Futuro Flash

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Partners in Investment and Growth

MAKE A NEW YEAR RESOLUTION:

SHARE THIS WITH YOUR CHILDREN

Now the New Year has begun it's time to refocus on some of the important goals we want to achieve. For those of us with children, no matter how old they are, it's important to educate them on how to set themselves up for financial freedom over the long term.

The possibility of owning a home, has perhaps, become a faint dream for many younger Australians, but the need to save and build wealth and create financial freedom remains the most fundamental aspect of any financial plan.

When you have time on your side,
it's not how much you earn,
it's what you save that matters.

Accordingly, here are five financial rules young people, and the not so young, would be wise to learn early…

1. Timing is everything

Never does this ring truer than when you are young and have the benefit of having years to accumulate and compound wealth.

When people are getting closer to retirement, they may start to fatten up their cash reserves, so that if a GFC-style event happened again they may have a couple of years of their income needs sitting there in cash, but to recover from such a loss for those assets in the market may take years.

Someone who is younger, however, can afford to take a bigger risk as they have the time to be able to recover. If the market goes through a downturn when you're still young, you can afford to ride out any volatility and importantly can purchase assets cheaply through strategies such as dollar cost averaging to enhance portfolio returns.

2. Maintain a steady cash flow

By ensuring you always have enough money to cover your regular expenses, you can avoid incurring costly debt.

It sounds simple but managing your cash flow is vital to financial freedom.

Unfortunately, we often see people with good incomes who are juggling 4 or 5 credit cards maxed to the limit. There are ways to help, but by far the best is to not get yourself into this situation by making sure that more is coming in than is going out, so you won't get caught out.

However, if you do find yourself in debt, be sure to make paying it off a top priority.

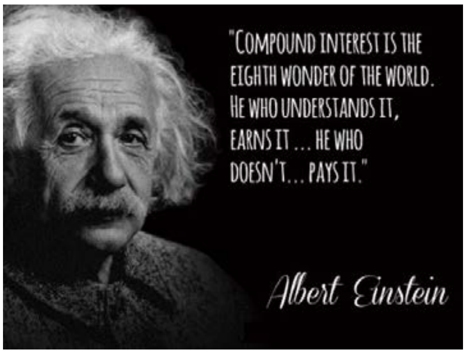
3. Slow and steady wins the race

Beyond having the years to ride out market volatility, saving is made considerably easier when you can do so incrementally.

The road to financial freedom is like weight loss. It's easier to lose five kilos over the course of the year than to try to lose five kilos in a week in the same way as it's easier to save a little bit of money each week – so the earlier you start, the better.

Check your statements to see where you might make a small change in spending. If you can save $100 a week, then you save $5,000 a year.

It's those little changes that have a massive impact.



4. "The most powerful force in the universe is compound interest" – Albert Einstein

While the amount you may be able to save early on may seem small, the power of compound interest over many years means even the smallest savings can transform into something substantial.

People think you need a lot of money to invest in things like the share market, you can start with as little as $1000 and adding to it in small amounts every month.

5. Always retain a rainy-day fund & protect your income

Lastly, when you are on top of your debts and you are looking to invest, it's vital you retain a rainy-day fund in case of surprises.

One of the mistakes of your 20s is not having an emergency fund built up. Having between one and three months of expenses saved up is not a bad rule of thumb.

If you get made redundant or something happens, you'll have money to fall back on. If you don't have that, that's when you build up credit card debt and then you can get in a vicious cycle that's hard to get out of.

Appropriate insurance is also important, income protection is imperative for anyone wanting to guard against the chance of not being able to work due to illness or accident.

If you or your family needs help with getting your cashflow in order or any of the other strategies in this article call your Futuro adviser for assistance.

Wishing all our clients a prosperous and happy New Year from Futuro Financial Services.

Extracts from original article
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