# Is it time to fire your financial advisor?

## Closing the gap between bad advice and doing nothing for yourself, with 6 steps to creating your own financial plan


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*2nd Edition*

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# Thanks & Dedication

Thank you to Julian Pulvermacher for editing this book.

I dedicate this book to all of my family and friends. To my children Amelie and Tariq, may you learn from this book one day.

Thanks, Almo

# It may seem daunting, but it's actually not that complicated

While it's certainly always wise to consult a financial planner, we all know that a large percentage say they can help you with your financial plan—they actually just want to sell you a financial product or products.

I used to be one of those people, mainly because that is what I was taught by a large South African life insurance company. My university education and postgraduate studies in financial planning helped me realise that something was wrong with such an approach. Even though this is not the topic of this book, it does provide some context.

I wrote this book so that you can start on a journey to create your own financial plan. This book is not meant to be a literary masterpiece, but it is meant to be practical and help you figure out a few things about yourself and your money.

You will likely still have questions after reading this book and you should ideally look for a **professionally** qualified financial planner who can assist you further along the road. I suggest you start by only looking at financial planners that are Certified Financial Planner Professionals (CFP®) professionals and members of the Financial Planning Institute—www.fpi.co.za. You will also find a financial planner in your area on the site.

## Getting Started

You won't get ANYWHERE unless you start SOMEWHERE. So hopefully this book can assist you in getting started on your journey, because it is a journey. We all have different ways of dealing with money that come from our different childhood experiences and how we grew up. It is different for everyone. It may be a good idea first to see a life coach who can help you identify the nature of your relationship with money. Financial planners can really only assist those who really want help and who are ready to receive advice.

Chapter Number 1

# Step One - How to set financial goals

I am sure you are sighing already. Everybody tells you to set goals (maybe “dreams” is a better word?), but it can seem so arbitrary and perhaps even boring. Right? Whatever you want to call it, the pertinent question is **why.** Why are you doing what you are doing? Why do you get up in the morning, get dressed and go to work? Perhaps stop and think about that for a bit, dream a little, discover possibilities and then put something concrete on paper.

## What are your key personal and financial goals?

Some examples of financial goals are

- planning for a comfortable retirement
- paying for further education
- paying for the education of your children
- purchasing a home
- purchasing an additional investment property and
- having an emergency fund.

Overall we all want to live the life we want to live by having the money to do it, never running out and not dying with too much.

You have to be quite accurate in the way you define your personal financial goals and this means you may want to use the SMART principle in developing them. SMART goals are **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **Ti**mely.

For example, you may not be saving any money and your goal is to save more. Changing this goal to save 5% or 10% of your of your monthly income is not only specific, but it is also measurable (you can easily tell when you have achieved it or not), and it is likely to be attainable within a reasonable time frame.

In case you are still not clear on how to use the SMART principle of goal setting, here is some more detail.

## *Specific*

A specific goal has a much greater chance of being accomplished than a general goal. To set a specific goal you must answer the six “W” questions: **Who** is involved? **What** do I want to accomplish. **Where**—Identify a location. **When**—Establish a time frame. **Which**—Identify requirements and constraints. **Why**—Specific reasons, purpose or benefits of accomplishing the goal.

EXAMPLE:  A general goal would be, “Get in shape.” But a specific goal would say, “Join a health club and work out 3 days a week.”

## *Measurable*

Establish concrete criteria for measuring progress toward the attainment of each goal you set for yourself . When you measure your progress, you stay on track, reach your target dates, and experience the sense of achievement that spurs you on to the continued effort required to reach your goal. To determine if your goal is measurable, ask questions such as…How much? How many? How will I know when it is accomplished?

## *Attainable*

When you identify goals that are important enough to you, you begin to figure out ways you can make them come true. You develop the attitudes, abilities, skills, and necessary capacity to reach them. You begin seeing previously overlooked opportunities to bring yourself closer to the achievement of your goals.

You can attain almost any goal you set yourself when you plan your steps wisely and establish a time frame that allows you to carry out those steps. When you list your goals you build your self-image. You see yourself as worthy of these goals and develop the traits and personality that allow you to attain them.

