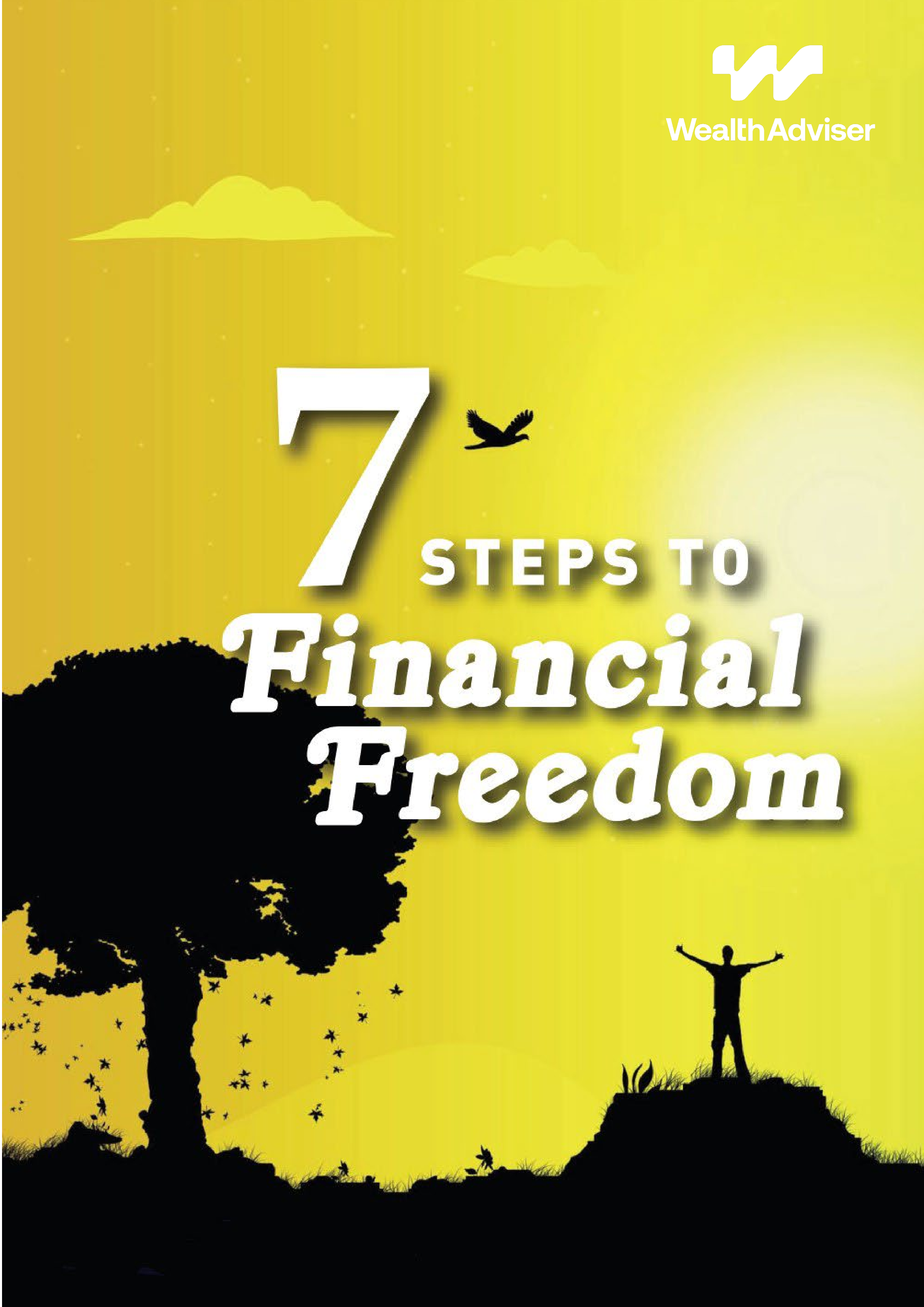
WealthAdviser

7 STEPS TO Financial Freedom



Before you get started

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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorized representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library
This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage
We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step
Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

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Introduction

Congratulations! To achieve financial freedom you need to take action and simply by downloading this eBook you have taken an important first step towards this very worthwhile goal.

Financial freedom involves being in total control of your finances, so you can enjoy money rather than stress about it. An important part of this process is to get to the point where you are ‘money-wise’: Knowing how money works and more specifically how yours can work for you!

