A History of Shaping Financial Success

THE QUICK GUIDE TO

FINANCIAL SUCCESS

The Quick Guide to Financial Success

"Success is No Accident. It is hard work, perseverance, learning, studying, sacrifice and most of all, love of what you are doing." - Anon.

Today our lives are busier than ever. We all juggle multiple roles throughout the days, weeks, months and years. It is important to take some time to sit back and think about the why, and what you would like your future to look like. Why am I working long hours or running this business? What would I like to achieve in the next 12 months? What would be a great family holiday and how much does it cost? Am I spending enough time with my family?

A key part of working or running a business is to provide enough money for our lifestyles and future plans; to be financially successful. Financially successful can be defined as being able to do what you want, when you want, without worrying about the financial effect. This of course means different things to different people. So the challenge is to understand your why first (as this is what will motivate you and keep you focused), and then you can work out the following:

The Now – where are you now financially

The Where – where you need to head to achieve your Why

The How – determine your plan

There are many books, websites and blogs dedicated to money and finance. The more you read of these the more you will educate yourself and improve your financial acumen. The following strategies are summaries of steps you can take to help achieve financial success, and are a quick read as we know your time is limited. The list can act as a checklist to see what you have achieved so far, and what more you can focus on. Please note that this list is a general list of possible strategies and is not personal financial planning advice. If you need further help and advice specific to your circumstances, Kennas can discuss with you all the strategies below to guide you on the path to financial success. For new clients, the first meeting is free.

Happy reading, and please call us at Kennas for more information on how we can assist you.

"If you look at what you have in life, you'll always have more. If you look at what you don't have in life, you'll never have enough."

Oprah Winfrey

STRATEGY 1

Know where you spend your money

The most important aspect of getting ahead financially in life is understanding where you spend your money. This means regularly reviewing your expenditure and understanding your spending habits. It is easier to save a dollar than earn a dollar, and it is no secret that those who are financially successful often do without some lifestyle aspects to “invest” more in their financial success.

Use a spreadsheet or money management software to track your expenses for at least 6 months (try the TrackMySPEND app at moneysmart.gov.au). You can track all expenses over a certain amount (like $5) to fully understand where your money goes, and be honest with yourself.

The next step is breaking up your spending into needs and wants. Needs, like food and accommodation, must come first. Wants are discretionary. Yes, they may be the “fun” things in life and make you feel better, but are you better off investing money left over (after your needs are met) into your long term financial plans?

Of course the answer is different for everyone, and most people need a balance between their wants and longer term financial success plans.

STRATEGY 2

Know your current financial position

Do you understand what your current financial situation is?

What is the value of assets you own (such as your home, super, shares, property)?

What are the liabilities you have (home loan, credit card debt, car loan)?

Only once you understand this (and yes sometimes it isn’t pretty), will you have a base to work from and move forward.

It becomes easy to calculate your future financial situation to see if your monthly “investing” will enable you to meet your long term financial goals.

STRATEGY 3

Educate yourself

Most people's financial success comes unstuck for three reasons.

The first is they never get around to planning for financial success.

The second is not having enough knowledge about money and finance matters, and this leads to making poor financial decisions and choices.

The third is not getting expert assistance to help shape the financial success plan.

Financial success is not a short term action. It is a lifelong plan which changes depending on your situation and stage of life.

You need to educate yourself at least around the basics of money, finances, and financial planning. This gives you the best choice of making the right decisions for you.

The easiest starting point is reading online and even purchasing a few books. There is a list of online resources at the end of this book, but there are a multitude of online resources and books on money and investing.

The sooner you start working on yourself and your education, the sooner you will have good plans in place, and you will be on your way to financial success.

STRATEGY 4

Set your financial plan in place and invest in this first

It is very common for people to spend what they earn. Have you ever heard the comment that even after receiving a pay rise, the person concerned doesn't seem to have any more money?

The point is this. If you have a clear picture on where you need to go financially to meet your goals, you can stay more focused and have less chance of getting off track. You should prepare a budget which covers your needs, allows for investing in your financial future (which could be as simple as paying off your home quicker), and then see what you have left over for your wants. In other words, invest in your financial plan before you spend money on lifestyle, and adjust your lifestyle to suit. Yes this is hard, but that's why you must keep focused on why you are doing this. Most people do not get ahead financially because lifestyle comes first; they spend their surplus cash on wants and have nothing left over for investing in their financial success.

Here are some great tricks to try.

