

Transcript

The Ideas Exchange

Episode 27: Investing in 2023 - the value of financial literacy and advice

May 2023

Jacinta Schlosser (00:01):

Welcome to The Ideas Exchange by ASX, connecting you with investment experts, market updates and ideas. I am Jacinta Schlosser, business development manager investment products at ASX, and this is our regular podcast covering everything from investment trends through to different ways to invest using a variety of products.

Speaker 2 (00:21):

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Jacinta Schlosser (00:49):

Hello and welcome to the Ideas Exchange. My name is Jacinta Schlosser, and I am your host. We have an interesting discussion plan for you today, and I'm pleased that Lauren Jackson from Fidelity will be joining us for the discussion. Lauren is director wholesale sales for Queensland, and therefore based in Brisbane, but today joins me in studio. Welcome, Lauren.

Lauren Jackson (01:09):

Great to be here, Jacinta.

Jacinta Schlosser (01:11):

Look, I have it on good authority that you're passionate about raising financial literacy in Australia and also you lead Fidelity's thought leadership for women and wealth. Can you please share with the listeners a bit about that passion and what you do at Fidelity?

Lauren Jackson (01:25):

Absolutely. In terms of being passionate about financial literacy, I can honestly tell you that money was just never talked about in my household growing up. So as a young kid, I was really unaware of all the things that were to do with money. So that was budgeting, how to save,

and of course investing. And therefore, as I got older, I really wanted to take an interest in how to educate myself on that journey. And so over the last 20 odd years, that's been part of what I do. So since joining Fidelity in 2008, I've been really fortunate to work with advisors and of course investors in Queensland mostly, but now across the nation, in terms of educating them about basic investing principles, but also some of the solutions that we offer our clients here at Fidelity as well.

Jacinta Schlosser (02:10):

Sounds interesting. And I remember we crossed paths many years ago when I also worked with the Advisor Network, so we'll come back to some of your experiences there later. Today's discussion is inspired by the soon-to-be released ASX Australian Investor study. And since 1986, the ASX study has been an authoritative guide to the changing investor behaviours. It's an in-depth analysis of investor attitudes, their behaviours and decision making, and it's undertaken every three years. So we thought we'd look at some of the recurrent themes from this study and hear from Lauren's perspective the work that she and her colleagues are doing at Fidelity for investors navigating their investment journeys.

(02:50):

So I'm going to start with some of the themes and trends, namely demographics. So one in two Australian adults hold investments, which I think is fantastic. To your point about financial literacy, that's a good sign. We've seen an increase in the number of new investors in the past three years. So in 2020 when we did the last study, investors in Australia represented 46% of the adult population. Now that excludes home ownership and super. And now three years later, investors in Australia have increased to 51% of the adult population. And out of the net 1.2 million additional investors since 2020, half were female. Lauren, what has Fidelity noticed in this regards?

Lauren Jackson (03:30):

Well, firstly, I think what's some great statistics that you've just highlighted there, Jacinta and particularly of the number of females that are now starting to dip their toe in the water when it comes to investing. Similarly, with some of the research and reports that we do here at Fidelity, we also would agree with some of these trends that are occurring. We are seeing more younger investors coming into their investment journeys, which is a fantastic start, but also we're seeing more people starting to seek advice at a younger age as well, which is also a fantastic journey to embark on.

Jacinta Schlosser (04:01):

That's interesting points you raised because our study also showed that two key things here on these points is those that have never invested and current investors have a very similar age profile. So the average is

46-47 to be very specific there. But what is interesting when we look at where the people are investing or are existing investors or new to investing is the mix of next generation and accumulators. So it seems like what Fidelity is noticing represents what we have picked up in our study as well.

(04:31):

What I want to move to now is looking at the investing landscape, and I'll throw some more data out there for us to kick it off. So within the listings business at ASX, we've actually seen an increase in the number of ETFs coming to market in the past three years. And in the investor study we note that the proportion of investors who hold domestic shares or investment property has dropped slightly since 2020, whereas ETFs are up 5%. So of the 10.2 million Australian investors, the vast majority, and that's a 70% majority, hold on-exchange investments. And furthermore, we noticed the COVID wave of on-exchange investors, the very first investment was often a share in a listed Australian company, an investment property, or an ETF.

(05:10):

So there has been a growth in the proportion of those starting out with global stocks as well. Fidelity has two ETFs on the ASX, I'll list them there. So it's the Global Demographics Fund, ASX, ticker, FDEM, and the global Emerging Markets Fund, FEMX. Is Fidelity noticing a shift in investor appetite for exchange-traded products?