## *Realistic*

To be realistic, a goal must represent an objective which you are willing and able to work towards. A goal can be both high and realistic; you are the only one who can decide just how high your goal should be. But be sure that every goal represents substantial progress from where you are now in your life.

A high goal is frequently easier to reach than a low one because a low goal requires low motivational energy. Some of your hardest accomplishments actually seem easy simply because they were a labour of love and effort on your part. So don't sell yourself short.

## *Timely*

A goal should be grounded within a time frame. With no time frame, there's no sense of urgency. If you want to lose 20 kg, by when do you want to lose it? "Someday" won't work. But if you anchor it within a timeframe, e.g. "by July 1st", then you've set your unconscious mind into motion to begin working towards the goal.

Your goal is probably realistic if you truly believe that it can be accomplished, even if it is challenging. Additional ways to know if your goal is realistic is to determine if you have accomplished anything similar in the past or to ask yourself what conditions would have to exist in order for you to accomplish this goal.

**T** can also stand for Tangible. A goal is tangible when you can experience it with one of the senses, that is, taste, touch, smell, sight or hearing. When your goal is tangible you have a better chance of making it specific and measurable and thus attainable.

## Determine how much you will need to achieve your main financial goals

For a financial plan to be successful, it is essential to quantify your goals. That is to say, take a specific goal, and translate it into a monetary figure.

For example, a common financial goal is to retire by 60 or 65. Although it is often stated that 70–80% of current income is a reasonable goal for retirement income, others have suggested 50–60% of income for couples, and 60–70% for singles is more reasonable. But to get a clearer idea, you may actually need to run a budget as if you were retiring tomorrow. Determine what debts would be settled by then (i.e. your home loan/bond) and what expenses you would still be left with. You may also need to establish if you would have some new or different expenses at that age or life-stage.

If you are currently making R80,000 per year and are single, your retirement income should be around R40,000 per year using the 50% figure above. This would be an example of translating a goal (retire by 65), into a specific monetary figure (R40,000 per year of income). Once this amount is known, it is possible to create a plan to determine how much money saved and/or invested you will need to supplement your other sources of retirement income to hit the R40,000 per year mark.

You will need to do a future value calculation in order to determine the impact of inflation on the amount and relate it back to a present value yearly or monthly savings amount to help you calculate your needs for retirement and other goals, and what you should be saving.

If you can't find one of these calculators online then you are welcome to e-mail me at info@thefortune-group.com to let me know you have read this book, what you think and that you would like to access the necessary calculators.

## Taking action

Write down what you believe your relationship to money is. What comes to mind when you think about money and savings? What were you taught about money when you were a child? Also write down 5 - 10 SMART goals for yourself.

Chapter Number 2

# Step Two - Know your current financial position

If you don’t know where you are, then how can you know where you are going? Taking stock of where you are financially is quite daunting for a variety of reasons. Either we don’t want to face reality, or dealing with our financial position is too big a task to take on in our already busy lives. Most likely it is a combination of both. However, as you are already reading this book and past the first chapter, I am guessing you are a little more serious about this already.

## Establish your net worth

In a nutshell, your net worth is really everything you own of significance (your assets) minus what you owe in debts (your liabilities), or, simply put, what you own minus what you owe.This figure will give you a precise sense of your current financial position and can help you make good decisions and achieve your goals. Net worth is a measure of your financial health because it basically says what you would have left over if you sold all of your assets to pay all of your liabilities today. Every financial move you make should be aimed at increasing your net worth. This means either increasing assets or decreasing liabilities.

You can create a simple worksheet to calculate your net worth, or find a template online. Begin by creating two columns, one for assets and one for liabilities.

List your assets. An asset simply refers to anything you own, and you can include things like investment, cash on hand, bank accounts, retirement funds, your home and other property, etc. Next to every asset, list the value of the asset. For example, if you own a house, list its value. The same would apply to things like a stock/share portfolio, or a car. Add together the values of your individual assets to find the total value of your assets.

It may be a good idea to make a list that says ASSETS in big letters at the top. Underneath that, on the left, list what the asset is and on the far right, list the value of that asset so that the decimal points of all of the assets line up. This makes the calculation of your total value much easier.

Once you've listed every asset you can think of, write TOTAL in big letters over on the left, then add up the numbers. Once you have this total, you've got the total value of your assets.

