some dividends coming in, a little bit of rent, we actually think the cash that we've got will probably see us survive two or three years without having to sell assets. And we actually think that's a sensible plan.

So basically, if I look around me, I hate the rate I'm getting on that part of my portfolio. We've decided to grit our teeth and stick with it because, historically, I think it is absolutely the right thing to do. And I'm a firm believer in looking back over economic history. We are going to get more dramas, I'm afraid.

Look, I wish I could say to you that we've been through at least COVID in our lifetime. But the reality is we only had the GFC a little while ago. Look, a whole bunch of stuff is going to happen. And I want you to have, particularly as you get into preretirement or retirement, I want you to have a robust strategy.

For retirees, the only answer around income is if some nitwit says to you, don't worry, here's this investment paying-and I'm seeing them around, by the way, offering you 10% or 12% secure income return on your money. Look, do me a favour, will you, and run for your life. But how often do we need to see this? Estate mortgage offering us huge returns, goes broke. Pyramid Building Society offering huge returns goes legs up. And then we move into all the scams and schemes we had, particularly in Queensland.

I spent a lot of time with the Money show looking at a very small number of firms, by the way. This is only a couple of firms causing most of the damage. They're called the solicitor's mortgage. Most solicitors wouldn't touch it with a bargepole, by the way. And these weren't the sort of mortgages you were thinking about. These things were offering 10% or 12% returns secured by property.

Turned out the valuations weren't accurate, the property wasn't worth what it was, and so on. Look, if someone is offering you a higher return on your money, and they say, we can get you higher returns with no more risk, I'm repeating myself - run for your life.

If they say to you, carefully look at your situation, professional advisor. We believe you've probably got too much cash for safety. And in fact, you can diversify a little. And we think you will get higher returns for a higher level of risk, then I think we're starting to have an honest conversation. There are just no free lunches out there with money whatsoever.

Look, it's really sad that there is just not a magic pill. I wish I could give you one. All I can give you is planning, budgeting, trying to spend less than you earn, and a diversified policy that includes global assets. For example, where this China export thing goes I've got no idea whatsoever. Hopefully through the diplomatic process, things will get better, not worse.

But we are a small economy exporting. And if we're under 2% of world economic output, I really would be uncomfortable with all of my money in this country, as much as I love this country. And I don't mean going and hiding it somewhere. I mean simply buying, as you can do with MLC or a whole bunch of other highly competent, good people, buying yourself diversified global policy.

And the great joy for me, folks, is these days, unlike the old days, you can do it really cheaply. And cost is something I want you to focus on. Because at the end of the day, an investment return will be the investment return you get from the decision you make based on the assets you choose, your risk profile, and all the stuff personal to you. But this day and age, an MLC is certainly part of this.

Basically, it's that you can actually get fantastic quality assets around the planet for significantly lower cost. And cost is a certainty. An investment return is a plan for hope, particularly capital growth. Income's more predictable. But at the end of the day, investment cost is really important to your money. So I strongly suggest we keep a close eye on that.

So income strategies can only come through diversification. You are not going to get significantly more income, as much as you might want it, without taking a little more risk. That is for you, to judge and balance, seek the advice that you need if you do need that advice. And please deal with a professional, fee-charging advisor. If the advice is free, it'll probably be crud as well. You get what you pay for in this life.

Let's get rolling along. What about investment growth strategies? It's an important one, isn't it? I don't need that slide up for too long. I think we know what we're going to talk about. We're going to talk about growth.

Now, here we're back to my slide about the world. We're back to my slide about the world population. So why can I stand here and say, as I have been doing for, crikey, I started doing radio around money in 1979. This is really embarrassing.

But what I was talking about then was things like basically-and it was harder to say back then, funnily enough- investing for growth rather than income. Because sometimes there, by the way, term deposits were crank up. When Vicki and myself were paying 18.75% on our mortgage in January of 1990, I remember my Dad ringing me. He was very excited. He was getting 17% on a term deposit.

I sometimes think the system forgets the fact that many of us are now fairly reliant on the returns we're getting. And in a sense, I've probably been driven to take a little more risk because getting zero on our cash is challenging. Holding more cash than you need to be safe is actually a challenging issue at the moment. But a lot of that will be up to you and your personal comfort levels.

So basically, investing for growth, I think, is a bit easier. Because number one is that we're not going to be investing for growth unless we can talk about a minimum five years. If someone says to me, oh, you know Paul, I'm a younger person. I got a house deposit put aside. I hope to buy later this year, but I whacked it in shares. And I go, oh, for heaven's sake. Why didn't you whack it in a brown paper bag and give it to me?

Look, it may work OK. But you can't hold growth assets for a period of time. In my view, I think it's really, and I've said for 40 years now. And maybe I'm too conservative. I'll cop that criticism. But I think five to seven years is probably really what you need to do with growth assets. I just don't see how we can time the cycle, peak the cycle, peak what's going on.

But for me, big question all the time I've got as I wander down the street this afternoon-- someone says, oh, Paul, what do I invest in? I go, I don't really care what you invest in as long as you've thought about it and you do something. I've got some folks who have been talking to me or dropping me letters or emails now for decades that have never quite got round to making a decision.

So basically, whether you prefer quality shares over quality property, whether you prefer 24% global or 27% global or whatever it is you prefer in your investment mix, I am honestly not particularly stressed. Because if we take that five to seven-year cycle, I think those assets, in a growing world population, a growing Australian population, I think that actually will outperform cash at bank.

Cash is our safest, lowest-risk investment. It makes a heap of sense to me that other investments where there is more risk, and let's face it. There is clearly more risk in property and shares with higher returns over time. The way we mitigate risk is not timing the market. It is time in the market. And I feel just really strongly about that.