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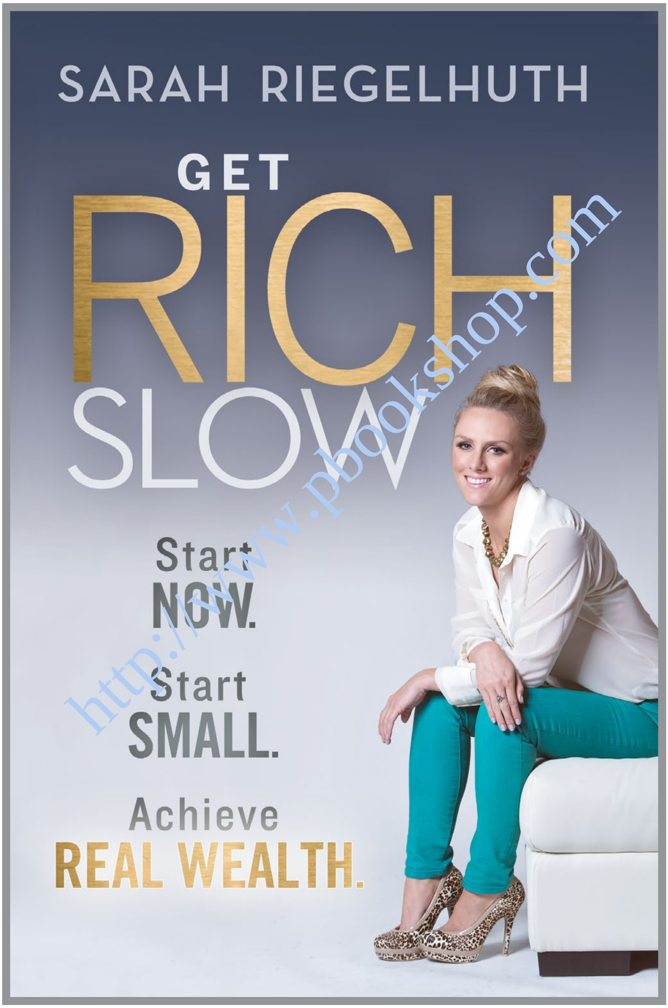

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Preface

For years the idea of writing a book that could inspire others to take control of their finances had played on my mind. I just wasn't sure how to go about it. The way any good idea does, it ticked away in the back of my mind, surfacing from time to time when a new approach or a different angle occurred to me. It still didn't feel right, though, until an inspiring conversation with my best friend, Mark.

We were strolling along Swanston Street in Melbourne, both about to rush off to other engagements—Mark to the football and me to an Unconvention to launch the League of Extraordinary Women. We had been discussing what was, in our opinion, the secret to success, and had decided that it all came down to executing and following through with an idea, rather than the idea itself. Ideas are a dime a dozen. The difference between those who make it and those who just have the good idea is getting out there and *getting it done* ... and not giving up when the going gets tough, which it almost always does at some point or another.

My subconscious must have continued to turn over this conversation because the next afternoon, as I was dozing on the couch, it all came to me in a rush, the way thoughts tumble through your mind suddenly when you're in that half-awake, half-dreaming state. My eyes shot open, I grabbed my iPad and immediately keyed in the book's title and roughly mapped out the chapter titles. 'I've got it!' I announced to my partner, Finn. I was going to write this book, and now I knew how to do it.

And here it is! By sharing what I had learned in 10 years as a financial adviser, along with some of my own personal experiences and those of my clients, I hope to inspire and empower you by equipping you with the tools you need to make positive life changes and take control of your finances. When we take control we let go of excuses, stop waiting for simple solutions or engaging in 'magical thinking', develop an understanding of the psychology of money, and arm ourselves with the information we need to set goals, develop an action plan and follow through.

The approach I have taken in this book is relatively straightforward, I'll admit, yet it goes against the grain of most books about wealth creation available today, which generally focus on getting rich *quickly*. This book suggests that the opposite road is the surer one. The trend towards sustainable and rewarding wealth creation emerged in the wake of the global financial crisis. The key concept here is slow money.

The slow money approach to financial security is all about starting small but starting now, and slowly, surely building long-term, sustainable wealth throughout your life. The main principles of slow money can be summarised like this: (1) spend less than you earn; (2) begin saving and investing today; (3) set lifestyle goals, and link your wealth creation to these goals; (4) segment and track your savings and spending; and (5) evaluate your purchases and insist on value for money. By following these principles, using a little discipline and taking advantage of the power of compound interest, anyone can build wealth sustainably over the long term, and feel good doing it!

