Watch out for the boom-time bandits
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The West Australian
Monday 4th November 2019
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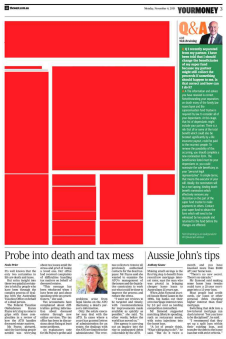

Watch out for the boom-time bandits

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Investors are being warned to be careful where they tread as record low interest rates deliver mixed returns on their money.

Cash deposits and fixed interest investments are struggling to match inflation.

Sharemarkets are flirting with record highs, placing question marks over the traditional haven of high-yielding shares given sudden falls could slice the value of even high-quality shares.

Amid the anxiety of potential sharemarket falls and low interest rates, we have seen the release of a plethora of dangerous new financial products dressed up as safe places to park money.

These include products offering moderately high interest rates in return for investing in concentrated business funding, property lending schemes and even cryptocurrency plays with low levels of security.

The promotional blitz from high-risk investments comes as savers battle to get beyond 2 per cent for safe bank deposits.

While high-risk schemes might offer interest rates of 6 to 8 per cent, investors have to be careful about having big chunks of their savings exposed to narrow sectors of an economy or markets.

William Buck's wealth advisory director, Adrian Frinsdorf, said investors chasing higher returns were being targeted by promoters of higher-risk products such as unrated bonds.

He said an investors aim should be to "generate a regular and consistent portfolio return rather than a volatile one full of broken promises".

"We're seeing more structured products, high-yield bonds and derivatives offering returns of 5 per cent and above," Mr Frinsdorf said.

"If the investment has no growth potential, the risk is not worth it.

"There will always be an element of risk in investing — you just need to be rewarded for it. Risking 100 per cent for a maximum return of 5 per cent just doesn't make sense."

A common problem among aggressively marketed debt products is that the interest rates offered do not represent adequate compensation involved in the concentrated risk of funding a few companies or a narrow part of an economy.

And there were no easy fixes in the traditional sharemarket darlings.

Financial planner Peter Foley said low rates led to investors piling into high-dividend paying stocks such as banks, but this was risky.

"Banks will find it hard to pay the same dividends when their profit margins are lower," he said.

Mr Foley said today's investors needed a longer time frame. "You want at least five years, but preferably seven or more," he said.

"This allows you to ride out the market ups and downs that inevitably happen in the short-term."

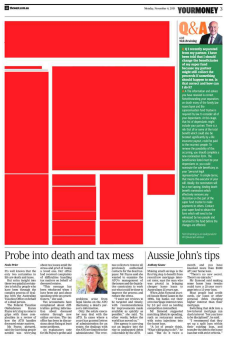
Mr Foley said anyone feeling out of their depth should ask for help.

"I see too many people who have made panicked decisions that only make things worse," he said.

"Whatever asset class you invest in, you're sure to have your ups and downs.

"It's important to remind yourself at those times that you must be disciplined with your approach."

Mr Frinsdorf said a blend of international managed funds could also help spread risk and boost exposure to a wider range of markets.



British entrepreneur Sir Richard Branson last week launched his space travel company Virgin Galactic on the red hot New York Stock Exchange.
Picture: AP