A word of caution before we continue: There are many ‘experts’ who claim to have cracked the code to unthinkable riches. All they ask is that you simply follow their strategies, theories and gimmicks. And what do they ask in return? You guessed it; Money! Plonking down lots of your hard earned cash to learn the latest ‘secret’ is almost certainly not the best way to reach the goal of financial freedom. Especially not when you consider that you can, instead, follow some tried and tested principles that come without hefty price tags.

This eBook profiles some of these tried and tested steps on the way to financial freedom. It certainly does not offer a ‘get rich quick’ scheme. It could perhaps, instead, be described as a ‘get rich slowly’ scheme in the sense that we will be focussing on a road to financial freedom that has been followed by countless numbers of independently wealthy people all across the world.

Step 1 – Dump Your Debts

Debt can either be your worst enemy or a significant ally on the road to financial freedom. To understand this statement, you need to realise that not all debts have been created equal. At the most basic level we have to differentiate between productive and inefficient debt. Let's discuss each in turn:

Productive debts (or 'efficient debt') can be 'good debt' if managed correctly. This is the kind of debt that you take on to take control of an appreciating asset (e.g. a home loan) or an asset that will allow you to earn an income (e.g. a motor loan without which you will not have transport to get to work every day). Productive debts must be managed carefully (e.g. always make sure that you get the best possible interest rates) and you need to take special care that you do not burden yourself with unnecessarily large amounts of debt (e.g. a Ford will get you to work just as well as a Ferrari!)

Consumer debt ('inefficient debt') is often referred to as 'unsecured debt'. This is because most productive debts are secured against a significant asset (e.g. a home or car). In contrast consumer debts arise from largely unsecured 'lines of credit'. Examples include overdrafts, credit cards, unsecured bank loans, pay-day loans and store cards. This type of debt often comes with massively inflated interest rates and repayments can sap your wealth building abilities to an inch of its life. We firmly believe that a key step on the road to financial freedom is to get rid of consumer debt altogether. This may sound like a tall order but it can be done with a bit of perseverance and tenacity.

A simple strategy to lower your overall interest rate and more easily manage your debt is to consolidate all debts into one loan that provides a lower interest rate and features to help you repay your inefficient debt faster. Loan consolidation will save you interest where your new repayment and loan term are at least equal to your total current loan repayments and loan terms. Otherwise, you could be converting your short-term debts into longer-term debt and be paying more interest in the long run.

Factors to be aware of:

- Early termination fees may apply to your existing loan(s).
- The interest rate on your new loan may be higher than rate than your existing loan(s).
- Loan consolidation can significantly increase your total interest costs, if you make smaller repayments over a longer time.
- Application fees and stamp duty may be applied to your new loan.
- In some cases, it may be appropriate to consider replacing inefficient debt with more efficient debt that can be used to create wealth tax effectively. This strategy is known as Debt Recycling but should only be undertaken after a thorough analysis of your financial situation. To implement this strategy, your tolerance for risk should allow you to feel comfortable with borrowing to invest.

It is highly recommended that you discuss your options for 'dumping your debt' with a professional financial adviser before proceeding.

Step 2 – Invest Wisely

At the heart of any wealth creation strategy should be a clear commitment to long-term investment. Responsible investment brings with it the possibility of growth, either through the power of compounding (earning interest on interest) or capital growth.

There are some basic concepts that you will have to understand before you can start investing. The first has to do with the inherent 'riskiness' (or otherwise) of different types of investment and the second is the fact that you can deal with different types of risk through diversification (i.e. having different types of investments in your portfolio).

Let's begin by discussing the issue of risk. Risk and return are closely related. In general, the higher the degree of risk associated with an investment, the higher the return that will be required by investors to accept this risk. This is called the risk/return trade-off.

All investments and asset classes have different levels of risks and expected returns. For example, low risk investments generally provide a lower return than high risk investments over the long term, but are unlikely to lead to a capital loss.

High risk investments generally offer the potential of a higher return over the long term, but there is a higher probability that high risk investments will be more volatile in the short term (leading to capital loss if funds are withdrawn in the short term).

