23 Nov 2019, Hawke's Bay Today

LIFESTYLE COMPARISONS POINTLESS IN DEBTLAND

by Nick Stewart, CEO & Adviser at Stewart Group

Competitiveness can be good. It can drive us further. Lead us to do better things. Challenge ourselves in ways we didn't think of. You don't even need to compete with others. Compete against yourself. Health. Fitness. Creative skills. Projects. Financial. Anything. New goals.

Comparison isn't as helpful. Looking around us and beside us to see what others are doing or what others are buying. Lining it up against we're not doing or what we're not buying isn't good. Letting the actions of others determine our feelings isn't sensible. Especially when it involves money.

The New York Times recently ran a piece on financial comparisons titled, "Wait a Minute. How Can They Afford That When I Can't?"

Leading off with a list of hypothetical things a person might see their friends or neighbours buying, the author admitted it came with an uneasy feeling.

The feeling is envy, but it's mixed with curiosity. And it often comes with a large dollop of self-criticism. They somehow must be better at managing their money than my husband and me. What are we doing wrong?

As the author later pointed out "No doubt, most people could improve how they handle their finances. But better money management isn't usually the culprit: When people seem to be able to afford much more than their income would suggest, it's often because there is hidden wealth or hidden debt."

Back in New Zealand, we have been spending more than we earn since 1992 andwith the world's highest household debt levels, at 93% of GDP, it might be the hidden debt more than the hidden wealth that's fueling 'the good life'. Outwardly, it might look great, but it's certainly not the good life on paper.

The Reserve Bank says New Zealanders are carrying a significant amount of debt, and that could become a problem of a serious downturn hit. Banks could face losses if households and dairy farms defaulted on their loans at the same time as house prices and farm prices fell.

According to the Commission for Financial Capability, in New Zealand only 38% of the age group 50-64 are mortgage-free, which says the number entering retirement with freehold homes has been declining for two decades, with no sign of a turnaround.

Even for those who don't buy and sell a home, and stay in the one place, people are increasing their debt from one year to the next. When people are increasing their debtfrom one year to the next, they're essentially accessing the equity in their home ... people are evidently using that increased equity to fund consumption.

Factor in the stalling market risk and we may have to add negative equity into the near horizon.

As financial advisers we think we're very good at what we do, but there's plenty of people we can't help. For various reasons there will always be people in circumstances where they will struggle to earn and save enough. We're not talking about them. Others? Despite outward appearances and years of employment with strong incomes, their financials are in a dire state.

Rolling toward retirement age carrying a larger mortgage than the assets held within superannuation? We've seen it and there's very little we can do. Years of financial habits coupled with emotion are hard to change. We don't really know what these people think of us because we never see them again. Maybe they conclude financial advice is useless, but financial advisers aren't magicians.

To use an airplane analogy, there needs to be large enough runway with some fuel in the tank to get off the ground.

We have to try and break the news lightly. Unfortunately, it usually amounts to 'good luck'. If their health is good that's a significant bonus as it allows them to keep working. They'll need to.

Outwardly there's a big house in a good location. There's a newer SUV rolling down the road. It might provoke a touch of envy, but there's nothing to be envious of. It's held together with sticky tape and rubber bands.

The house, car, holiday, clothes and meals out are little more than viewing the highlight reel. Others may not even bother with a highlight reel.

Take the story of a financial adviser we know who was running seminars to attract new clients. He ran an ad in the local newspaper. That morning a gruff voice called his office, specifically wanting to know what type of food and drink would be at the seminar. On the night of the seminar, the first person through the door was the owner of that gruff voice.

Jim was middle aged, a little portly, his clothes weren't in great repair and he was missing a front tooth. After introducing himself, he barreled straight towards the snack table before loading up a full plate and taking a seat in the front row. The adviser assumed Jim was surely there for a free feed. For the whole seminar Jim was taking notes. At the end, Jim cornered the adviser, presenting him with a page that listed his assets. Could the adviser help? Jim had half a million dollars to invest. This was a few years ago, so think $800,000 dollars today.

Jim's appearance wasn't high on his list of priorities. Outwardly no one would be second guessing or comparing themselves with him. And Jim didn't seem too interested in comparing himself with anyone either. There was little doubt about his financial security though.

As debt stalks the land, perceptions of wealth become very skewed. Lifestyle and visible asset comparisons are futile.

No point in keeping up with the family, friends or neighbours when they're in hock.

Although a new front tooth might be nice!