List your liabilities. A liability refers to any debts you may owe. This includes things such as the outstanding balance on a property loan or bond, credit card debt, student loans, car loans, personal loans, etc. Add together the amounts of your individual liabilities to find the amount of total liabilities you owe.

Much like with the assets list, make a big header that says DEBTS, with each debt listed below on the left side and the amount of the debt over on the right, with the decimals lined up for easy addition.

Once you've listed all of your debts, write TOTAL in big letters on the left, then add up all of the debt numbers. This total is the total amount of all of your debts.

Subtract the total amount of your liabilities from the total value of your assets. This number is your net worth. If the number is negative, it indicates that you owe more than you have. Conversely, if you have R100,000 in assets, and R50,000 in debt, your net worth would be a positive R50,000. As you progress in your financial plan and save more, your assets should increase (along with more savings), and your liabilities will decrease (as you eliminate debt).

Drawing up your net worth:

| ASSETS—what you own | Market Related Value |
|---|---|
| Primary property | |
| Vehicles | |
| Unit Trusts | |
| Retirement Savings | |
| Cash in savings account | |
| Cash in cheque account | |
| Other Assets | |
| **TOTAL** | |

| DEBTS—what you owe | Current Settlement Value |
|---|---|
| Primary bond | |
| Credit cards | |
| Vehicle debt | |
| Overdraft owed | |
| Loans | |
| Tax owed | |
| Other Debts | |
| **TOTAL** | |

| TOTAL ASSETS | less TOTAL DEBTS | equals Net Worth |
|---|---|---|
| | | |

## What does a negative net worth mean?

Some people panic when they calculate their net worth and discover that it is negative. This is usually the result of a young earner with a substantial amount of student loans and maybe also a loan on a rapidly depreciating car for example. Why is your net worth negative? You simply haven't earned enough money yet to overcome the weight of the debt. Don't worry, it will come, but now you at least know where you stand.

However, a negative net worth can also be due to over-borrowing. For instance, you might have accumulated huge credit card bills and are not paying them off. This creates a large number in the liabilities column, but no valuable asset to offset it. This is also known as unsecured debt due to the fact that there is no asset to secure (offset) the payment of the debt.

Debt is a handbrake. Too much debt will keep you from making any form of regular savings. Debt creates stress and can have dire consequences if left unchecked. High levels of personal debt will obstruct any goals, ambitions or plans that you may have for the future. With high levels of debt you will not be able to save. You cannot set short or medium or longer term financial and life goals if you have significant levels of personal debt.

Every time you make one of your debts smaller or one of your assets larger, your net worth will increase. So, you can increase your net worth by paying off your debts, saving and investing money, and reducing your spending.

## Taking action

Work out your own Net Worth using the above method.

If you currently have debt, put a plan together of how to start paying it off. Debt which is unsecured and with the highest interest should be prioritised. Also write to the relevant lenders about your plan to pay off their debt.

Chapter Number 3

# Step Three - Calculating a monthly budget

## Decide to create a budget

While net worth gives you a picture of your assets and liabilities, it is even more important to know how much money comes in and goes out every month. This will give you a good idea of what you spend money on every month, and having all these expenses written down can tell you exactly where savings can be found. This is the cornerstone of any great financial plan.

## How to create a budget?

Start by determining your sources of income. Make a list of your monthly sources of income (salary, rental income, etc.). Add these sources together to find your total monthly income.

Then determine your monthly expenses. It can be helpful to organise these into groups. For example, under “Housing,” you could include your rent or bond payments, home insurance, and utilities; under “Transportation,” you could include car payments, fuel costs, maintenance charges, and car insurance. Add all of your expenses together to find your monthly total. Make sure you include expenses like your cellphone, entertainment, food, clothing, credit card payments, rates and taxes, and other incidental costs.

Always account for irregular and variable expenses. Remember that some expenses are “fixed” (the same or nearly the same each month) while others are “variable” (change frequently, or are irregular). When making a budget, try to account for variable expenses, including those that don’t occur monthly.

