Will it be easier to invest tomorrow?

You've probably heard this before: Question: when is the best time to invest? Answer: yesterday. Question: when is the second best time to invest? Answer: today.

One of the most wasteful habits we see regularly is setting 'conditional goals'. Many people do it and I am just as guilty as the next person. "I'll start doing some charity work when I have more time" is an example of a conditional goal. "Once I've secured the promotion at work, I'll make more of an effort to spend more time with the kids" is another. We do it with our finances too. People might not start investing until they have repaid the home loan down to a certain level or until the kids have left home (that's a common one). The problem with conditional goals is that they are rarely achieved, because they lack one key ingredient: action. To reach your goals, you need to be working on them regularly (weekly). If something is worth doing its worth doing now! A conditional goal means 'in the future I'll do X or Y'. The problem with this is that the future never comes.

The other wasteful financial habit is wasting time. More correctly, it's probably not realising how important time is when it comes to low-risk investment strategies. Retirement's still a long way off on the horizon isn't it? That might be true, but if it takes at least say 15 years to execute a low to medium risk investment strategy, the necessity to start investing becomes more urgent. Starting an investment strategy more than 15 years before retirement means you can afford to take fewer risks or even consider early retirement.

There are two main windows of opportunity to start a strategy

There are some common patterns with respect to people's abilities to start implementing an investment strategy.

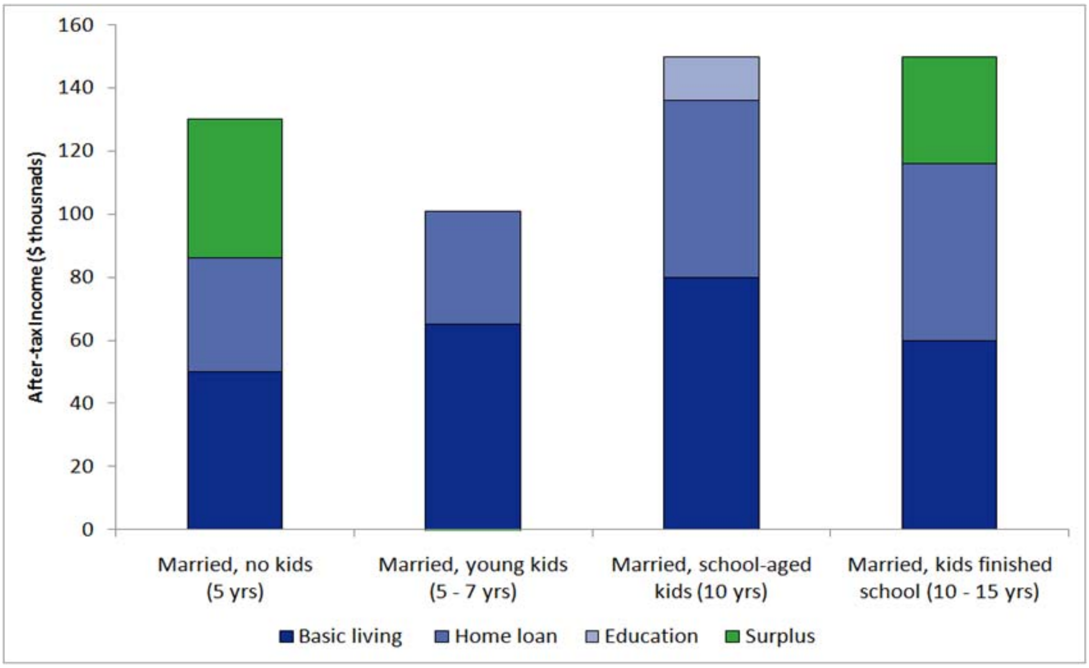
Married, no kids (or single): This group of people often have a high level of disposable income. They often have a home loan (or rental expense) but it is relatively low compared to their income. Their discretionary expenditure (e.g. travel, eating out and so on) is quite high. They often experience good increases in their salary income due to career advancements. They work hard and they play hard.

Married, young kids: This group of people see their expenses increase with extra mouths to feed and potentially childcare expenses and/or a reduction in income for a period of time as one parent may stop or reduce working hours. It is for this reason that a lot of surplus income disappears, or at least will be volatile.

