Account(able) Financial Planners Pty. Ltd.

SAVING AND INVESTING

The fundamentals

Many Australians delay taking control of their finances because they don't have time, they find it too daunting or they may just not know where to start. The reality is that the sooner you take charge, the sooner you can start working towards achieving better results, especially in the long term.

While this information highlights some factors to consider, and how these may impact your finances, it does not replace the need for ongoing financial planning advice that is tailored to your specific needs.

Being a successful investor isn't difficult, but it is important to get the fundamentals right. So where do you start?

WHY THINK ABOUT SAVING AND INVESTING?

In the short term, a savings 'safety net' frees you up from the stress of living from payday-to-payday. Similarly, in tough financial times or when unplanned expenses arise, you can comfortably access your own savings instead of being forced to use more expensive options such as credit cards, loans and cash advances. In the medium term, a regular savings plan establishes a financial track record (which is essential when applying for finance), and can also help you to reach goals such as a holiday or a new car. In the longer term, effective saving and investing can help to improve your quality of life – possibly supplementing your superannuation when you retire and allowing you to accumulate greater wealth.

GETTING STARTED – SET GOALS

If you don't set yourself personal financial goals, then how do you know what you are trying to achieve financially? Ask yourself – what do you want to achieve? Remember, it is important to be specific and make your goals measurable so you can see the results. Ensure that the goals are attainable, realistic and within sensible time frames. If your goal is to save $40,000 in two years and you only earn $20,000 a year, then you're setting yourself up for failure. Once you have decided on your goals and their timeframes, then you can begin to make informed choices about how to work towards achieving them.

SAVE FIRST – SPEND LATER

"While saving is about putting some money aside, investing is about making this money work harder."

Saving is easier if you commit to putting the money aside at the start of your pay period and spending what is left, rather than trying to limit your spending and saving the amount left over.

An automatic deduction, either directly from your pay, or from your bank account a day or two after you get paid, is one of the easiest ways to set yourself up so that you save first. That way, you know exactly how much you have left to spend each pay period. Many people already do this as they have set up their mortgage payment this way.

BUDGETING

Budgeting is an essential tool to help you manage your personal finances and, most importantly, your cash flow. Budgeting requires you to list all your sources of income and all of your outgoing expenses.

It is important that you're realistic. If you find you're spending more than you earn, the budget will help you to review your expenses and see what areas you may be able to reduce expenditure in immediately. Alternatively, if you have surplus funds, you can then use this money to establish a regular savings plan to work towards your personal financial goals.

It's best to prepare a budget based on your pay cycles. If you have access to a computer, a spreadsheet is the best way to set up a budget so it can be updated if and when your circumstances change. If you're not sure what you spend, start by looking at bank balances and old credit card statements; you'll be surprised by what you see.

CONSOLIDATE ACCOUNTS

Consolidating multiple accounts can reduce the fees and charges you incur and help you reach your goals sooner. Many of us have multiple accounts and probably don't even give it a second thought. For example, how many of us have two or more bank accounts? Or more than one credit card? Or even multiple superannuation funds as a result of changing jobs.

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If you have multiple accounts with small balances and are finding it difficult to keep track of everything, now might be the time to consolidate and avoid paying multiple fees and charges. If you're consolidating your superannuation, many funds offer investment choices, so you can still spread your risk within the one fund, without incurring multiple administration and management fees.

WHERE TO INVEST?

For many people, a high-interest earning account or a cash management account, separate to your everyday banking, is a simple and effective way to start saving and to make your first foray into the world of investing.

When you are ready to start looking at alternative investment options, there are four main asset classes to choose from:

- cash
- fixed interest
- property, and
- Australian and international equities (also known as shares).

You can choose to invest directly in these assets – such as purchasing an investment property – or indirectly via a managed fund, which provides you access to multiple options, diversification and consolidated administration. Either way, your financial adviser will be able to guide you towards the choice that is right for you. Investment returns

INVESTMENT RETURNS

Income vs growth

When you choose to invest, you are generally looking to get a 'return' on your investment, and this can come in the form of either income or growth.

Income returns include dividends received on shares, interest earned on cash, fixed interest investments or term deposits, or rental income on property. You are required to disclose any income received on your tax return as assessable income for that financial year.

Growth returns include the rise in the value of your share portfolio or the increase in the value of your property. While you won't need to pay tax on growth returns as they happen, once you realise the increase in value, for example, by selling your property, you will trigger capital gains tax for that financial year.

Depending on your goals, you may choose investments which provide only income or growth returns, or an investment that provides both over a period of time. For example, shares in a large company may pay regular income in the form of dividends, as well as growth through their increase in value over time.

Your financial adviser will help you determine your personal risk profile. For more information please refer to our factsheet on Investment risk profiles.

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