You can make a list of variable expenses that occur over a period of several months, add them together, and then divide that sum by the number of months. This will leave you with an average variable expense number that you can factor into your monthly budget. Furthermore. you should reconcile your budget at the end of every month by keeping track of the ACTUAL amounts spent on items. You therefore need to keep track of every cent you spend during a particular month. Purchase yourself a hard cover pocket size A5 notebook and keep a Daily Budget Diary. Draw three columns as follows:

| Date of Purchase | Expense Description | Amount |
|---|---|---|
| | | |

You can construct your own simple Monthly Budget Planner. The monthly budget planner should follow this simple format:

| Description | Budget Amount | Actual Amount |
|---|---|---|
| **Income** | | |
| | | |
| **Expenditure** | | |
| *Fixed* | | |
| | | |
| *Variable* | | |
| | | |
| **Net Position (Income less Exp)** | | |

You need to keep an envelope of all electronic transactions such as when you swipe your debit card and draw money from an ATM in order to keep a detailed account of your expenditure during the month. You will insert the slips into the envelope. At the same time write the expense description on the slip. We now have two checks in place – the Daily Budget Diary and the Envelope system. Then, on the last day of the month, also draw a bank statement to reconcile all expenditure. The less cash you use, the easier it will be to track your monthly spending.

Lastly, take 30 minutes (task at the end of the month):

- Have your Monthly Budget Planner in front of you with all the 'budgeted' amounts for the month

• Reconcile your Daily Budget Diary back to your Monthly Budget Planner

• Reconcile your slips to the Daily Budget Diary and to the Monthly Budget Planner

• Reconcile the bank statement as a master to the planner, diary and the slips

• You now have the 'budget' and 'actual' for the month

• Review the outcome. Can you identify where you spend your money?

• Can you reduce spending in the coming month?

• Adjust your budget where necessary. Trim and review where needed

• The aim into month 2 and month 3 is that we begin to reduce non-essential spending, pay down debt and free up cash flow towards regular savings and investments

- Track this for the next three months and adopt as part of your daily or weekly or monthly personal budget discipline.

## Taking action

Do a monthly budget for yourself using the above example.

More importantly track your spending for at least a month and reconcile it at the end. Then adjust your budget again.

Chapter Number 4

# Step Four - Saving your money

## What exactly are savings?

Savings are normally short term investments where the objective may be to preserve the capital amount. This may include an Emergency Fund or you may have a specific purchase that you need to save for. Typically savings investments have low investment yields but carry very little investment risk. Time is an important factor to consider as the savings investment may not keep pace with inflation over a longer period of time.

An example may be that you want to go on holiday in 6–12 months. You need to save the money in a savings investment where the capital is secure and will earn a little interest at the same time. When it comes time to pay for the holiday, you have accumulated the savings and the capital has been protected.

## Find money for savings

Regardless of your financial goal, saving will be a central component. Whether your objective is to purchase a house, retire early, or pay for a child's education, saving will be the key means by which you accomplish your financial goals.

Refer to your budget for this. Look at your monthly expenses, and find areas of non-essential spending that can be cut. For example, if you eat out three times a month, or buy lunch at work everyday, focus on eating out once a month, or bringing lunch to work.

Look at your budget and decide what is a "want" and what is a "need". Look to the "wants" area for savings. Similarly, look at what you consider "needs", and ask yourself if they are truly needs. For example, your cell-phone may be a need, but you may able to get by on a 1GB plan rather than a more expensive 3GB data plan. Be honest and be realistic.

## Create a savings habit

Begin by opening an account at a reputable bank with low fees and good interest. Experts recommend the method of “paying yourself first,” which means that each pay period, you commit to setting a certain amount aside for savings as part of your budget. You can make an arrangement with many banks to automatically transfer a set amount of money from the account into which your salary is paid, into your savings account.

Save an amount that you are comfortable with, given your needs and expenses. The amount you save can increase (or decrease) as time goes on. The important thing is to save something, even if it is just a small amount. Saving ten percent of your income is a good place to begin, but saving anything is better than nothing.

Saving even a small amount in an interest-earning account will be beneficial because of the power of compounding. This means that the interest your money (the principal) earns is added to the principal, which then earns more interest, and so on—causing the overall value of the account to grow.