One of the most effective means of reducing the different types of risk is to diversify your portfolio. No one type of security, asset class or investment manager provides the best performance over all time periods. So a range of investments should reduce the risk of each of the investments within a portfolio experiencing drops in performance at the same time. This is simply because one asset class or manager may perform well to counter the poor performance of another.
Diversification can be implemented in three distinct ways:

- Across asset classes - The major asset classes perform differently under different market conditions. By investing across a variety of asset classes you may be able to reduce the volatility of your portfolio return.
- Across markets and regions - Spreading your exposure within each asset class across a wide range of countries, currencies, industries and stocks ensures that your investment is not narrowly concentrated in a particular region or industry. This reduces the impact of a region or industry downturn.
- Across investment management styles - Different investment management styles tend to excel under different economic and market conditions. By combining a range of investment managers with complementary investment styles you may be able to neutralise the bias to any one style in each asset class.

Step 3 – Practice the Discipline of Budgeting

Regardless of the economic circumstances that you find yourself in, there is one sure way to gain control of your finances. It can be summed up in a simple word: Budgeting.

Everyone knows what a Budget is, or do they really? The most dangerous misconception about budgeting is that it is compared to a financial restriction, where in fact, it is a strategy that makes us aware of what exactly it is our money is being spent on.

Some basic principles of budgeting for wealth creation include the following:

'Pay yourself first'

This is a method on which the financial security of thousands of people has been built. Make sure that there is room in your budget for a monthly amount (your 'pay') that you save or invest without exception.

Identify possible savings

Go through your budget with a fine toothed comb and look for places where you could perhaps make savings. This can involve major decisions (e.g. making do with just one car) to relatively minor ones (e.g. not buying a cup of coffee at Starbucks every afternoon – this can save hundreds of dollars by the way!). It is quite likely that you will find a lot of 'fat' that you can cut out without too much inconvenience or changes to your lifestyle.

'Declare war' on your mortgage

Mortgage payments are likely to be your biggest expenditure and the sooner you can get rid of it the better. You will be amazed at the huge difference that even small overpayments on your mortgage can make in the long run so do your best to make them as often as possible. (Please see the next section for more information on becoming 'mortgage free' as soon as possible)

Resolve to save any extra cash

It would be a good idea to make it a firm policy that you will not 'splurge' whenever you come into extra cash but that it would rather be used to help you to achieve your long term financial goals.

Get rid of high interest credit

If you are in debt it is obviously in your best interest to get out of it as soon as possible. Plan a strategy to pay off all credit, starting with the loans that attract the highest rates of interest (this will most likely be your credit cards). If you have serious debt problems if might be a good idea to consolidate all your debt into a single loan. It is highly recommended that you get professional financial advice before you attempt debt consolidation or if you require an urgent debt management plan.

Make your money work for you

If you are in the position to save some money (and careful budgeting should get you there eventually) it would be more than worth your while to make sure that your savings produce the best possible returns. This is where the expertise and experience of a competent financial advisor can prove invaluable. It may seem a bit of a hassle to go over your finances with someone else but it could be one of the best decisions that you will ever make.

Here at Moneytree we regard budgeting as so important that we have an entire eBook dedicated to the subject. Please make sure that you get a copy of this so that you can begin to budget for wealth creation.

Step 4 – Work towards becoming ‘Mortgage Free’

The purpose of this type of insurance is to protect you against or adverse or catastrophic events. The most common risks that you will To anyone paying a mortgage, the idea that you can own your own home outright is very enticing. It’s a huge psychological boost, providing security and freeing up money so you can do other things.

So how can you pay off your mortgage faster? Should you re-finance? Will extra features, such as a redraw facility, mortgage offset account or a line of credit help you? Or, should you go for a basic ‘no frills’ loan instead, and make additional payments whenever you can?

Your first step should be to analyse your own individual situation (including your current financial state, your financial dreams and your risk tolerance). You can then proceed to look at ways in which you can efficiently use your current resources to reduce (and finally) eliminate the amount owing on your mortgage as quickly as possible. Some options for doing so include the following:

Open an ‘offset account’

This is where your mortgage, savings and current accounts are in separate pots. Your savings are used to reduce – or ‘offset’ – your mortgage. e.g. You have a $500,000 loan over 30 years, at a rate of 9%. You earn $5,000 after tax each month and total expenses are $4,000. Simply by keeping the $1,000 balance in the offset account the money you would save would be equivalent to earning $25, 411 on interest and reduce the loan term by three months. If you kept $5,000 in the offset account, it would be the equivalent of earning $120, 1554 and you would shave one year and three months off your mortgage.

