

THE WEEKENDER

have a good one

TAKE CONTROL OF YOUR FINANCES EARLY ON

ALICE plays with her kittens, Kitty and Snowdrop, when she ponders what the world is like on the other side of a mirror, and to her surprise, she passes through and experiences a world beyond the mirror.

She discovers a book with looking-glass poetry — Jabberwocky — which she can read only by holding it up to a mirror. The poem contains many nonsensical words and a story is only barely discernable, according to the main character, Alice, in Lewis Carroll's *Through the Looking-Glass*.

Overwhelmed by the modern financial Jabberwocky produced by the press and the investment industry, we ponder many ideas but generally fail to take action for fear of making a mistake.

Perhaps we are intimidated by our own money and investing.

Although it seems logical that the primary point of investing is to provide us with sufficient income after retirement, most of us fail to deal with this adequately. We dilly-dally hoping the problem will sort itself out.

We know investing from an early age gives you a head start, but few of us do it. We yawn at the classic example of compounding — two investors investing, one starting at age 20, investing for 10 years only, and the other starting at age 30 and investing until the age of 65. We know the hard-hitting conclusion.

Few of us start investing meaningfully at age 20 or 30.

The reality is that retirement ages are dropping as more people are being retrenched due to the economic crisis. And longevity and high inflation are increasingly eroding the little we do manage to save towards retirement. We seem to approach retirement as if it is a world beyond the looking glass.

Start implementing the basics of investing at an early age.

If an investor delays saving for 10 years, he would need to save an extra 6,6% of his salary or generate an extra 3% above inflation, every year for 30 years.

Delaying for 20 years will require a nearly impossible average return of 10,5% above the rate of inflation, which will probably require the nest egg to be exposed to inappropriate investment risk.

The sooner investors realise they need to invest a fixed percentage (say 20%) of their after-tax income continually, and adjust their lifestyles accordingly, the better they will retire. Invest with measurable targets of what you want to achieve. Instead of saying you want to be "comfortable" when you retire or that you want your children to attend "good" schools, quantify what "comfortable" and "good" mean so you'll know when you've reached your goals.

Financial planning is a common-sense approach to managing your finances to reach life goals. It is a lifelong process.

Events beyond your control, like inflation, market changes or interest rates, will affect your financial planning results. Buy investments you understand and don't try outguess the market as it often results in irrational behaviour, and a dent in your wealth.

Your financial planner will help you with a strategy that should be uncomplicated and realistic, and help you stick to the plan by regularly reviewing your situation.

By developing habits such as saving, budgeting, investing and regularly reviewing your finances early in life, you will be better prepared to meet life changes and handle emergencies. Failing to do so may land you in a stark world far, far removed from Alice's.

- Don Richter is a certified financial planner at PSG Konsult.