Practice makes perfect. By saving a set amount each month, or "paying yourself first", it will become automatic and you will learn to live without the saved money as if it wasn't there to begin with. View the saved money as an essential expense, just like rent or bond payments.

Experts also recommend setting aside enough money to cover your needs for at least three months as an emergency fund in case of job loss, major illness, unforeseen damage or loss to property etc. Keep these funds in something like a money market fund so they will be both easily available when you need them and get a little better interest than your other short term savings in a savings account.

You can also protect yourself against financial problems by being properly insured. A good income disability policy and car and home insurance are able to protect you against unforeseen circumstances.

Chapter Number 5

# Step Five - Investing your money

## What are investments exactly?

Investments are normally longer term investment ‘vehicles’. The objective with most investments is capital growth and/or investment income. The investment period may be three years or more. To achieve capital growth or sustained income, more investment risk will be required. Time is an important consideration with any form of short or longer term investment.The general rule of thumb is that a higher rate of return carries with it more investment risk and vice versa. There is no magic investment that yields a high rate of return with minimal or no risk. If the investment seems too good to be true, it often is—beware of such investments

Time is an important factor of any investment consideration. Generally, the more time you have to invest, the more risk is tolerable. Shorter term savings investments typically have low investment risk levels and longer term investments target higher rates of return and higher investment risk. The theory is that over time the smoothing effect between periods of negative and positive growth should favour an overall positive growth curve.

## The building blocks of investments

Investing is an essential part of most financial plans, as it allows you to to reach your financial goals more quickly,requiring less money to be saved because of the return generated. It is important to note though that all investments do carry a degree of risk, and it is possible to lose money.

Common areas of investments include stocks, bonds, real estate, and unit trusts.  Each type of investment has a different earning potential, costs, and risks.

| Investment/Asset Class | Risk–Return relationship |
|---|---|
| Cash or Money Market | Low Risk and Low Return |
| Bonds or Gilts | Low to Moderate Risk and Moderate Return |
| Property | Moderate Risk and Moderate Return |
| Shares or Equities | High Risk and High Return |

These building blocks may be used in different combinations to achieve targeted rates of return and investment objectives.

You can purchase many types of investments (such bonds, stocks/shares, and unit trusts) through banks, brokerages, and sometimes directly from companies, governments, or municipalities.

Inflation is the enemy and will erode the buying power and the value of money over time. Consider these examples:

| | 2002 | 2012 |
|---|---|---|
| Petrol: | R3.61 | R12.22 |
| Milk or 1 litre: | R3.79 | R9.79 |

Investments over the longer period must outperform inflation, otherwise the value of the investment will be eroded. Inflation is an important element to factor into any investment strategy and should not be overlooked.

We all have aspirations, dreams and goals. Many of these dreams and goals will cost money. If we do not have our Personal Financial Management in order, high levels of debt and little or no savings in place, then sadly many of these dreams and goals will slip past us and one day—when it is too late to do anything about it—we may regret that we didn't achieve what we had hoped. Part of your Personal Financial Management strategy should include writing down and reviewing your goals from year to year.

## The main types of investments

Although there are too many to list in one location, four important types of investments are stocks/shares, bonds, unit trust funds and investment property.

A stock or share refers to ownership in a company bought on a stock exchange, like the Johannesburg Stock Exchange (JSE). By purchasing a stock/share, you are effectively buying a piece of a business, and the value of that piece will move up or down depending on how many people want to buy or sell it. For this reason, stocks/shares can be incredibly volatile, and although they generally do better then any other type of investment, they can also lose a tremendous amount in one year. For example, in 2008, many stocks/shares around the world fell 50%. Stocks/shares are a good choice for individuals holding for the long term, such as those planning for retirement.

Bonds refer to a debt investment. When you loan money to a government or company, you are purchasing a bond. In return for loaning the money, you will receive interest from the entity you loaned to, usually paid out annually or semi-annually. Bonds traditionally carry less risk than stocks.

A unit trust fund refers to a collection of investments (usually stocks), managed by a professional investor or asset manager. When you buy into a fund, you are buying ownership of a share of the basket of stocks, and you make or lose money depending on how the overall basket does. Unit Trust Funds are a great choice for hands-off investors, as you benefit from plenty of diversification, and a professional manager who will buy, sell, and manage the portfolio depending on market conditions and their strategy. There are, however, fees associated with unit trust funds.