Lauren Jackson (05:31):

Yeah, so I think the first point to raise there, Jacinta, is that absolutely we are starting to see more investors look at exchange-traded products as a solution for their own circumstances. Both advisors and investors, actually, if I want to highlight the distinction between the two. Interestingly over the last few years, you're right, we have seen a lot more ETFs come onto to the exchange and a lot more global products onto the exchange as well. And since launching our first ETF here at Fidelity in 2018, we have had some great conversations with both investors and advisors about how to access those ETFs and where they can add value to portfolios over time. I do think it's important to highlight that as we look forward, why would people consider ETFs? Well, ease of access, simplicity, transparency, all of the above. And here at Fidelity, we will be looking to add more of our solutions to the exchange over time.

Jacinta Schlosser (06:26):

Thanks, Lauren. That's what we are noticing because I think late last year was our highest ever year of listing, and we are noticing the fund managers who have started that process, then it's easier for them to go, "Okay. Well, let's consider some of our other products here because of the ease of access for investors."

(06:43):

One of the other pieces of feedback in the study was interesting, it's about the cost of advice. So investors are less likely to turn to advisors to gain access to a wider range of investments, but instead do so as they don't feel comfortable making decisions themselves. So that's a good thing from where you and I sit because we still want people to consider advice where possible. But the primary barrier preventing investors from doing so is the perception of costs. So from an investor's perspective and your time working across the Advisor Network, what kind of costs are we looking at these days for advice?

Lauren Jackson (07:14):

Yeah, thanks, Jacinta. And it is a great question because there is no doubt that the cost of advice has actually gone up in the last few years, mostly driven by regulation. And it is something that as an industry, we are all taking a lot of time to work through and try and address solutions for investors to access advice. I will highlight that the scale is actually wide. So scales for advice can really depend on your individual circumstances, how much money you might have to invest, what your needs and objectives are over time. And so that scale is pretty broad, as I've mentioned. One of the things I did probably want to highlight though, that it is important to seek advice early because there are absolutely evidence to suggest that advice adds a lot of value over time, not just financially, but also in relation to both physical and mental wellbeing.

Jacinta Schlosser (08:04):

I agree, and it reminds me of my time spent talking to investors and advisors alike, and friends and family over the years, is that question does come up often. My dad in particular has peppered me for years, and my response is always, that's fine if you want to do it yourself, but you've got to then do the work. So do you have the time and do you want to make the time to keep across the portfolios, understand the sectors, look at your balance of your portfolio? And some people say, "Absolutely, yes." They used to do that themselves, they were a stockbroker, or they love running their own investments and they're happy to spend the time.

(08:37):

But some are like, "Oh, actually, yeah, I prefer to have someone assist me with that." And I remind them, it's just like any professional services. If you need a lawyer or you need medical professional, I liken it to that. And then the penny drops and they go, "Oh, okay." So yeah, I said, "You are getting a qualified professional." And in my experience, really advisors... I've come across many advisors, very passionate about the work that they do and the help.

Lauren Jackson (08:59):

I completely agree with you. As I mentioned, I'm very fortunate to work across the advisor landscape, and I get to meet some wonderful people who have really helped investors navigate this big world of investing. And you make a valid point. I have a lot of my friends as well that constantly ask me on a day-to-day basis, "How do you find time to manage your own circumstances?" And I'll be honest, I actually have an advisor. And I was very fortunate because of my passion about financial literacy that I first sought advice in the late '90s, still relatively young, but actually sat down and worked with an advisor who helped guide me around the basic investing principles. What is a managed fund? What is an exchange-traded fund? What is saving? What is budgeting, inflation, interest rates, all of the above? And I think once you start that journey, you get a lot more knowledge and empowerment to actually take control of your own financial future.

Jacinta Schlosser (09:51):

Must have given you a level of confidence and comfort to understand that it's not actually as scary as it seems.

Lauren Jackson (09:57):

That's right, yeah. I think as an industry we do have a, I guess a backbone of trying to make things more complicated than what they are. And actually, I will then just highlight that some of the research findings from our recent financial independence report did suggest that investment communications were complicated or intimidating for investors. So I think there is some work as an industry that we can all do to help simplify those messages for investors.

Jacinta Schlosser (10:23):

I agree, and I try and keep conscious of that with the work that we do at ASX, we all are actually is to make it digestible and easy to understand. There's a portion of people who get advice and then there are others who DIY. For those that are seeking advice, how does Fidelity view the landscape?

Lauren Jackson (10:39):

Yeah, again, it's a great question, Jacinta. Because we do know that here in Australia, around 20% of Australians seek advice. So that's 80% of people that currently don't have an advisor. The landscape is changing though. In fact, over the last few years we have seen a consolidation or a reduction of numbers of advisors in Australia, and this has meant that the cost of advice has actually gone up, mostly due to some of those regulatory concerns that we've talked about. But what we do know is that the scale is wide. So the scale of advice will really depend on your individual circumstances and your needs and objectives.

(11:15):

One of the things that I like to talk to my advisors about in particular is the fact that there is value in seeking advice. In fact, a lot of the feedback that we get from clients who do have advisors is that not only do they feel more financially comfortable, but they have a better peace of mind about their retirement circumstances, peace of mind about their physical and mental wellbeing. So huge benefits of seeking advice through the research that we've conducted here at Fidelity.

