

FROM CRISIS TO CROESUS*

- Allistar Walker

18/9/08

One thing about crisis like the present financial debacle, the opportunity comes for a 'clean out'. The irrational behaviours of the past are replaced by more rational behaviour. The banks are experiencing an inward flow of funds representing a 'flight to quality' as the public becomes less risk averse, holding back on their love affairs with property, shares and financial derivatives. One bloke I was talking to has gone one step further – the mattress. He reckons the only one he can trust these days with his money is himself! Hope he doesn't get robbed!

There are lessons to be learned. The sort of lessons that everyone sees 'after the event', but were always around. It was just that nothing could ever go wrong – Yeh, right! In times like this Cash is King and for those that have learned those lessons, there are enormous opportunities to ultimately enrich themselves.

Here are some lessons we as Mortgage and Insurance Advisers, Brokers and Planners see going forward for borrowers:

- Have a set of written goals and plans which you regularly review
- When borrowing for a home, rental or the business ensure a reserve buffer is put in place. Also ensure that when interest rates are low you have the capacity to service debt should rates rise. Banks qualifying criteria are simply not enough. Don't expect the bank to look after you. That, my friend, is your responsibility. We do an analysis with every client to help them with this.
- Take qualified advice. We can all make ourselves 'experts' by reading books etc, but ask yourself 'How much experience and what qualifications has the person helping me got?' Not only that but 'How much are they able to help me achieve my goals and what practical strategies do they suggest I put in place? Or 'Can they show how to reduce my loan quicker and explain to me the rule of 72'. Property investment clients will want a broker/adviser who can understand the long term implications of gearing and structures that need to be put in place to protect the investment and maximise tax advantages. All so-called advisers are not equal. Ask the questions, to be satisfied with who is giving you advice.
- This crisis has shown that sometimes older, wiser and heads gnarled by previous financial crises are best. Wasn't it the younger 'fly-boys' that got Lehmans into trouble? If you are a cautious person don't throw all that to the wind without doing your homework.
- Just because a lender or H/P company is willing to lend to you, doesn't mean you should take it. Delayed gratification is far more satisfying than the instant fix to ego.
- If New Zealanders were savers rather than Spenders per se, we would have a much healthier economy, you would pay less for your mortgage, and some of the problems we now face on the financial front would not exist. In other words we are shooting ourselves in the foot.
- Don't overstretch your resources. Redundancy, sickness, economic changes could all be around the corner, to stop you achieving your goal. Have a Plan B.

- Protect your path to success. Too many people ignore taking out insurance to protect incomes, lives, mortgage repayments etc in case something goes wrong. You like some of my clients are not bulletproof. Stuff happens and when it does, it's like a storm destroying your house, while the sun shines everywhere else. We guarantee to beat the banks with all our life insurances. You'd think that would have people flocking in but many are too complacent to examine just where their money is going to. The stuff's yours to use as best as you can, not to give away unnecessarily.

All these facets should be locked into a written life plan, clearly defined by a

- Dreams List
- Goals List
- Values List
- Strategies List

These are totally intertwined. Then, unless you win Lotto, you can go from Crisis to Croesus (well closer to that status anyway!)

* Croesus was king of Lydia 595BC – 547BC approx. The expression 'as rich as Croesus' comes from the legendary wealth of the Lydians' in the time of Croesus.

Allistar Walker (Senior Fellow Financial Services Institute of Australasia) is a registered Mortgage, Insurance and KiwiSaver adviser/broker/planner assisting New Zealanders 'to get it right'. His contact is 410 6023, enquiry@mortgagehelp.co.nz, www.mortgagehelp.co.nz