Of course, by far the best time to learn and adopt these principles is when we're young, before unwise spending patterns and poor decision making have cast us into a world of debt. That's why this book speaks particularly, although certainly not exclusively, to readers aged in their 20s to 40s. Many will be young professionals with the monetary resources to succeed, but because of their relationship with money, they have found it difficult to break bad habits and get ahead.

For 10 years I've worked with people from all walks of life, ages and income levels and I've seen it all—from the senior medical director earning $400 000 a year retiring with no assets and only $200 000 in super (which would last him six months), to the teacher on a modest wage who managed to retire at 55 with more than $1 million in super (which will last her to the end of her days). The one thing I've learned is that it's really quite simple to build wealth. If you don't overcomplicate it, or persuade yourself you'll never be wealthy because of your wage level, you *can* achieve financial security.

Get Rich Slow cuts right to the chase to help you make the most of your financial situation. The book is organised into three parts, each of which focuses on one of three overarching goals: facing your current financial situation, learning what you need to know about money management and getting started on your own journey to financial security.

This journey begins, as chapter 1 outlines, with taking personal responsibility for your situation. Chapter 2 warns of the false promise of quick money schemes and luck over hard work, determination and a different way of thinking. The next two chapters focus on debt control and the importance of distinguishing between good and bad debt. Finally in this part, chapter 5 argues passionately against deferring change to another day, because time is the one variable we cannot control.

Part II explores the main investment vehicles available to us, reviewing the roles cash (chapter 7), shares (chapter 8) and property (chapter 9) can play in helping us to achieve our financial goals, while also recognising another essential, often overlooked asset — our own earnings potential (chapter 10). The part closes with a review of the greatest savings vehicle of them all — superannuation (chapter 11).

The first two chapters of part III explore the fascinating subject of the psychology of money: when it comes to our attitudes to money and financial decision making, our upbringing, beliefs and habitual patterns of behaviour are surprisingly influential, and we need to understand these influences to avoid limiting our financial outcomes. In chapter 14 we take stock of our resources by completing a budget and financial position assessment. In the next, most important chapter we set our specific financial goals, prioritise them and establish exactly how and by when we will achieve them. We are now well on our way, but, as chapter 16 warns, without the security of adequate insurance cover, all our carefully laid plans are potentially exposed to events beyond our control. None of the steps to financial security I set out in this book need be especially complex or intimidating. Still, as discussed in the final chapter, seeking the advice of a financial adviser, accountant or other expert is highly recommended, as is sharing your journey with friends.

I hope you enjoy this book. I hope you put the lessons shared to good use, and I wish you a lifetime of prosperity.

CHAPTER 8
Investing **in** shares

You only have to do a very few things in your life so long as you don't do too many things wrong.

Warren Buffett

Shares are easier to understand than you might think, and although they can seem a little scary to a first-time investor, the reality is that most of us have been investing in shares for years without even realising it. This is because, unless we have selected otherwise, it is more than likely that our superannuation is invested in some form of managed fund that is invested in shares (along with cash and property).

In the previous chapter we looked at how any money we deposit with the bank is then lent out to people and companies, so when we put our money in the bank, we are essentially becoming a loaner. For example, a company borrows the money we deposit in the bank to invest in development that they hope will increase the value of the company. If they are willing to pay, for example, 7 per cent interest to the bank (where we are receiving just 5.5 per cent), then obviously they are expecting to produce a return greater than 7 per cent by using the bank's money (our money) to invest in the growth of the firm.

So why not become an owner of companies, instead of a loaner? That way we can benefit from both capital growth and income. Obviously, not all our money should be placed into shares, but investing in shares should certainly form part of any well-diversified wealth creation strategy.

How does it work? Essentially, when we buy shares we buy a small stake in the company. As a shareholder we are now a part-owner in the company whose shares we own. This ownership entitles us to a portion of the annual profits, which we receive as dividends, and if the company increases or decreases in value our shares will reflect this. Rather than making a dividend payment, a company might decide to retain the profits in order to invest in further growth and development. This is not necessarily a bad thing for shareholders as it would hopefully result in the share price increasing over time.

Share prices go up and down depending on how the company is viewed in the marketplace (by potential buyers). Interestingly, the current price of its shares does not always accurately reflect the actual value of the company.