Investment property is real estate or property that has been purchased with the intention of earning a return on the investment, either through rental income, the future resale of the property or both. An investment property can be a long-term endeavour or an intended short-term investment such as in the case of “flipping”, where property is bought, renovated, and sold at a profit or gain.

## More about risk

Every type of investment carries a different level of risk and before investing it is important to know the degree of risk to which you are willing to expose your hard-earned money.

Refer to your goals to determine your risk. For example, if you are saving for a vacation in 6 months, investing in stocks/shares may be a poor decision, because stocks/shares carry higher risk and can be very volatile over time. This means that while there is a chance you could reach your savings goal very quickly with less money saved, there is also a chance that you will need to postpone your vacation should your investments not perform as expected (e.g. due to a fall in the market). A better option would be bonds (which carry lower risk), or even just cash in a high interest savings account.

A general rule of thumb is that the higher the potential return, the greater the risk—which also means that the lower the risk, the lower the potential return.

Fairly “safe” investments include savings accounts, and government bonds. Stocks/shares have the potential for greater returns but also higher risks. Unit Trust Funds help minimise risk by investing across a broad range of stocks and securities, and can be a good choice for long-term investments.

Never invest money in high risk investments should you need that money in the short-term, or for essential items like food, rent, or gas. Once you know your goals, understand the types of investments, and know your risk tolerance, you can select a type.

Stocks/shares work well if you have a medium to high level of risk tolerance, and are saving for medium to long-term goals. For example, if you are saving for retirement, stocks/shares is a highly recommended investment. Keep in mind that not all stocks/shares are high-risk. For example, investing in a small pharmaceutical company would be extremely high risk, whereas investing in a large, stable company in the JSE Top 40, with steady cash flow and competitive market share like Sasol, SABMiller or BHP Billiton would be much lower risk.

If you do not have the time, comfort-level, or risk tolerance for individual stocks/shares, consider Unit Trust Funds. These are suitable for longer or medium term goals like retirement or saving for a child's education, but are more "hands off", though you can often just check on them annually or semi-annually to make sure they are performing as you want them to. You can research  Unit Trust Funds on your own and purchase them directly online through an asset manager.

Bonds are suitable for individuals with lower risk tolerance, who are more concerned with preserving savings, at a low but steady growth rate. It is important to note that bonds have a place in any portfolio, and it is often advised that individuals who are in their 20s to 40s have a larger stock/share and Unit Trust Funds allocation, whereas individuals closer to retirement switch more to bonds to preserve savings. Bonds can be an effective way to balance your portfolio and lower your risk. A good rule is to subtract your age from 100, and that is the percentage you should hold in stocks.

## Consider diversifying

Not all sectors of the economy perform equally well (or badly) at the same time. If you spread your financial portfolio across different kinds of investments, then you can minimise your risk of losing its overall value in the event that one or more parts of it “take a hit.” This method of investment is called diversification.

The rationale behind this technique contends that a portfolio constructed of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments neutralises the negative performance of others. Therefore, the benefits of diversification hold only if the securities in the portfolio are not perfectly correlated.

For example diversification benefits can be gained by investing in foreign or offshore securities because they tend to be less closely correlated with domestic or local investments. Furthermore, investing in more securities yields further diversification benefits, albeit at a drastically smaller rate.

Chapter Number 6

# Step Six - Future cash flow management and making good financial decisions

## Understanding your cash flow & liquidity

In the previous chapters I explained how you can understand your current financial position and how to budget on a monthly basis. The way forward from here is to develop financial scenarios for the future.This will enable you to start making the right decisions now in order to have more control over the possible future outcomes.

Articulating the different possible future scenarios that might exist for you, and considering your appropriate movements down each of those possible paths, will help you manage your net worth and cash flow at each step of your life.

You therefore need to create future budget scenarios for yourself, depending on where you might be at that time in your life. This means you need to develop a scenario as to what your income will likely be at each life stage; this will include knowing where that income is coming from and what your possible expenses may be at that point.

Usually each life stage has its own unique income and expenses. Furthermore, the lifestyle you choose to have now is likely to determine the lifestyle you have in the future. For example, during your active working career you will have a certain level of income—probably a salary from an employer—and your expenses at that time will be paid from that income.

