The wealthy invest in areas they know

Rich investors have a greater assortment of investment strategies

KATHERINE JIMENEZ

JOHN Symond learned a hard investment lesson early and it has stuck with him throughout his business career.

While at university in the late 1960s, he took a punt on the sharemarket.

"I lost $2000 when I was on $28 a week as an articled law clerk — it took me three years to pay it off," says the Aussie Homes Loans founder.

"It taught me a lesson: don't go and invest in an area that you don't really understand."

Symond has never returned to the sharemarket.

Retail mogul Gerry Harvey is a big believer in being passionate about what you invest in.

Aside from Harvey Norman, his great passions are the sharemarket, commercial property and horses. And he focuses his investments in those four areas.

Symond and Harvey give an insight into how the wealthy invest their money and what makes them more successful at it than the average investor.

NAB Private Wealth senior wealth manager Catherine Wong Doo says wealthy investors have a greater assortment of investment strategies, such as alternative investments in private equity or hedge funds or international corporate bonds and stocks, and a "greater number of investment choices within each of those categories".

A primary theme for the rich, she says, is "preservation of capital". By comparison, she says, retail investors may not have attained their financial aspirations so they need their money to grow more aggressively. Thus "their investment outcomes are a little bit more different".

With capital preservation, Wong Doo says, comes "quite a lot of fixed interest, floating rate notes and bonds in our portfolio, and equities that are producing income."

She says rich investors are prepared to take on risk only if they understand what the risk is and what the return upside and downside look like.

"With retail investors, you don't have those deep discussions," she says.

For Jane Watt, head of private wealth at BT Financial Group, the difference comes down to wealthy investors having a greater appetite to look offshore for investment opportunities.

"Many wealthy investors prefer to access wholesale, bespoke investment opportunities versus the more vanilla products that are available to the mass affluent segment who, particularly at the moment, are more cautious and negative in terms of investment intentions and outlook than their wealthy counterparts," she says.

Symond invests his money in two areas — Aussie Home Loans and property, specifically residential property.

"Nothing too big," he says, referring to his property investments. "Just apartments that I think have got good appreciation prospects."

Those apartments are predominantly in Sydney and in inner-city areas such as Potts Point and Elizabeth Bay, where he can get a depreciation benefit.

His view on property is that the market is close to hitting bottom and therefore it is a good time to invest.

JAMES CROUCHER

John Symond has never returned to the sharemarket after losing money as a student

Retail punters prefer cash and term deposits

"It's always about getting the cycle right," he says.

"And I think that with property today, where you have got falling interest rates, you've got higher yields, you've got the greatest choice in property selection in Australia's history because there are more properties on the Australian market than ever before.

"That gives home buyers and investors a great opportunity because they have got choice and they are getting to what I think is close to the bottom of the real estate market."

Although he has kept away from the sharemarket, Symond says he watches it closely.

"When you look at the world, I just think it is too volatile," he says.

"If I were to invest in stocks, I would be very worried because I can't read the cycle because globally the uncertainties that exist are so high.

"I think it's an unnecessarily higher risk."

Harvey is a keen sharemarket punter. When investing in equities, he sticks to companies that have been around for a while and whose management have a fair stake in them because "if I buy shares, I will bleed but so will they". Among some of the stocks he has been buying are Campbell Brothers, Funtastic, Bradken and MacMahon.

Gerry Harvey

Hillross Financial Services principal adviser David Kennedy says that in the current environment there has been a flight to safety in both retail and investor groups, but the way it has played out in terms of investment decisions is significantly different.

He says that retail investors have preferred cash and term deposits.

And while wealthy investors will hold a proportion in those vehicles, they are more likely to add corporate debt securities, alternative assets and direct commercial property.

"There is a greater appreciation of the income component of the total return" among wealthy investors, he says.

At NAB Private Wealth, the investment dollars of the rich are slowly moving to unhedged international equities, in particular healthcare, consumer staples and IT, most of which are US-based companies but derive a lot of their income from emerging markets.

Good-yielding Australian stocks are another area, along with cash, alternative investments and offshore corporate bonds.