Jacinta Schlosser (11:41):

I think that leads nicely into where we want to head next because I want to touch on the principles of portfolio construction. And I'll hand over to you, but before we do, we did actually run a podcast series, it was December's episode, where we talked at length about how to put a portfolio together, so we're not going to go in-depth here. But this is one of the areas where a wealth advisor can really assist an investor. So whether you work with one or want to do it yourself, there's some principles to consider and constructing a portfolio. Over to you, Lauren.

Lauren Jackson (12:10):

Well, I guess the first place to start there, Jacinta, it would probably be what are your goals? So I think it's important where that we have to define what our short-term goals might be. So whether or not we're trying to save for buying a car, or perhaps buying a house, versus our long-term goals, so things like retirement and the like. So make sure that we have those goals articulated in a nice, clear and concise manner and align those two, like I said, those short-term or long-term horizons.

(12:36):

I think the next part of it is around that idea of balance, so developing a suitable asset allocation strategy using broadly-diversified funds. So this is key really, because in my opinion, I think the concept of diversification really means that we need to not put all of our eggs in one basket. So don't go out there and just buy one stock or one asset class. Think about really diversifying that, so that you can smooth your returns over a period of time.

(13:05):

The idea of cost also does come into this because cost can be important. And so when we think about investing, have a look at what costs might be appropriate to you and minimize those as needed. And last but not least is this idea of discipline. So maintaining perspective and long-term discipline can be challenging at times, particularly when you do have markets going up or down over a period of time because the psyche of investors and behaviors that we all have can be hard at times when you're seeing share prices fall, or the cost of living go up like we're seeing today, and therefore trying to maintain that perspective and long-term

horizon is really important. So that idea of discipline investing is key, I think from an investor perspective.

Jacinta Schlosser (13:50):

Yes. When we talked about the portfolio construction, discipline came back again and again in our conversation. And when you're talking about goals, it reminded me of one of the questions in the survey, what are people's financial goals over the next 12 months? And not surprisingly, I think top of the list was a holiday.

Lauren Jackson (14:08):

I'm there too, right?

Jacinta Schlosser (14:10):

Right? Planning for a holiday or thinking about it, actually taking one is top priority each year, but second to that is, interestingly, slightly more conservative at the moment. People want to protect their current portfolios, not as willing to take risks at the moment, so that's of interest.

(14:26):

For our final area that we want to talk about against that backdrop and that framework of what we've talked about with the portfolio construction. What are the next steps? Now, you and I talked about the best thing is really just to get started. I know myself, like you, I started off working for a bank just out of school, and which many of us in the finance industry do, but even with that grounding, there was still a lot to learn and I'm still learning. And I've realized that it is actually just an ongoing journey. So where can investors go to get help and what are some trusted sources of information so that investors can make informed decisions?

Lauren Jackson (15:01):

Yeah, look, I think you make a good point. You never stop learning, I think in the investment side. Like I said, over 20 years of doing this myself, and I think I'm still learning new concepts and ideas every day. In terms of where to go to for information, I think we're in a really great position now than we were say 20 years ago, where we do have a lot of sites that can now provide investors access to materials, calculators, pieces of information where they can increase their knowledge of financial concepts. Here at Fidelity, we do obviously have our own page, where we put a lot of information around market volatility, things like what is risk, how to diversify portfolios and the like. So there is a wealth of information where investors can actually tap into these days.

(15:44):

We still see a lot of investors seeking advice from friends and family, and of course the advisor landscape as well, which is a great outcome. And I

think to your point, once you've started that journey, you can continue to improve on that through time.

Jacinta Schlosser (15:59):

Yeah, you're right. Well, what you just mentioned was also some of the feedback in the study, where in particular next-gen investors, so that's people that are starting out in their careers, the younger generation hitting the workforce, they're more likely to turn to family and friends. They will look at websites such as the ASX. It is an ASX study, so they ticked yes, and social media for information. So this suggests they value personal connections, and this is similar for female investors.

(16:27):

Thank you again, Lauren, for taking time to speak with us at The Ideas Exchange. If our listeners would like to know more about Fidelity, please head to their website, fidelity.com.au and look for Insights and News or Learning Hub. Thank you also to our listeners. You can enjoy more of our podcasts, released monthly, or sign up to our newsletter. You can also head to the ASX website and look for the Investor tab, there is a lot of great resources there. And lastly, we host events. The May Investor Day kicks off on Saturday 13th of May in Melbourne, then travels to Brisbane and Sydney after that. Have a look at the Events tab if you'd like to register to attend. We'll see you next time.

Lauren Jackson (17:06):

Thanks for having me, Jacinta.

Jacinta Schlosser (17:07):

Thank you, Lauren.

Speaker 2 (17:09):

Visit the ASX website, asx.com.au, and register for the next Investor Day, our premier education event, providing timely marketing insights and ideas from a range of industry experts.