Married, school-aged kids: Times are tough! Expenses increase significantly (particularly the food bill). The main drivers of these increases are home loan repayments (as most people need to upgrade to a house that offers more accommodation/room) and education costs. Education costs can include private school fees, extra-curricular activities, tutoring and so on. Most people in this category do not have a lot of surplus income and won't have for a 10 year period (or so).

Married, kids finished school: You'd be excused for thinking that the hard work is over. However, for most people, it's just beginning as they turn their attention to retirement and the key questions such as 'when can they retire and will they be able to afford it?' are asked. With children now either fully or partly independent, you'll hopefully regain a healthy level of surplus income.

The graph below illustrates the changes in surplus income (the green bars). As you can see, if you don't start investing before you have kids, it's likely that you'll have limited capacity to do so for approximately the 15 years until the kids finish high school (even then they might not leave home!). If you leave financial planning to this later stage in life, you might have to forego the potential of early retirement. You also can't leave anything to chance. You must be very deliberate and careful with what you do and (more importantly) don't invest in, as you don't have time to waste. This is a cautionary tale for anyone waiting for the kids to leave home before thinking about retirement.



Solutions

Newsletter: June 2010

When is the latest I can start?

"How much time do I need before retirement to commence an investment strategy" I hear you ask? Clearly, the longer the amount of time you have, the less risks you have to take to reach your goals. Of course, it is very hard to generalise when talking about individual strategies, as everyone's situation is different. However, generally, we find that most people need a period of at least 15 years for us to be able to develop a sensibly balanced investment strategy to achieve retirement. We become uncomfortable with anything less than 10 years, as we start to have to take much higher risks. These time periods are heavily influenced by the client's current income, net worth and retirement goals (i.e. amount of income they want to achieve).

What can I do? Give me some good news!

Firstly, I think there are a few myths that need to be dispelled about investing. For example, some people are concerned that embarking on an investment strategy will see them living on day-old bread and water. They don't want to make heavy sacrifices. After all, you only live once (I think?) and you need to make the most of it. I remember the quote from my all-time favourite movie, Wall Street: "money's only something you need in case you don't die tomorrow". This was said in the context that we shouldn't get too serious about money and planning. Whilst I strong disagree with this notion, I recognise the need for balance. A sensible financial plan balances the desire to 'enjoy life' now and the necessity to invest for the future. In most circumstances, both can be achieved.

The other point I wanted to make is that doing something is better than nothing. If you don't have a lot of surplus cash flow, you might be able to work on your cash flow management, maybe increase super contributions, invest in super more aggressively (using gearing), review any existing investments, utilise equity in your home or other properties to fund a strategy and so on. There could be plenty of opportunities for you to make a start. Lack of surplus cash flow won't necessarily prevent you from implementing an investment strategy.

Better still, if you're in the 'no kids' category or in the early stages of starting a family (e.g. before expensive private secondary school fees), hopefully this article gives you a better idea of the importance of starting an investment strategy now. Most of our lifestyle goals are screaming at us (e.g. new car, holiday), whereas often longer-term retirement goals are barely auditable until its too late. A financial coach/planner can often bring clarity and perspective to this matter and maximise opportunities.

If you don't do it now, you may have to wait 15 years until you can start. Imagine what the All Ordinaries index or the median property price will be in 15 years! Returning to my opening sentence, the best time to begin is today!

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Please take our Newsletter Survey

We would appreciate a couple minutes of your time to answer 7 quick questions to help us improve our newsletter. It should only take a few minutes. Please click on the link below to go to the survey. Thank you!

Click here to take the survey.

Exclusive: ProSolution Banking Helpdesk

Last month we launched a new complimentary service exclusively offered to our clients called ProSolution Banking Helpdesk. This service involves helping our clients with their day-to-day banking similar to a Private Banker.

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Stuart is a regular on 3AW

Stuart Wemyss now appears regularly on Melbourne's number 1 rating talkback radio station: 3AW. Next appearance is 18 June @ 3pm.

Current Interest Rates

Basic variable (LVR < 65%)	6.45%
Offset ($700k—$1.1m)	0.80% disc off Std Var.
Offset (> $1.5 million)	0.90% disc off Std Var.
2 years fixed	6.99%
3 years fixed	7.19% (special)
5 years fixed	7.74%
10 years fixed	8.44%

Rates current as at 3/6/10 and are subject to change without notice. Standard lenders terms and conditions apply.

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