FM FINANCIAL

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Establishing Wealth - May 2015

Welcome to an FM Financial newsletter focused on those establishing their wealth and future. We hope you enjoy reading the articles, and please consider sharing this with family, friends and colleagues who are beginning their wealth journey. We love client referrals and will always offer family and friends a free health check to discuss their financial situation.

In other news, Australian interest rates are on the way down, with one cut to the official cash rate this year and more anticipated. Low interest rates have kept the local residential property market on the boil, especially in Sydney and Melbourne.

Rising property prices have boosted the wealth of Australian households. According to the Australian Bureau of Statistics (ABS), per capita wealth grew to a record $333,061 in the December quarter. But shares have also performed strongly.

Australian shares rose almost 9 per cent in the first three months of 2015, despite weaker commodity prices. The ABS Index of commodity prices fell 20.6 per cent in the year to the end of February, which acted as a drag on the resources sector. The difference was cashed up consumers, low interest rates and the global search for yield which all augur well for the months ahead.

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Learning to **invest in YOURSELF**

While Australia has had an extraordinary run of good economic times, when it comes to employment the market is becoming more competitive, with unemployment trending upwards and wages flatlining. It's an environment where everyone – young, old, self-employed or rusted-on staffer – can benefit from an active approach to professional development.

If you're not making the most of your capabilities, you might want to invest some time and energy in your most important asset – yourself.

Below, five respected life coaches suggest some life-changing, career-transforming techniques.

1. Work out what you want

If there is one thing successful people and organisations share it's clarity of purpose. High-performance specialist Phil Owens says, "Finding your purpose is like finding your personal true north; it gives direction to all of your decisions and actions.

To find it he suggests asking: "What is important to me?" and "What do I love doing?"

"Be aware that everyone will have a different purpose and that working out exactly what yours is will probably be a much longer and more complicated process than you expect," he says

2. Act mindfully

Mindfulness is a concept that's crossed over from Eastern religion, particularly Buddhism, into the corporate world.

Satyam Veronica Chalmers, a trainer at Mindfulness Coaching, says mindfulness can translate into reduced anxiety, improved learning abilities, greater efficiency and improved concentration.

Even better, practicing mindfulness is free and, once you get used it, very easy.

"Stop periodically throughout the day for at least a minute to focus on your breathing, notice how you're feeling, notice bodily sensations and take some deep breaths. Set an alarm on your phone to remind yourself to do this," says Chalmers.

3. Polish up those soft skills

What separates the happy high-flyers from the not-so-happy plodders is often people skills rather than technical ones.

Rhett Morris, human endurance expert and owner of Bulletproof People, says successful people are often high IQ but low EQ [emotional quotient]. By improving their EQ, they can get more out of people they deal with, whether that's employees, managers or their own friends and family.

Morris suggests taking a free online test, such as www.ihhp.com/free-eq-quiz/, followed by an 'emotional stocktake' to think about what impact your EQ has on those around you.

"Then begin holding yourself as accountable for who you are as what you do, both in the workplace and out of it," he says.

4. Link your goals

Linking your goals to something more motivating than a desire for personal advantage can also boost success.

Director of International Centre for Leadership Coaching, Alex Couley points out that humans became the most successful species on the planet by being cooperative. That means if we set goals with reference to how meeting them will improve the lot of others we'll be more motivated to reach them.

"For example, someone is more likely to work towards getting a pay rise if they're planning on using that money to send their child to a good school rather than just upgrading their car," says Couley

5. Investigate your money mindset

We're all at different stages of the wealth-creation journey, but if you feel as if your journey has stalled try doing a personal stocktake.

Money mindset coach Joanne Newell, of Rich Life by Design says that having your financial house in order involves the following: "You should have an income that reflects the value you provide or create, that income should be substantially more than your outgoings, you should have some quality investments and you should have a clear understanding of your financial position, which includes up-to-date bookkeeping."

If your finances are less than ideal, Couley suggests spending some time reflecting on any limiting beliefs you might have around money, including those inherited from your family.

None of these suggestions is costly or complicated but all have the potential to improve your career, finances and overall wellbeing. With the possibility of some challenging times on the horizon, there's never been a better time to invest in becoming more focused and effective.

THE GOOD THE BAD & THE UGLY

For many people, debt is a dirty word. But not all debt is created equal. There's good debt and there's bad debt, and then there's the good debt that can get pretty ugly if it's not managed properly. Learning to use debt intelligently could make all the difference to your personal bottom line.

Good debt

Debt is considered good when it helps you buy wealth building assets. That can be an asset that grows in value over time and/or provides you with income.

Borrowing is often referred to as leverage because it helps you get more for your money.

Shares and property are regarded as growth assets because, when chosen well, they should grow in value over time. Shares can also offer regular dividend income while investment property provides rental income. In both cases, the income you receive can be used to help meet your loan repayments.

