



Always do your homework...

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Here we go again! Receivers have been called in to yet another non-bank institution (Banksia Financial this time). The press is littered with distressing stories about the people of Kyabram, in regional Victoria, who can't get access to their money. So what happened?

Banksia, a non-bank financial institution, borrowed money from investors at rates above term deposits and lent to property developers and other businesses. This seems common enough but the problem was that the company was holding tens of millions of dollars of repossessed properties and had large overdue loans. As conditions deteriorated, receivers were called in to prevent the collapse of the company. Apparently, the auditors had given the company a "clean bill of health" only four weeks before.

Not good enough. So watch out!

What can we learn from this latest financial disaster?

Importantly - that Banksia Financial is not a bank

It is a non-bank financial institution. This means it is not regulated like a bank and so parking your money into this type of organization isn't anywhere near as safe as in the bank. Banks are regulated by the Australian Prudential Regulation Authority (APRA) and are covered by deposit insurance and have strict capital and liquidity requirements. Currently, the Government guarantees up to \$250,000 worth of bank deposits per customer per institution so there is no risk when you invest up to this amount in the bank. This does not apply to non-bank financial institutions.

Always read the details of any financial product you plan to invest in.

You may be looking for a higher return than a bank deposit and that's fine. But make sure you ask questions if you aren't sure about the product. And don't feel intimidated about asking questions. **There is no such thing as a silly question in my book.** I know many people find it boring going through financial documents but this is your money we are talking about here. It is not enough to put your money into the hands of professionals and hand over responsibility. Fancy marketing, flash offices and friendly staff do not mean your money will be safe. Yes there are many advisers and product sellers out there who are competent and have your interests in mind but there are some who are more focused on what's in it for them. So be sceptical and do your homework.

Think about what's in it for the person/company selling you the product.

The fees you are paying for a product are legally required to be disclosed but they may be skimmed over in a meeting and be buried away in pages of paperwork. Is there a conflict of interest? Find the fee information and ask questions. If it seems a lot, then ask why?

Think about what level of risk would keep you awake at night

If a product offers a higher return than a term deposit in the bank then it carries more risk. The higher the return offered, the higher the risk. Make sure you know what sort of risk you are taking on. If it means you will lose sleep at night then it's not for you. Advisers are legally required to assess a client's risk profile before recommending a product but I have heard of cases where the client feels intimidated or uncomfortable asking questions or the adviser uses technical jargon to baffle the client and the client ends up signing over the right to move their money around but walks out the door not really sure what happened. Don't let this be you.

Diversify your investments.

No matter how thorough you are with your research and no matter how many questions you ask, an investment may not pan out the way you had hoped. For example, the share market could fall and even a solid company could have its share price affected. So spread your money around different financial institutions and asset classes. Everyone has a dud investment at some point; they just don't talk about it. You usually just hear the good stories and usually at parties! Investors wading through the accounts of Banksia Financial may not have picked up that the organisation was in trouble but having money spread around would have reduced the risk.

Cheers,

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