MONEY TALKS

We all want great returns, but how can you reduce your risk? Susanna Stuart advises

HOW TO SPOT A BAD ONE

Blues singer Etta James sings a monumentally powerful number called *Security*. I love the way she belts out the words: "Without it, I'm at a great loss… Security… I want it, at any cost."

She's singing about love, of course, but in early July the collapse of finance giant Bridgecorp reminded a lot of people just how precarious the investment world is. Bridgecorp went into receivership owing about half a billion dollars to 18,000 investors who had clearly been attracted to the promised returns of close to 10 per cent.

As a financial adviser, I had steered my clients well clear of the firm. For 25 years the managing director Rod Petricevic has been associated with high-flying but risky finance companies, including Securitibank which went belly-up in the 70s and Euro-National which went from hero to zero – its share price peaking at $8.20 before dropping to 8c after the 1987 sharemarket crash. Now, 20 years later, Bridgecorp offered the same welter of bad signals including:

- Investments in high-risk deals with weak provision for bad debts, including $50 million invested in a Fijian resort development that went on hold after the military coup.
- A hugely complicated corporate structure – never a good sign.
- Poor level of information provided, including a lack of publicly available credit ratings.
- A dismal share price which reflected a lack of confidence from professional investors.

There's much to be learned from the Bridgecorp fiasco. If you're looking for fixed interest returns, I suggest you to follow these rules:

1 Don't lock your money into high-risk fixed term investments. Use tradable bonds.

2 Don't put everything you have into one finance company. Ever.

3 Invest in companies rated 'A' by respected ratings agencies such as Standard & Poor's and Moody's. An 'A' rating means they're less likely to default on their obligations.

4 Seek trusted advice before you sign anything.

Fixed interest returns are great for investors who are seeking a steady stream of income, but if you're dependent on this type of investment, it's advisable to split your money into a range of maturities and issuers, where it's less vulnerable to market conditions and fluctuating interest rates. If you have future commitments such as education fees or building costs, the bank is your best bet – it's low risk and you have ready access to your funds.

feeling the pinch

Interest rates are climbing and if you have a fixed-rate mortgage due for renewal, expect a shock. Your rate will jump from the low 7s to today's rate: around 10% – a rise of around 20%. If you've been paying $1610 a month, you will now be up for $1930. And, if you've joined KiwiSaver, and earn, say, $4000 a month, a 4% KiwiSaver deduction will reduce your cash by $160 per month. Ouch. Time for action:

- Review your spending. What can you cut down on?
- Talk to your bank about more affordable mortgage terms.
- If you have a cash lump sum, use it to reduce your debts.

MAKING CENTS

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Q As a salary earner, is there anything I can claim to reduce my tax?

Lucy Bennett, Christchurch

A If you pay for an income protection policy, the premium is a tax-deductible expense. So is the fee that you pay to have your tax return prepared. If you have income from rental property, the expenses such as interest, rates, insurance, repairs and maintenance are all tax deductible. Any loss incurred can be offset against tax you have paid on your salary. You can also claim fees that have been paid for having your investments professionally monitored and managed. If you make donations to a charity, or pay for childcare or a housekeeper (in certain situations), you can claim part of it back as a rebate.

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