

Money Matters

Arno Smit



Investing in YOUR Future – Investing in YOURSELF.

IN this fast paced world of today, most folk tend to worry about the 'now', on the basis 'tomorrow' will be sorted when it arrives. Daily there are a multitude of needs, desires and opportunities confronting us, all of which require some of our hard earned money (or credit kindly extended us by the banks) if we wish to avail ourselves of them.

So we put off any form of planning for our future – just staying ahead of today keeps us busy. Retirement seems ages away when we start out in our working lives, that first house is a few years away, and the responsibilities of marriage and family are yet to come. So why worry now – spend, spend, spend – as there will be time to save. **WRONG!**

The best time to save is in fact before you have all these commitments. So set out your aspirations, with the idea of starting your planning for your many goals. Each of these will have a starting point and an end goal. Getting there – the meat in the sandwich - requires an investment plan. Without these three components there exists no benchmark to measure your progress towards achieving your goal and attaining financial independence. In this week's column we break these three components down and explain them in some detail.

End Goals - There are many end goals, and they vary from person to person and span the various stages of one's life. Here is a list of possible end goals.

Retirement Funding -

This is not a luxury but a necessity, is not the responsibility of your employer, requires time and effort - unless you plan to become dependent on the state – and is left far too late by most folk. It is important **VERY EARLY** in your planning to establish an anticipated rand amount needed at retirement to sustain your pre-retirement lifestyle. Once you have this, you have your goal.

Planning at Retirement - At retirement your goal will be to plan how best to use your accumulated capital to both sustain your income and grow your assets to ensure your income keeps up with inflation. The real trick here is to set the starting point correctly – which most folk don't do.

Discretionary Expense - In today's world people have become accustomed to instant gratification - why save if one can swipe the plastic and buy it today. The hidden trap here though is the interest you pay for indulging your pleasure. The banks might like you a lot, and their shareholders certainly do, but stop to think about the two cars, cameras, iPods or degrees you could get with the interest payments.

Rather decide to plan for expenditure on such items sometime in the future, set your goal, and set the plan in action. The end goal can be an education, a house, a holiday, or any item which you deem will enhance your lifestyle. Either work towards a specific goal, or have a regular savings plan from which you can withdraw funds to acquire these items or luxuries.

Starting Point - The starting point may sound easy enough, but so often we put off this critical event when planning investments. Quite simply there is no better time – **EVER** – than right now. Remember procrastination is indeed the thief of time.

Determine your base – most often this is zero, but retirement funds accumulated over a number of years often come into the equation – and then take a **REALISTIC** decision as to what you **WILL** diligently put away. Then do it!!

The plan that fills the gap in-between - Now you have established your starting point and end goal. The plan now is to work out what the return is you need to grow your money from x to y over the specified time period. The higher the growth required the bigger the amount of risk you will have to take to achieve your goal. Investment returns and risk are tied together like Dr Jekyll and Mr Hyde – they are entwined in a web of intrigue as history has shown high growth requires higher risk appetites.

The risk can take on many forms from wild daily market price movements to default risk. It is important to understand that market risk price swings over time work in your favour although you will have many anxiety attacks along the way. The biggest risk is default risk - this being loss of your capital. Most recent high profile incidences of this have been the property syndications which were sold with promises of high returns with minimal risk. Unfortunately very few folk were told of the inherent dangers, the most important of which was that the syndication could default and the result would be the loss of all one's life savings. Market risk is in fact your friend - default risk is your worst enemy!

In the following weeks we will be discussing investment planning further. We hope you keep reading.

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