

## WOE ARE THE FINANCIAL MARKETS

As Mortgage Brokers and Loan Planners, the current woeful state of the financial markets has been like watching a movie plot unfold. The problem is everyone was thinking what a great movie it was and ignored the fact that some of us had seen it before. Different actors, maybe the colour was not so brilliant but nevertheless the same plot. The last ten years has spawned a whole heap of would be property gurus, investment advisors and more ways to invest your hard earned dosh than a cat has lives. Certainly the way to wealth growth, and head off inflation is investment in property and shares. There is, however, prudent and measured ways to do this following time honoured principles. It is also incumbent on investors to watch out for and understand the signs. For instance as mortgage brokers, we were seeing funds parcelled out to almost anyone who could breathe. When lenders lower their guard under the pressure of competition and think that they have mechanisms in place to avoid past mistakes, they then need to self-examine themselves and perhaps study history. Again investors also need an understanding of history to help them avoid future mistakes.

Let's look back nearly 400 years to the Tulip mania of 1637 after which the following commentary was published

*“The immense expansion of commerce (in the Netherlands) encouraged gambling upon profits to be made from speculation in all kinds of products... It was the price that had to be paid for the increased efficiency in the complex system of business. But now and again speculation intensified into a frenzy of what the Dutch called windhandel, literally trading in the wind, that is, buying or selling in futures without actual possession of goods.*

*The most famous example of such gambling was the tulip mania of 1637 involving the bulbs of tulips and hyacinths which had become the modish flowers of the day in their myriad new varieties. Rapidly escalating prices spurred the gambling instincts of all sorts of people especially in the district of Haarlem. ...*

*But suddenly in 1637 after prices had soared to fantastic heights, the speculative castle in the sky collapsed. For those who lost fortunes there was tragedy.”*

We're smarter now, right. We're 400 years older, we're sophisticated and can land a 'man on the moon'. Sophisticated, maybe. Smarter? Yeh, right!

Markets rising rapidly, witness both housing market, share market and latterly interest rate rises, are a warning. The question for the investor is how long will it last and how do you protect yourself from being burned? Earlier in this article I mentioned time honoured principles. Whatever area you choose to invest, do your research. There is a ton of reading available in the bookshops, library and internet. Bone yourself up and talk to people who have been involved in the respective markets long term. Experienced guys, like us, know stuff that you can't always broadcast, because you would be sued, but we know when to let the rope out and when to pull it in and how you should protect yourself. It is almost impossible to pick exact timing or full effects of a downturn or upturn, but as sure as the tulips will pop up in the spring,

these upturns and downturns are cyclical and regular. The cycle has more to do with human emotions and memory than any financial common sense.

This downturn has more mileage in it yet and is far bigger than the early 90's. I believe that the education system fails us when it comes to handling our day to day lives. Surely our ability to understand and handle money should be right up there as a core subject. A savvy financially educated population would put paid to the many speculators or those feeding off the financially ignorant.

Professor emeritus at Colombia University in USA, Albert Hart, stated in 1982 as the long charge started to the 1987 crash

*"I fear that this market is judged to be successful not on a record of integrity and responsibility but on the strength of its showing a huge volume of dealings, dealings which nobody fully understands but which enable some people to siphon off large gains from financial manipulations."*

This is why history is a great teacher. Unfortunately some of our learned and 'respected' institutions, often run by 'young turks' who think they are better and wiser than in 1637, need to understand prudence and protection.

Investment is a case of 'caveat emptor', the buyer beware. Always bear in mind that good times may not always last and make sure your strategy prepares you for worse times. Experienced, professional advisers will help you do this but that doesn't absolve you from doing your own homework. After all we are all human and judgement errors will be made. It is important to minimise the impact of any judgement errors, by having Plan B.

History, nevertheless, will repeat itself. But for every downside, there is an upside, eventually.

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