Active versus passive investing

The term *active investing* refers to a style of investing in shares that ultimately revolves around trying to time the market—that is, seeking out shares believed to be undervalued with potential for growth, usually over the short term. To do this well requires a huge amount of research and information, along with a thorough knowledge of the sharemarket and how to evaluate a stock. It is possible, however, and many ordinary investors trade shares on the stock market on a regular basis using CommSec, E*TRADE or a similar online portal. These online services make it very easy to deposit cash and then to buy and sell shares quickly and efficiently at a low cost.

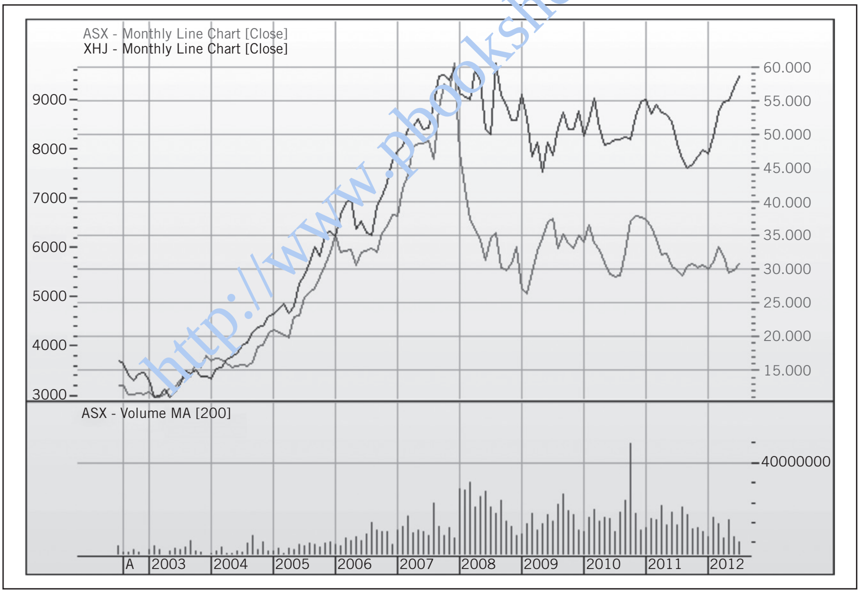
We can also actively invest over the longer term. This simply means deciding where we believe there are long-term opportunities for investment, making the decision to invest and then sticking with it. Because we have consciously made this decision instead of just putting our money in the market, this is still defined as active investing.

For those of us who do not wish to handle the investment decisions ourselves, we can still invest actively through the use of an active-style fund manager or investment adviser. All this means is that we believe it is possible to select shares that will outperform the average of the sharemarket, and we are entrusting to a professional the task of delivering these results.

Passive investing is often cheaper because the workload that comes with constant monitoring, evaluating and decision making is taken out of the equation. Passive investors commonly invest in a representation of an index. The ASX 200 is an index that tracks the average of the top 200 stocks listed on the ASX. There is an ETF (exchange-traded fund) that aims to replicate the performance of the ASX 200; the code for this ETF is STW. Many different indexes are used to measure the markets, including sector-specific indices such as the XHJ, which is the Australian Health Care index.

In the chart in figure 8.1, we can track both the STW (ASX 200) and the XHJ (Australian Health Care) indices over a five-year period. Both could be considered passive investment options. If, however, we decided to invest in health care over the ASX All Ordinaries index because we believed it to be a growth area, this would have been an active decision that would have seen us outperforming the average of the market.

Figure 8.1: tracking the STW and XHJ indices 2003–12



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Looking at the chart, though, prior to year 4 we might have started questioning our decision, as the two indexes were tracking along a similar path. This is where investor behaviour plays such a big role in investing. Having a plan at the outset and sticking with it is what will lead us to wealth; chopping and changing generally doesn't pay off.

This is not to say active investing isn't a good idea, but rather that a decision needs to be made at the beginning of any investment period on whether to invest actively or passively, and then we should stick to that plan.

In a nutshell, an active investor believes it is possible to outperform the average of the market, whereas a passive investor does not. Generally, you take on slightly more risk as an active investor. Some believe that different market conditions call for different styles of investing, yet in a way this in itself represents an active approach because it advocates changing investment style depending on market conditions.

Value versus growth investing

Taking this a step further, we can compare value investing with growth investing. Value investors search for stocks that are determined to be undervalued and paying a high dividend, based on a number of different valuation models. Growth investors, by contrast, take the view that stocks are priced efficiently by the market. Growth investors are more concerned with evaluating the potential for growth in a stock based on economic trends than whether the stock is currently priced fairly. Growth investors will accept lower dividend payments when they know the company they own is reinvesting the profits in order to grow.

