

Your Money

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Ten tips to help financially illiterate weather stresses

MARK STORY

What do the unemployed, students, low-income earners, the poorly educated and non-English speakers have in common? According to research commissioned by the Commonwealth Bank of Australia, they're over-represented within society's most financially illiterate and least equipped to weather financial stress.

But when it comes to acquiring financial literacy, Christoph Schnelle, financial adviser with In Your Interest Financial Planning, says the brain is often deceptive. He says it is the intuitive ability to understand the value of money — and not raw intelligence — that is responsible for the first 80 per cent of financial literacy.

Mr Schnelle describes financial literacy as knowing how to make money, then understanding ways to keep it. The trouble, he adds, is that while most people can do one of these two functions well, too few are gifted at both.

Women are typically better at understanding the value of money, but Mr Schnelle says they're usually too afraid to do anything. He says too many men mistakenly believe their knowledge base makes them financially competent. "When couples with understanding and knowledge come together, they double their chances of achieving financial literacy," he says.

In an attempt to improve the financial literacy of Australians, the Federal Government launched its MoneySmart website www.moneysmart.gov.au last March. Since then, more than 250,000 people have gone to the website looking for unbiased, free information about managing their finances.

The West Australian asked three experts for 10 tips to improve financial literacy. Here's what they said:

Understand the value of money: Be honest about the need



Surviving the storm: The financially literate know how to make money and understand how to keep it.

Picture: Getty Images

for discretionary spending and how enriches or dilutes your lifestyle. "You'll be ahead of the game if you earn more than you spend," Mr Schnelle says. "That means sticking to a budget and keeping credit cards under control."

Get humble: Mr Schnelle says that through overconfidence, ignorance or denial, many people — especially professional men — don't know they're financially illiterate. It's important to recognise the tell-tale signs of investor arrogance and find out what you either don't know or understand.

Seek knowledge: Mr Schnelle warns that knowledge remains valueless until you are comfortable about acting on it. That typically

means delegating strategy or execution to professionals who are paid for their advice.

Understand risks and rewards: Daryl Forge, director of JDFA Business & Financial Advisers, says it is critical that investors recognise the correlation between risk and return. "You can't get rich quickly without risks, and examples abound of investors either not considering or assessing risks, so if you don't understand the associated dangers — don't invest!"

Back to basics: Mr Forge says keep it simple by paying down non-deductible debt first and having super in a low-cost fund.

Use your shonk radar: Mr Schnelle says it's only when

knowledge and understanding collide, that people will acquire a sufficiently honed radar to detect baloney in advice. "If you don't understand whether something is good for you or not — it almost always isn't."

The multiplier effect: Adam Moir, senior consultant with Garvin Financial Planning, says everyday investors need to understand the power of compounding interest. "It's very empowering to know that an annual return of 10 per cent doubles an investment within 7.2 years," advises Mr Moir. "Conversely, understand the negative impact it has on debt."

Diversification: Just as you shouldn't put all your investment

eggs in one basket, Mr Moir says investors need to understand the difference between fund manager investment styles, and what they're designed to achieve.

Super strategy: Given the significance of superannuation, Mr Moir says it's critical to understand where and how your money is being invested. "It's equally important to know how to tap into government co-contributions."

Vigilance: Mr Moir says people need credible sources of information.

"That includes regular updates on Centrelink entitlements, especially for retirees who might incorrectly assume they don't qualify for the age pension."

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