In many instances you can also claim a tax deduction on the interest paid on your investment loan.

Bad debt

Debt is bad for your wealth when you borrow to buy assets that fall in value, don't provide any income and are not tax deductible.

Using a credit card or a personal loan to pay for holidays or expensive toys is an example of bad debt.

The trouble with bad debt is that you can often be paying for it long after the holiday has worn off or that new car has halved in value. If your bad debt is on a credit card, then it can be all too easy to let the debt roll over each month.

When bad debt turns good

Used well, bad debt can be put to good use. If you are disciplined and pay off your credit card in full each month this can help you manage your cash flow. It might also allow you to leave money sitting longer in a high interest savings account.

Credit card debt turns ugly when you buy things you can't afford and pay only the minimum repayment each month. Because of the high interest rates that apply to credit cards, your initial debt can balloon and take many years to clear.

When good debt goes sour

Using good debt to pay off bad debt could also cost you dearly. Say you consolidate your debts by increasing your mortgage. The end result could be that you spread the cost of that holiday over 20 years or more, dramatically increasing your total interest payments into the bargain.

The family home

Buying a home to live in will not provide you with income but it can still be regarded as good debt. Not only is it a form of enforced saving but in time it may also be used as leverage to fast track your wealth creation.

Once you build up equity in your home you can use this as security to take out an investment loan. Any income you earn from your investments — your good debt — can be used to make extra repayments on your mortgage. This can accelerate paying off your home loan and free up cash for more investments.

A power of good

Whether debt is good or bad, it's generally wise to clear it as quickly as possible. Pay off your bad debts first - beginning with the debt that has the highest interest rate - as you should be able to take advantage of the tax concessions available on your good debt.

In years gone by it was common to wait until you had saved up for what you wanted. Nowadays the ease of obtaining credit can lead to reckless behaviour. But there's still an important place for good debt.

Given most of us will spend many years in retirement and would like to be self-funded, borrowing to accelerate wealth can be a very successful investment strategy. It's just important to remember to keep bad debt to a minimum and make sure you use good debt wisely — otherwise it can all turn a little ugly.

TECHNOLOGY TO KEEP YOU FINANCIALLY FIT

Monitoring fitness levels with a smart phone or tablet is the latest way to keep the body in good nick thanks to the availability of downloadable applications, known as apps. But there is also a growing number of apps to keep your personal finances in good shape.

While online banking has given bank customers the ability to check their balance and monitor ingoings and outgoings easily, today's finance apps go much further than this.

Some can aggregate information about when bills are on the way and flag how much money needs to stay in your account to ensure sufficient funds for payment on due dates.

Others may help you keep a tighter rein on impulse spending. One locally-developed app, *Pocketbook*, reveals if you have enough funds for an impulse purchase while leaving enough in the kitty for regular bills, simply by checking your smart phone.

The personal finance hub at the Australian Securities and Investment Commission, Moneysmart.gov.au, is also backing the trend. It has developed two simple but smart apps to help guide budgeting, *TrackMyGOALS* and *TrackMySPEND*.

Access permitted

A good place to start the search for financial fitness tools is your bank. The large banks all offer free apps linked to customer accounts. Some offer budgeting while all have money management functions such as transferring between accounts and paying non-bank bills.

Some non-bank apps will also hook up with your bank information and produce graphics that display spending and saving. Some require a lot of data input and others are virtually effortless to use. Many are free but even the ones that need to be bought cost less than $5.

Although the choice of apps in Australia that link with our banks is not huge, one that stands out for its connectivity is *Pocketbook*. The free version has limited functions but if you pay for the product it offers a variety of budgeting tools, including weekly income and expense summaries.

Whether you go for a standard app that allows bills to be paid from your financial institution or a fancy one from a software company, it pays to be aware of privacy issues.

Downloading an app involves agreeing to conditions that can include giving providers access to the private information on your electronic device and permission for them share it with a third party.

Keep it secure

Often people prefer to stick to their banks' products knowing they already have a secure relationship with a low risk of identity theft.

Greater security is also likely if the information you exchange with your app is done on a smart phone or tablet rather than on a PC. These devices are operated by systems designed to reduce the risk of online crime in a way that PCs with hard drives struggle to.

Even bank web browsers are more open to hacking on a PC than on a phone, unless you opt for extra protection from reputable software such as Kaspersky.[i]

If you prefer to manage your money on a smart device, it is vital to secure it and the app with a pin or password. Apps such as *BillGuard*, which scrutinises credit card statements for suspicious charges, won't work if a code is not applied.

Just like the multitude of health apps that help shed kilos or bulk up muscle, there are also apps designed to make your debt leaner or pump up wealth by tracking your investments.

The fast-growing list of tools to keep you financially fit will leave you breathless. But the pain of finding the right budgeting app could lead to big wealth gains in the long run.

i http://support.kaspersky.com/8056