As you can imagine, a high income–producing stock would be more beneficial to a retiree investor who needs to live off the income. On the other hand, a young person who does not require income (in fact, who may even prefer to avoid generating income they would need to pay tax on) may be more inclined to look for growth stocks that will provide a benefit over the longer term through capital growth.

Volatility and risk

Shares are considered a volatile investment characterised by a medium to high level of risk. That said, some shares are much riskier than others and it is possible to establish a relatively conservative share portfolio. By investing in large, stable companies with a proven track record and a commitment to paying a regular dividend to shareholders, we can build a more predictable portfolio.

Shares are generally highly liquid in nature owing to constant market demand and excellent online facilities that allow trading to occur between 10 am and 4 pm each business day. We can benefit from this even when using managed funds or separately managed accounts to access shares, and can generally sell down our investments and access our funds within a number of days.

Starting small

One of the great things about share investing is that we can start small, either by investing in shares directly or through a managed fund or separately managed account. With as little as a few hundred dollars, we can open an online account using a platform such as CommSec or E*TRADE (there are several others), deposit some funds from our bank account and get started right away.

We can select a stock to purchase or simply invest in an index such as the ASX 200 using the stock code STW. This stock code purely replicates the investment performance of the ASX 200, which means we are able to access broad exposure cheaply and efficiently.

It's important to check the brokerage fees to ensure they are not too high per trade. Some online providers offer free brokerage for a period to get us started. We would want the brokerage fees to be as low as possible, because this is part of the cost of investing. For example, $15 in brokerage for a $100 placement (or 15 per cent brokerage) is too high; it would take a long time to recover that initial cost, reducing the overall return of the investment.

If we have a little more to get started with, there are many managed funds, separately managed accounts and exchange-traded funds that will generally cost less than 1 per cent in brokerage to get started or in ongoing management fees. If we have between $2000 and $5000 to get started, we will generally be able to open one of these accounts and can often invest as little as $250 each month through a direct debit arrangement.

Dollar cost averaging

Contributing to a share portfolio or managed fund regularly will generally provide us with the greatest return over a longer period of time. This approach, referred to as *dollar cost averaging*, means we buy into an investment regularly and at different prices. Instead of agonising over what day is the best day to invest in a particular share or fund, and at what price, we simply contribute the same regular amount of money and benefit from the fluctuations in price that occur over time.

If we think about it, when markets are down it means share prices are lower and essentially our investments are on sale. When this occurs, we get to buy more shares (or units in a managed fund) for our money. If we continue to contribute the same amount each month for many years, market fluctuations will add a huge amount of value to our portfolio. Why? Because we'll own many more shares than we would if we bought only when markets were up.

Most of us haven't felt too eager to buy shares over the past few years since the GFC, yet this period may represent the greatest fire sale we will ever see in our lives. If we'd been clever enough to keep investing each month over this period, imagine how many individual shares or units we might now own! So when markets rally again, we'd have more exposure to the upturn and would benefit as our share prices increased once again. In reality, such an approach goes against our emotional responses, and most of us continue to buy when the markets are high and to sell out and sit back when markets are low.

This is why it is important we have a plan, know why we are investing and what our time frame is, and stick to it, irrespective of what happens in investment markets. The price of our portfolio really matters only when we need to sell it, not along the way.

The important characteristics to remember about investing in shares are:

- the underlying value of a share can change (either up or down) over time
- shares will usually pay income to us in the form of a dividend, which is a portion of company profits

- shares are a medium to high risk investment option, depending on the stocks selected
- shares are generally highly liquid in nature.

Table 8.1 summarises the advantages and disadvantages of investing in shares.

Table 8.1: the pros and cons of investing in shares

Pros	Cons	Suited for
Highly liquid	Medium–high risk	Medium- to long-term savings goals
Capital growth	Too much choice	Building long-term wealth
Stable income		Income-producing asset for retirement

Ways to invest in shares

Table 8.2 provides examples of different ways we can invest in shares.

Table 8.2: share investment vehicles

Investment	Characteristics
Direct shares	*Risk:* medium–high *Liquidity:* high
Exchange traded funds	*Risk:* medium–high *Liquidity:* high
Separately managed accounts	*Risk:* medium–high *Liquidity:* high
Managed funds	*Risk:* medium–high *Liquidity:* medium–high

As we've discussed, an exchange-traded fund (ETF) provides us with a simple and cost-effective way to invest in a representation of a particular index, such as the ASX 200. ETFs are becoming increasingly popular as a cheap way to gain exposure to different investment markets, moving beyond sharemarkets alone to include almost anything you could imagine investing in.