This is where your current budgeting would assist you to manage those inflows and outflows. However, during active retirement, for example, your expenses will be quite different, as will be the source of your income at that stage. This picture needs to be painted in some form or another, and then managed accordingly, as well as possible.

A key consideration is that your immediate income can only ever come from liquid cash. This is money that you can easily access within a 1 to 7 day period. Fixed assets aren't providing you with liquid cash, available for income, until they are sold or liquidated. This includes fixed properties, pension funds and your business.

With property you should always keep in mind that you still need a place to live. Therefore the only way that your current home can provide you with available liquid cash is when you downscale; the difference in value between the home you sell and the smaller home you then buy provides you with this.

Aside from your home, other properties will provide you with liquid cash when they are sold or while they provide a rental income, nett of any expenses you may have related to them. You will have to decide at what stage you should sell additional properties in order to unburden yourself from your active management of them. Your life and desired lifestyle will determine what you do with these properties at any given time.

A business can also only really provide accessible liquid cash when you eventually sell it (provided of course that your business is in fact sellable). The more your business depends on the input of your personal time and skill, the less likely it is to be sold, or sold for a significant amount. Understanding how the sale of your business will impact your assets and your possible future cash flow is a separate chapter all on its own, but a good financial planner will have the ability to help you understand this better.

Most people also have a pension, usually from their employer. When you retire you can take up to a third of the total pension as cash, but only R500 000 of that is tax free in South Africa. Other countries offer variations on this concept.

So if you decide to take that R500 000 tax free amount, then this would be added to your liquid cash. The remainder of your pension must be taken in an annuity or monthly income:this income can provide further liquid cash available for expenses at this specific life stage.

## Tying it all together

In summary the **assets** you may accumulate over your lifetime:

- A home.
- A pension fund (company or personal).
- A business.
- 2nd & 3rd investment properties.

**Income** you receive in **early** life stages would be:

- A salary.
- Dividends from a business you own.
- Rental income from properties.

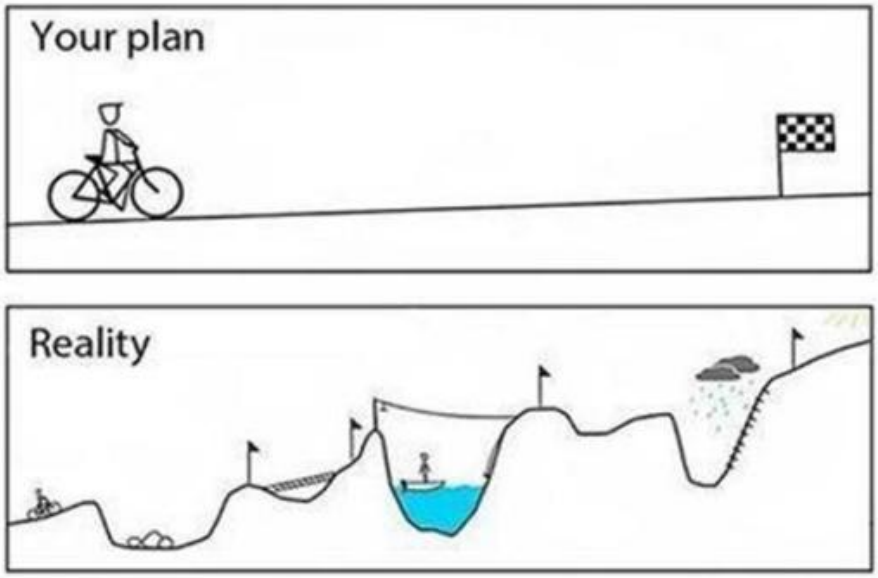
**Income** you receive in **later** life stages would be:

- A monthly pension payment.
- Income from liquid investments such as unit trusts, shares or money market accounts.

This income needs to be matched up with expenses you will have at each life stage. These expenses will vary at each of these life stages. The various life stages in which you need to match your income from expenses would be:

- Active working life
- Early or active retirement
- Later or inactive retirement

Your life and personal financial plan do not usually follow a nice, easy straight line. It is therefore not an easy task to establish various scenarios for the future and how best to manage them.




