



Fisher Funds

Investor Education Centre

*Making investing enjoyable, understandable
and profitable...*

Making sense of dollars a priority

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The best part of the Savings Working Group report for me was the focus on financial literacy. The report recommended that financial literacy become part of the compulsory school curriculum and it also suggested that financial services providers should be made to improve their communications and disclosure to make it easy for investors to understand and compare.

Financial literacy, or the lack of it, needs to be dealt with if we are to avoid a repeat of some of the worst financial experiences of recent years. It is not a recent problem but has probably been exacerbated by the increasing complexity of the financial markets. I remember learning the basics about money at school and I certainly remember adding to my Post Office savings account and having my bank book stamped each week.

It seemed to be easier to understand financial matters twenty years ago. Most people used cash to buy things, mortgages were typically fixed-rate, we knew our bank manager (and he kept an eye on us) and our retirement was largely taken care of by the national pension or a pension provided by our employer. Today's world is a lot more complicated with credit cards, exotic mortgages and investments with abbreviated names that have their origins on the other side of the world.

A lot of investors struggle with basic financial knowledge let alone dealing with the more complex world of today.

In a 2004 study of American adults, only 18% of respondents answered a fairly simple question correctly:

Imagine you have \$200 in an investment that's earning 10% a year. Assuming you let the money grow, how much would you have at the end of two years? Thirty four percent of respondents answered \$240 which is incorrect because it ignores the principle of compound interest. In fact the \$200 investment would earn \$20 in the first year and \$22 in the second year (on the larger balance) giving a total of \$242.

If schools can teach our children the basics about debt, risk, compounding, diversification, and so on, hopefully the next generation can learn how to handle money before they get any to handle. And it's not too late for adults to learn about money. If the government commits to improving financial literacy by ensuring that all those offering financial products and services are transparent and consistent in their communications, all investors whether well-versed or not will have a better chance of understanding.

Of course lack of education is only one of the roadblocks that stop people from investing. Some of the roadblocks are attitudinal. Financial decisions are intimidating, so much so that some people just leave their money in the bank so as to avoid them. Others have an aversion to loss so never take the chance. Research shows that the average person suffers more pain when losing \$10 than the pleasure they get by gaining \$10.

Education is a start, then we've got to change attitudes. One of the best ways to change money attitudes is to give people a good experience. The Working Group's recommendations are certainly a step in the right direction.

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