A separately managed account (SMA) is essentially a portfolio of shares that the investor will own directly, although they are selected and managed by a fund manager. This is a great way to invest in a diversified share portfolio with less money, as you will achieve a great reduction in brokerage costs because these costs are split across a large pool of investors. You also retain ownership of the individual stocks and at any time can take over the management of the stocks yourself, choosing when to buy and sell. SMAs are relatively new to the Australian market and will, I believe, become more popular over time.

There are a huge number of managed funds available to Australian investors, with many, many different investment focuses (not just shares). Investors own units in the managed fund and the value of those units goes up and down; they don't own individual assets within the fund and often don't know exactly what assets are held each day. All funds will have a mandate they need to hold to. For example, the fund manager of an actively managed, large cap Australian equities fund might be required to invest in large Australian companies at all times, holding less than 5 per cent cash, and at all times to actively trade those shares in order to provide returns for shareholders. This way investors know the fund manager is always investing their money as they intended it to be invested.

In summary, shares will provide you with an investment that will grow in both capital value and income payments over the longer term. However, there is a higher level of risk associated with investing in shares as there is a possibility that the company we are invested in isn't successful, or even fails, in which case we could lose all our money. We can reduce this risk by investing in a diverse range of stocks.

Key points

- → Be an owner, not a loaner.
- → Owning shares means you own a portion of the company.
- → Active investors believe they can beat the market average; passive investors invest in the market generally, confident that ultimately it will trend upward.
- → The stock code STW replicates the average top 200 Australian companies (ASX 200).
- → Dollar cost averaging is a great way to buy into your investments regularly at different prices over time without the need to time the market.

Putting it into action

Establish your own watch list. A watch list is a list of shares you are interested in and are monitoring. The easiest way to do this is using an app on your smart phone. There are plenty available that allow you to create and select from a list of companies and at any time view the price of an individual company from this list. CommSec allows you to establish an account and set up watch lists before you have purchased any actual investments. This is a great place to start, as you can follow a couple of companies you are interested in and get a feel for their individual share prices and how the market moves.

Pick something you're interested in

Make a list of your favourite Australian companies and then visit the ASX website (www.asx.com.au) to see if they are listed on the exchange. If they are, you can obtain their three-letter stock code and enter it into your watch list. This way you'll stay a lot more focused and learn faster as you'll be following companies you're actually interested in.

Over time, you'll naturally start to broaden your interest to other companies and see the effects of different economic and non-economic events on company share prices and the ASX 200.

About the author

Sarah Riegelhuth is the co-founder of award-winning financial advisory firm Wealth Enhancers and the highly successful League of Extraordinary Women, an organisation supporting the development of young female entrepreneurs nationally. She is passionately committed to helping women realise their potential, both financially and in all aspects of their lives.

Named as one of Melbourne's Top 100 most influential, inspiring and creative citizens by *The Age* in 2011, Sarah is recognised as one of Australia's leading female entrepreneurs. An accomplished keynote speaker, Sarah is also a popular blogger, writer and columnist for several online and print publications including *Women's Agenda* and *Money Management*.

In 2010, Sarah became the youngest board member in the history of the Association of Financial Advisers (AFA) and helped the association launch the inaugural Female Excellence in Advice Award. The award has been more successful than any other award established by the AFA.

Outside of business and finance, Sarah can be found running along the beach in Melbourne, enjoying snow sports or travelling the world.

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Start now and achieve sustainable, long-term wealth sooner than you think.

The real secret to building lifelong wealth is out: slow money. What is slow money? It's all about starting small, starting now and progressively building sustainable wealth. Through a combination of smart planning, savvy choices and clever spending, author Sarah Riegelhuth cuts through the complexities of finance and gives you the confidence to take control of your life.

This book shows you how to:

- move out of debt and into wealth creation
- understand what drives your financial behaviour
- rid yourself of limiting beliefs about money and personal finance
- set realistic goals and track your wealth-building progress
- achieve a balance between enjoying your lifestyle and creating financial freedom for the future.

Get Rich Slow is your ultimate guide to getting to know your finances inside out, taking control and building real wealth.

SARAH RIEGELHUTH is a senior financial adviser and co-founder of award-winning boutique financial advisory firm Wealth Enhancers. In 2011 Sarah co-launched the League of Extraordinary Women, an organisation supporting and developing young female entrepreneurs.

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