Financially Fit and Wealthy

Financially Fit and Wealthy

Ronel Jooste

Published by Ronel Jooste Publishing at Smashwords

First edition 2019

Published by Ronel Jooste using Reach Publishers' services,

11 Amandelboom street, Zwartkop X4, Centurion, Gauteng, 0157, South Africa

Edited by Gil Harper for Reach Publishers

Cover designed by Reach Publishers

P O Box 1384, Wandsbeck, South Africa, 3631

Website: www.reachpublishers.co.za

E-mail: reach@webstorm.co.za

Contents

Acknowledgements

No book is ever written without a support team. I would like to say thank you to the following people who have played a vital role in realising my dream of writing my first book:

Sean Lochrenberg, my hairstylist, for always making me look and feel pretty in the photos. Leo Haese Centurion BMW for sponsoring the blue BMW used in the cover photoshoot and Castello di Monte for sponsoring the venue.

Johan Beukes and Danie Moolman for proofreading the manuscript prior to the publishing process.

Margaret Hirsch, my mentor when it comes to business and making an impact in the community, and for writing the foreword.

My parents, Jimmy and Annatjie Jooste, my sister Marli Jooste, as well as my special person, Johan Beukes for your love and support.

Lastly to God for blessing me tremendously in both my career and personal life. I wouldn’t have achieved anything by myself, all glory to God.

My wish is that this book will add value to your personal journey and help you to create financial fitness and wealth.

Foreword

At school we are taught how to read, write and master mathematics but nobody taught us about money or how to manage money. Money has energy – you need four things in life: water, oxygen, love and money, not necessarily in that order, but money is a very integral part of our lives and you find that if you have money you can have most things.

Abundance is everywhere, but sometimes we are looking for it in the wrong place. Have you ever wondered why most people aren't rich? The answer is very simple: they don't think they deserve to be. You might think that is a crazy statement, but coming from a fairly disadvantaged background, to running a multi-billion rand business, I have seen everything in life.

Ronel has written a very practical, basic, down to earth, workable, easy to understand book that explains how money works and how to make your money work for you instead of you working for it.

Most people spend their lives chasing money but like anything else, whatever you chase will run away from you. This book teaches you in a practical way how to get your finances in order and help you to live the life that you want. Most people strive for financial freedom – what a wonderful feeling to have enough money at the end of the month and have enough money to buy anything; not only what you want but to also help others. If you follow the simple guidelines in this book I know that you will get there.

Margaret Hirsch *(Co-founder and Chief Operations Officer, Hirsch Group)*

Preface

"My dream is to educate people about finances, because when you empower an individual financially, you uplift a nation."

Money has a direct impact on every person irrespective of race, age, gender, social status or level of occupation. You need money to survive on a daily basis whether you are struggling financially or have billions. The power money has over us cannot be disregarded. The more knowledge we have about finances, the better we can manage our finances and the better lifestyle we can create for ourselves and our families.

Money is not only about receiving, but also about giving. The more wealth you can create, the bigger impact you can make in the lives of others.

My purpose in life is financial education. I believe by sharing financial knowledge I can help to reduce poverty, to create jobs and to ultimately reduce crime in our beautiful country, South Africa. I want to use my qualifications, work experience and personal experience to help individuals and businesses to become financially fit for life.

I have used the knowledge gained during my career in the financial services industry, the lessons I learned through my personal journey with money, as well as the questions people ask when I speak at events, present workshops or do financial consulting, to write a book that will guide you on your journey to become financially fit and wealthy.

Some important lessons I learned during my personal journey with money:

You don't need millions to start your savings journey. I started my savings journey by putting away the little bit of money I earned doing part-time work during my matric and varsity years. I diligently saved my money and five years later I could buy my first brand new car cash, and then the second car and the third car… it all started by saving a little bit of money over a few years.

