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Die klop van jou geldsake
The beat of your finance

October 2016 Issue 3

Beste kliënt,

Meeste van ons, ek ingesluit, is daagliks besig om te probeer verseker dat jou eie, maar meer belangrik jou kinders se toekoms verseker is.

Ons gaan daagliks werk toe en gaan verdien 'n paar rand om te sorg dat die mense by die huis kos het om te eet, klere het om te dra en 'n dak het oor hulle koppe.

Meeste van ons het nou al vrede gemaak daarmee dat ons ook vir die kinders se opvoeding sal moet betaal. Let maar daarop dat ek nie gesê het almal van ons nie! #FEESMUSTFALL

Ons is soms so besig om in ons eie lewe finansiële welvaart te skep dat ons vergeet dat ons kinders ook eendag op hulle eie voete sal moet staan en dus ook hulle eie welvaart sal moet skep.

Dis daarom vir my persoonlik, vreeslik belangrik dat kinders van kleins af geleer moet word hoe om met geld te werk en hoe geld vir hulle kan werk.

In hierdie kwartaal se nuusbrief het ons 'n baie oulike artikel wat geskryf is deur Partick Cairns van *Moneyweb* wat juis hieroor 'n paar wenke verskaf.

Dan het ons ook 'n artikel oor die verskillende filisofie rondom finasiële beplanning.

Lekker lees!

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Ons spesialiseer in:

- Testamente en boedelbeplanning
- Aftredebeplanning (aftreeannuïteite en pensioenfondse)
- Na-aftrede beplanning (lyfrente en lewende-annuïteite)
- Beleggingbeplanning
- Langtermyn versekeringsdekking (lewensdekking, ongeskiktheids-dekking, traumadekking)
- Inkomstebes-kerming
- Mediese fondse

How do you teach your children about money?

Patrick Cairns | www.moneyweb.co.za

Unfortunately money is one of those taboo subjects that many people don't like to talk about, whether they are big earners or small earners, big savers or those that don't save at all. However, the earlier your children are exposed to the subject of money, the better.

There are a number of financial lessons that you can teach your children that will provide them with the responsibility they need and which won't come across as "preachy".

Start by opening bank accounts for them. This gives them the responsibility of managing their own money in a more formal, structured way. It also provides an obstacle to using the money as they will have to withdraw it out of the account.

Secondly, teach them the value of money and the importance of budgeting for how to spend it. A good place to start is that instead of just handing out pocket money assign them chores that earn them certain amounts and pay the income into their bank accounts. They have now earned the money, so it is more meaningful to them and they are less likely to spend it on things they don't need.

Explain to them that they only have what they have earned and they cannot spend more than this. This is the beginning of teaching them how to budget, and hopefully how to save.

It is also important to teach them the difference between wants and needs. Needs are things you have to have on a daily basis, while a want in teenage terms is instant gratification. Show them the importance of delaying their wants and the benefits of saving and compound growth.

Albert Einstein called compound growth "the greatest mathematical discovery of all time". It is something that deserves to be understood.

Compounding is the process of generating earnings on an asset's reinvested earnings. To work, it requires two things: the re-investment of earnings and time. The more time you give your investments, the more you are able to accelerate the income potential of your original investment. The perfect time to start saving and benefiting from compound growth, therefore, is when they are young.

As an example, consider two individuals, John and Jane.

When John was 15 he began investing R500 per month into a unit trust at a growth rate of 9%. For simplicity, let's assume the growth rate was compounded annually.

When John reaches 30, the value of his unit trust investment will be R189 203.

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Of this, he would have contributed R90 000 and the investment growth would have contributed R99 203.

Jane on the other hand, had the full R90 000 lump sum to invest at the age of 15 into a unit trust. At the same annual growth rate of 9% compounded annually, the value of Jane's unit trust investment at the age of 30 will be R327 823. That is R237823 more than she put in and R138 593 more than John.

Both examples illustrate that by saving and taking advantage of compound growth, the growth in savings actually ends up creating more for you than the amounts you put in.