It is by no means impossible to try and plan every stage by yourself, but having somebody to help you navigate this landscape as you take each step should definitely prove to be helpful, provided they have the appropriate skills. This is where a good financial planner can truly add value to your life.

Financial planning has absolutely nothing to do with financial products. Financial products do not solve your financial problems. In fact, they may even aggravate them. What they can do is add to your asset base which, at important stages of your life, especially near to retirement, need to be managed in order to provide you with tangible income, which needs to be carefully matched to your expenses at that stage.

Most people reach a stage in their life where they have accumulated a whole range of assets, including all kinds of financial products, that they have no idea what to do with; they don't necessarily even know whether these financial products can provide them with the right amount of income for the rest of their life, especially when no longer working and earning an active income.

## Be careful of dying with too much

Having enough money to last you for your life in retirement is one issue. Another is having too much. The main reason you don't want to leave too much money when you die is because the government will take a whole lot of what remains in your estate for themselves. This is called Estate Tax—you should avoid it as much as possible.

What is the point of leaving too much money (which includes all assets) only for the government to take between 30–40% of that away from you. Why should they?

The saddest thing however about leaving too much when you die, and probably worst of all, is that you could have enjoyed more things in life. Perhaps you didn't do many things you wanted to do because you were afraid that you would run out of money. Understanding your cash flow every step of the way helps you live your life to the fullest and do all the things you want to do without fear of running out of money.

## Think before you do

The SAVED (**S**top, **A**sk, **V**erify, **E**stimate, **D**ecide) method is a guideline to follow when making financial decisions:

- **S**top and give yourself time to think before making any financial decision. Don't be pressured by salespeople, brokers, etc. Tell them (and yourself) that you want time to consider your options.
- **A**sk about costs (taxes, fees, maintenance, etc.) and risks that would be part of the decision. Make sure you know what the worst-case scenario might be.
- **V**erify all information to make sure it is accurate and trustworthy.
- **E**stimate the costs of this decision, and how it would fit into your overall budget.
- **D**ecide if the decision makes sense for you.

As children,many of us never received guidance about personal financial management either at school or at home. Let's break this cycle and develop responsible attitudes towards money.

## Be cautious with debt

Sometimes, borrowing money can be a sound choice—for instance, buying a home, paying for education, or making a necessary purchase. However, maintaining debt—especially high-interest debt like credit cards—reduces your net worth and cash flow for savings & investments. It can slow your progress toward achieving your financial goals.

Don't overuse credit cards. Try to spend within your means. Pay off high-interest debt as soon as possible. This can be the best strategy for financial growth in the long run, because even good investments usually don't make up for high-interest debt. If you have multiple credit accounts, try to pay off the one with the highest interest rate first.

## A few other considerations

Many people do not have a properly constituted Will. People often die intestate, which means they had no Will in place. Think about those that you leave behind and ensure that your Estate Planning is up to date at all times.

You can find a template for a Will online or fill out this online form:

CLICK HERE

Whatever your personal needs may be, ensure that you have adequate personal risk/insurance cover.

## Seek help when needed

Financial planning can often be successfully self-directed. However, if you feel like you don't have the time to do research and manage your finances, don't know where to start planning, or if you are dealing with something unexpected (like an inheritance or illness), you should consider consulting a Certified Financial Planner Professionals (CFP®) professional. You can find one by going to www.fpi.co.za.

Be wary of untrusted sources of advice, investments, etc. If an offer sounds too good to be true, there is a good chance that it is.

Laws, regulations, and best practices related to financial planning can vary widely depending on where you live and/or work. Make sure you understand these thoroughly before making financial decisions, and seek expert advice if there is anything you do not understand.

Also remember that true and unbiased advice can really only be acquired if you pay for it directly.

## Taking action

Find three Certified Financial Planner Professionals (CFP®) in your area by going to www.fpi.co.za and make appointments with them. Three assessments of and opinions about your financial circumstances and future should give you a good idea of and confidence in which direction to take. Make it clear to each of them that you are interviewing a few planners and that you would like them to give you their value proposition.

If you have comments or questions please mail me, Almo Lubowski, at info@thefortune-group.com