Make as many extra payments as possible

One of the best ways to ‘attack’ your mortgage is to resolve to pay as much as possible of any extra income or windfalls into your mortgage account. This may sound like tough advice but the joy of being ‘mortgage free’ will almost certainly outlast the fleeting pleasure of extra ‘treats’ that you missed out on!

Look at the total debt picture

Before you start making extra payments it is a good idea to look at your financial situation or get the help of a financial adviser. If you have other debts with high rates such as credit cards it will make sense to neutralise these debts first before you tackle your mortgage. This will give you more resources to deal with the mortgage when the time arises.

Fortnightly vs. Monthly Payments

It may seem like magic, but this ‘is simply a way of making an extra payment per year, without feeling the pain. By paying fortnightly or weekly rather than monthly, you can save thousands of dollars in interest costs. If you pay monthly you make 12 payments per year, whereas if you pay monthly you make 12 payments per year, whereas if you pay fortnightly you make 13 monthly repayments because there are 26 fortnights in a year. This 'extra' and more frequent payment system results in huge savings.

Remember that paying off a mortgage is not a two-month exercise; it's a 25-year journey that you are trying to shorten. If you want to pay off your mortgage you have to embark on a long-term voyage that will involve some self-reflection and an understanding of the role sacrifice and discipline will play in your success. Knowledge is power, so assess your situation, and consider enlisting a financial adviser to help you with your planning.

Most importantly, remember that having a clear vision for the future is the first step towards creating the habits that will help you achieve your goals.

Step 5 – Plan for a Comfortable Retirement

When approaching retirement, an important consideration is how to invest your savings, including superannuation, so that you are able to replace your wage with regular income throughout retirement.

When it comes to choosing how to structure your investments in retirement, it is important that your savings are invested in a tax effective way while still maintaining flexibility to cover any unforeseen changes in your circumstances.

Listed below are some of the options available to fund your retirement:

- Invest outside of the superannuation environment (this may involve cashing out all or part of your superannuation benefits as a lump sum payment);
- Use all or part of your retirement savings to buy a regular income stream such as a pension; or
- A combination of both of the above.
- Depending on your requirements for income and access to capital, you may choose to invest outside of the superannuation environment. You could choose to purchase investments such as property, managed funds or shares, or you could use your funds to pay off loans or to take a holiday. As part of this strategy, you may also choose to withdraw your funds from superannuation. However, you need to be aware that you may be liable to pay lump sum tax on any amounts you withdraw.

The other option is commencing a pension. A superannuation pension is a retirement income stream that can only be purchased with money held in superannuation. Regular income payments are paid until the account balance is exhausted. Furthermore, any earnings generated or capital gains in the account are not subject to tax. The benefit of a pension is that income payments are both tax effective and concessionally treated under the social security income test.

One of the major issues related to a comfortable retirement is obviously the question on exactly how much money you will need to retire. We have published an eBook that is devoted to help you find concrete answers to this question.

Step 6 – Protect Your Money

On the road to financial independence it is not only important to accumulate wealth. You should also do your utmost to protect the wealth that you have generated thus far.

You should therefore be very careful to ensure that you don't fall prey to the many 'schemes and scams' out there. Most of these have been designed to create wealth for only one person

- The one who dreams them up! A golden rule in this regard is this: “If something is too good to be true it is probably too good to be true!”

Here are some concrete ways in which you can put this rule into action:

Don't be a courtesy victim.

Con artists will not hesitate to exploit your good manners. Save your good manners for friends and family members, not strangers looking for a quick buck!

Check out strangers touting strange deals.

Trusting strangers is a mistake anyone can make when it comes to their personal finances. Say "no" to any investment professional who presses you to make an immediate decision, giving you no opportunity to check out the salesperson, firm and the investment opportunity itself.

Always stay in charge of your money.

Beware of anyone who suggests investing your money into something you don't understand.

Don't judge a book by its cover.

Successful con artists sound and look extremely professional and have the ability to make even the flimsiest investment deal sound as safe and sound as putting money in the bank. The sound of a voice, particularly on the phone, has no bearing on the soundness of an investment opportunity.

Watch out for salespeople who prey on your fears.

Con artists know that you worry about either outliving your savings or seeing all of your financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalisation. Fear can cloud your good judgment. An investment that is right for you will make sense because you understand it and feel comfortable with the risk involved.

Don't make a tragedy worse with rash financial decisions.