If you do get a pay rise or some extra money from somewhere, put this into your "investing" straight away (if you hadn't the chance to get used to the pay rise you won't notice it is gone). Set up direct debits to automatically pay extra off your home or into regularly investing, which automatically reduces your bank balance (having less money in your bank account keeps the pressure on to not overspend).

STRATEGY 5

Benefit of compounding interest

You may have heard of the benefit of compounding interest, which is really interest you earn on interest through long term investing. The best way to understand how powerful this is in an example.

Imagine investing $100 a month in a managed share fund that earns 8% per annum. This is a relatively small amount, but if you invested this for 10 years you would have about $18,000 saved up. If you doubled the amount of time to 20 years, you would have about $59,000 saved, which is over 3 times as much as after 10 years. This strategy works well for long term savings such as children's senior education or university, or for maximising your superannuation for your retirement.

STRATEGY 6

Protect your hard earned wealth

There are many threats which can severely reduce your net wealth and cause assets to be taken from you. Threats include potential liability in relation to business bankruptcy, litigation, breaches of government rules such as workplace health and safety or environmental, relationship breakdowns, and a number of other disastrous situations which can occur.

There are basically 3 steps you need to take to help protect your hard earned wealth.

1. Minimise the risks through good business operational procedures such as strong financial management, quality control, and documented safety procedures.
2. Insure against the risks by using a reputable broker or insurance company.
3. Don't own assets in your name if you are in a higher risk occupation or business.

As a starting point, devising an asset protection strategy involves the following:

(a) Identify the investment and business assets your family owns and what assets you are likely to accumulate in the future, along with an understanding of any business or asset structures you have.

(b) Identify from whom, or against what, assets are to be protected. This is basically an assessment of the risks or threats involved with the activities undertaken by you and your family and the assets that may be exposed as a result of these risks.

(c) Understand your risk profile and tolerance to risk.

STRATEGY 7

Pay off your credit card

Credit cards are an everyday part of life. But if you don't control your use of these, credit card interest rates are still very high.

Many people get into trouble with over using credit cards and have trouble getting the balance paid off. The best way to use credit cards is to pay them off in full each month, and making sure you don't overspend.

Just use them as a convenient way of paying expenses and using the interest free period.

STRATEGY 8

Pay off your home

For most people, their home is their first major investment, and they borrow to make the purchase. As an investment, homes are free from capital gains tax under current rules, and interest costs on your loan are not tax deductible. These points, along with the need in retirement to have minimal debt (as your income is generally lower), makes it a key goal of most people to pay off their home loan before they retire, or before they invest in something else.

Paying off your home quicker can have significant financial benefits. For example on a loan of $400,000, repayments at 5% over 25 years are about $2,300 per month. If you could pay an extra $200 extra per month off the loan, you would pay off the loan 9 years earlier, and save $50,000 in interest costs.

STRATEGY 9

Protect your family with insurance

Sometimes the best laid plans can come unstuck by unfortunate events. Injury and illness can mean you may not be able to work for an extended period, or even ever again. Terrible accidents can also happen and we may leave our loved ones behind or lose one of our family members.

So how would your family cope financially if one of these events happened to you or someone in your family?

Insurance can provide financial security in times of need through a variety of ways. Income protection insurance can provide a regular income if you are not able to work. Life insurance can provide a lump sum if someone passes away to help financially those left behind. Trauma insurance can provide a lump sum where you suffer a major health event, to help you continue on afterwards.

Brent Giles of Kennas Financial Services can advise on all these types of life insurance and more, to make sure you have the cover that is right for your situation, with the best policy, at the right price.

STRATEGY 10

Putting money aside for your children's education

Some research suggests that the cost of raising children can be up to $400,000 per child, which is quite scary. Schooling costs can form a major part of this, and if children want to go on to post school education like university, costs escalate even more. If you can start saving while your children are young, it is much easier to put aside smaller sums of money in order to reach your savings goals (due to the benefit of compounding interest).

There are a number of options available for savings for children's education costs. A very good summary is at moneysmart.gov.au, which also has a savings calculator (search education). A growing option is investment bonds, which are very tax effective if your tax rate is over 30% (which is anyone with a taxable income over $37,000). Kennas Financial Services can advise on these options.

STRATEGY 11

Putting money aside for yourself

(use an offset account)

It is important to not just put money aside for your long term financial success or children's education, but also yourself and your family. For example, you do need to reward yourself (and your family) and take a break occasionally, so saving for holidays may need to form part of your financial planning. Again, regular small savings are a much easier way to save for that dream holiday, so careful financial planning will benefit you greatly.