To encourage your children to save, and as long as it doesn't break your bank, offer to match whatever amounts they save. So for every R100 they invest from their "earnings", agree to add a further R100.

Apart from teaching your children the benefit of saving and compound growth, it is vitally important that you teach them the potential pitfalls of credit at an early age. Obtaining credit is all too easy today and this in itself is a recipe for disaster.

Psychologically, using credit to purchase is far easier than paying for it with hard earned money. This is because you don't see money leaving your account and therefore it feels as though someone else is paying for it.

The ease of use associated with credit cards is compounded firstly by getting yourself into debt and secondly by the high interest rates and annual fees typically associated with them. This is where most people get themselves into trouble because the amount they owe grows much faster than their ability to repay it. This is the reverse of earning compound growth from saving.

If you have your own credit card, show your children your statement, show them your credit payments and the associated fees, then put this into practical terms for them.

For example, if your credit card fee is R100 per month and the interest is R150 per month that amounts to R250 per month or R3 000 per year. Show them that because this is a payment to the bank they will have to forego something they really want or need to the same value.

Less about the rands, more about the sense

Persuing the life that you desire can be constructed around lifestyle choices rather than about developing the soul of a bean counter.

Traditional financial planning is all about money and getting your calculations right. And the process is generally as exciting as watching grass grow and as emotionally draining as moving house.

Fortunately there are investors that are taking a different approach – an approach called "life planning".

According to Lisa Smith from Investopedi.com, a premiere resource website for information and education on financial matters, life planning differs from traditional financial planning because the focus is more on who you are and who you want to be than it is about money.

People engaged in the life planning process don't look ahead in an effort to figure out how to maintain their current lifestyle in retirement. Instead, they look at how to change their lifestyle to achieve the lifestyle of their dreams.

The ideal lifestyle

For people who believe in the concept of spirituality, creativity, family, service and other emotional aspects of personal satisfaction, happiness is measured in more than just rands and cents. It's not "he who dies with most toys wins," it's, "he who gets the most out of those toys that wins".

For many, it's more of a lifestyle change than anything resembling the retirement-planning process most of us are familiar with. The doctor who wants to be a painter, the law clerk who wants to be a poet and the city-dwelling office manager who longs for a cabin in the mountains are all increasingly turning to financial-service professionals for help in making those dreams come true. Of course, the money plays a big role too.

Money and sacrifice

There is no escaping the lack of money (or the need thereof). The mailman who wants to become president is probably out of luck. However, the attorney who wants to trade in her office suit to open an antique shop might be able to do it in cash. The others have to make choices, so they work with a financial advisor in order to determine how to develop the financial plan that will allow them to realise their personal goals.

Rather than trying to earn more money or build a bigger nest egg, a significant number of people need to make do with less in order to achieve their goals. Giving up the big house, trading in the BMW and skipping the month-long trips to Europe can help decrease expenses and enable people to swop their day jobs for lower paying, but fulfilling professions and past-times.

If living in a small apartment frees up enough cash to spend more time on the golf course, some people are willing to make the trade. In order to exchange the stress of corporate management for the quiet bliss of a career grooming pets, some people are willing to take a significant cut in pay. When you don't like what you're doing and know how you'd rather spend your time, life planning can help you make the transition.

It's your life

If your goal is simply to retire, still be able to pay the bills and maybe a take a few trips each year, that's one thing. If your goal is to leave your office chair behind you and take up your spot behind the counter of your own bakery, that's another thing entirely. Instead of asking yourself, "How much do I need to save," ask yourself, "How am I willing to change my lifestyle in order to achieve my goal?"

From there, it's more about the process of managing change than it is about saving a certain amount of money or earning a certain rate of return on your investments. Just as each person has his or her own definition of happiness, the decision to pursue a lifestyle change is highly personal. It can involve enormous upheaval, but it can also result in enormous satisfaction.

If you consider chasing your dream, have an honest conversation with your financial advisor about your future plans. Who knows, maybe you can come up with the plan that will get you there.