The death or hospitalisation of a spouse has many sad consequences - financial fraud shouldn't be one of them. Ask a con artist to describe his ideal victim and you are likely to hear the following two words: "elderly widow."

If you find yourself suddenly in charge of your own finances, get the facts before you make any decisions. Local libraries and universities may offer classes and information on investing. Talk to friends, family, trade organisations, and state or provincial securities regulators for advice on locating a financial professional and checking their background. An insurance settlement may help with expenses but it also makes you an ideal target for fraud.

Arm yourself with information and your confidence will send con men running.

Monitor your investments and ask tough questions.

Don't compound the mistake of trusting an unscrupulous investment professional or outright con artist by failing to keep an eye on the progress of your investment. Insist on regular written reports. Look for signs of excessive or unauthorized trading of your funds. Don't let a false sense of friendship or trust keep you from demanding a routine statement of your accounts.

Look out for trouble retrieving your principal or cashing out profits.

If a stockbroker, financial planner or other individual with whom you have invested stalls you when you want to pull out your principal or profits; you have uncovered someone who wants to cheat you. Some kinds of investments have certain periods when you cannot withdraw your funds, but you must be made aware of these kinds of restrictions before you invest.

Don't let embarrassment or fear keep you from reporting investment fraud or abuse.

Con artists know that you might hesitate to report that you have been victimized in financial schemes out of embarrassment or fear. Con artists prey on your sensitivities and, in fact, count on these fears preventing or delaying the point at which authorities are notified of a scam. Every day that you delay reporting fraud or abuse is one more day that the con artist is spending your money and finding new victims.

Beware of "reload" scams.

If you are already the victim of an investment scam, don't compound the damage by letting con artists "reload" and take a "second bite" of your assets. Con artists know you have a finite amount of money. Though the desire to make up lost financial ground is understandable, all too often the result is that you lose whatever savings you had left in the wake of the initial scam..

Step 7 – Teach your children to be 'Money Wise'

When asked why they desire financial freedom many people will respond by saying that they wish to give their children a secure and worry-free future. Having the financial resources available to assist your children on the road through life will certainly contribute to this goal. It will, however, not be sufficient on its own.

One of the greatest financial gifts that you can give your children is not 'hard cash' but the ability to manage their own resources for long-term wealth creation. It is therefore highly recommended that you make every possible effort to engender healthy financial practices in your children.

Here are some ways in which this can be done:

- Give children specific roles with regard to daily money management activities. Ideas include opening and sorting the mail or depositing everyone's change (coins) into the family's "vacation fund" jar each day.
- Involve children in periodic responsibilities, such as helping to pay bills by writing checks and stuffing envelopes, clipping coupons from the Sunday paper, going into the bank and interacting with the teller, or making decisions and purchases for the family when grocery shopping.
- Actively engage your children in shopping. For example, let your children carry a fistful of coupons. Let them help you search for the tuna fish that is on special: six cans for the price of three. Make a game of these savings and let your children see your enthusiasm. Your child can hand over the coupons to the cashier and with you look at the receipt to see the results of their shopping adventure.
- Help children discover that compromises are normal. No one can have everything they could ever want or dream about. The smarter you are about each and every money management decision, the more you'll have to work with for the things that matter most.
- Allow your children the opportunity to earn their own money and make their own decisions about what to do with it — with minimal influence on your part. If it isn't dangerous or illegal allow them to proceed. This is the best time and place for your children to practice managing their money. Having this kind of responsibility and autonomy gives them opportunity to feel the pain of making bad decisions, but they'll learn valuable lessons about money management while you're nearby to provide guidance.
- Engaging your children in the "joys" of being involved in day-to-day money-management decisions teaches them to work as a team by providing them with responsibilities. As a bonus, you probably will hear fewer pleas for candy or toys because everyone had fun and learned extremely valuable lessons.

Think of ways your children are (or could become more) involved, from earning their own money doing chores around the house to making decisions about spending money.

It is highly recommended that you discuss your options for 'dumping your debt' with a professional financial adviser before proceeding.

Conclusion

It is our sincere hope that the information presented above set you thinking about some of the issues that you will have to pay attention to in planning your financial future. It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this. We urge you to continue your explorations by making use of some of the other resources and eBooks from the Wealth Adviser stable. We also stand ready to serve you with professional advice, so please do not hesitate to contact us if we can be of further assistance.

Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Our services

Day

Date

Time am/pm

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

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Title

First name

Last name

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