The best way to put money aside for future plans is an offset account bank account which is offset against a home loan. The way this works is the balance in your offset account is taken off your home loan, and the loan interest is calculated on the balance. So if your home loan interest rate Is 5%, effectively you are earning 5% tax free on the money in your offset account.

STRATEGY 12

Invest in regular savings plan

You may decide you have some spare cash to invest, but aren't sure how best to do this.

You could put the money into an online bank account, or term deposit, to try and maximise interest. Or you could choose to put it into a regular managed funds option which is tied into shares and property.

There are many options available (including paying extra off your house as mentioned before) but you need to find the right option for you to suit your plans.

Make sure you know your future plans, do some research, and ask for help, and you can choose the right savings plan.

Please call Brent Giles on 4924 9100 for more information

STRATEGY 13

Invest in property

Real estate is an asset that most people understand due to the high home ownership in Australia. So it is an obvious choice for many people when they look to purchase an investment asset. Like any investment though, it is important you understand how to make money on real estate, and investing in property is very different to owning your own home.

Property offers two returns to investors. The first is rental income, and the second is capital growth. Different types of property will normally offer different types of returns. For instance, residential real estate will often have lower income returns (3% to 6% gross) and higher capital growth. Commercial property will normally have higher income returns (7% to 10%) and possibly lower capital growth.

Depending on your circumstances and financial stage of life, how you finance the purchase is also important. Borrowing for the majority of the purchase price offers tax benefits through negative gearing (where the expenses of the property are more than the income, creating a loss which you can offset against your other income). You then need cashflow from elsewhere to be able to support this loss. In retirement though, you will normally prefer to have your property paid off, so the property creates a positive cash flow to help fund your retirement income.

As a general rule you should understand what you invest in. Hence, in the first instance, property investment seems like a good decision for many people. But always remember diversification of your investments is a major key to minimising risk and financial success, so you shouldn't dismiss other types of investments (i.e. don't have all your eggs in one basket).

To help you understand the tax benefits and cash flow implications of your rental property purchase, Kennas can prepare a rental property analysis for you.

Please call Peter Shonhan or Darren Smith on 4924 9100 for more information.

STRATEGY 14

Contribute to superannuation

Superannuation is often misunderstood and is critical to most people's retirement plans. Super is simply a type of structure that can own investments, which has a lot of tax benefits, and you can normally only access when you retire. The significant tax benefits encourage people to invest in superannuation to fund their own retirement, and while retirement may be a while away, super can offer a completely tax free environment in retirement.

Let's look at an example of the tax benefits while you are saving for retirement. If a business owner was on a tax rate of 40%, they would save $2,500 tax a year by paying $10,000 into super each year. That's a 25% initial return on their money just for making the super contribution.

Often people will be concerned about possible tax changes to superannuation taking away the benefits. This is a valid concern, but it is recognised by all political parties that with Australia's aging population, the government must keep encouraging people to save for their own retirement.

Kennas Financial Services specialize in superannuation investing and advice, including self managed superannuation funds.

Please call Brent Giles on 4924 9100 for more information.

STRATEGY 15

Invest in good help along the way

Getting ahead financially is not an easy road to take. Research suggests that at best, only 5% of people retire independently wealthy, which really means they don't need government support and can do what they want when they want.

You need to educate yourself, but you also need good help along the way. This may be from family or friends who have a lot of experience, or recognised financial planners and accountants who are highly trained and experienced in assisting people on the road to financial success. While this advice does cost, not getting good advice can cost you a whole lot more.

Kennas Financial Services can assist with all your investment, superannuation or retirement planning.

TO SUM UP:

The path to financial success can be summarised as below:

1. Understand your why.
2. Remain focused on this to help you keep motivated on your financial journey.
3. Understand where you are now and where you need to go financially.
4. Review your financial situation regularly to see if you are on track.
5. Get good help along the way and don't be scared to invest your time and money in getting and implementing this advice.

Important Links:

www.kennas.com

www.moneysmart.gov.au

www.nab.com.au/personal/learn

www.destiny.com.au/

Free Downloads:

Flyer - Preparing for Financial Success

Flyer - Estate Planning, Wills and Asset Protection Summary

Flyer - Investing - A guide to regular investing

Flyer - Insurance - Why have income protection insurance

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