I always dreamt about travelling the world and to date I have visited more than 30 countries. It wouldn't have been possible if it wasn't for managing my budget effectively. I spent a lot of time on budgeting and analysing my actual expenditure. It certainly paid off.

I was brought up with a 'cash is king' mindset and this was the most powerful money lesson my parents could have taught me. Having to finance my first home was a frightening experience and I had one goal in mind – to repay my bond as quickly as possible. I paid more than what the minimum instalment requirement was and I have used any excess money to repay my bond. Six years later I repaid my bond and I became debt-free in my early thirties. That was the best feeling; it also gave me the opportunity to start building wealth.

I started to experiment by investing small amounts in various investments. It helped me to learn all about different investment types and in the process I learned to become comfortable taking calculated risks.

I started to invest in property. It made me realise through property investments I can own assets that increase in value and generate passive income streams.

Even though I was in a senior position in the corporate world earning a lot of money, I realised I cannot rely on a salary only. If I want to build ultimate wealth I need to create additional income sources, ideally passive income sources. Buying a guesthouse was one method through which I could diversify my investment portfolio and create passive income.

It is a fact, the way you manage your money when you are young has a direct impact on how you are going to experience life later on. The financial decisions you make today, do impact on your financial future.

Financial education is my purpose and fitness is my passion. I am a qualified personal trainer and exercising is part of my daily lifestyle. I want to promote living a healthy, active, happy and wealthy lifestyle. I believe you apply similar principles on your journey towards creating financial fitness to that which you would apply during your journey towards creating physical fitness. I have written this book about financial fitness by linking it to physical fitness concepts and principles. I believe by adding the physical fitness aspects, it makes this book unique, more fun to read and easier to understand. May this book inspire you to start with your journey to create ultimate wellbeing – become and stay fit on a physical and financial level.

Chapter 1

Why do you need to be financially fit?

You are responsible for your financial wellbeing and your financial wellbeing has a direct impact on how you experience life. Empower yourself by equipping yourself with comprehensive financial knowledge to be able to make effective financial decisions. If you experience financial difficulty and stress then make a decision to actively do something about it so that you are not financially strained for the rest of your life. You will never regret taking that decision. If you are already doing well financially, focus on how you can improve your financial wellbeing even further.

We often hear money cannot buy happiness, time or health. While that is true to a great extent, you can also not discount the important role money plays in your life. Money is essential to our daily living. Taking care of your financial wellbeing is as important as taking care of your physical and emotional wellbeing.

Considering Maslow's hierarchy of needs, you need money to fulfil your basic needs of food, water, a house to live in and to provide for your family. You need money to take better care of your health and to pay for good education. You need money to pay the monthly expenses and bills.

Apart from fulfilling your basic needs, money also plays a vital role in creating or sustaining the lifestyle you want to attain and maintain. You need money for that home cinema system, Mediterranean cruise, new house or new car. To create your dream lifestyle you need a proper savings plan, you must make proper investment choices and build your wealth portfolio. Becoming debt free is crucial in creating wealth and a dream lifestyle.

Sometimes people tend to plan properly for the short-term but forget to plan for their retirement and do not prepare financially for death. You need money to retire comfortably and it is well acknowledged worldwide that the majority of the population cannot retire comfortably. Making provision for your retirement by means of pension funds and retirement annuities, is an important part of your financial plan that needs to be revised and adjusted on an annual basis.

Your loved ones need to be taken care of financially once you have passed away. However, many people leave their loved ones in severe financial distress when they die. You should ensure you have proper funeral cover and life cover in place; and that your will is up to date, especially when important life events occur such as getting married, divorced or having children.

You should teach your children the importance of money at a young age. Children who understand basic financial concepts like saving, investing and financial independence will make better financial decisions when they are adults. Building your wealth portfolio from an early age is extremely powerful as you grow older. The benefits of how the value of money can grow over time can never be overemphasised.

Don’t become addicted to money and don’t ever make the mistake of believing that money will buy you happiness. Having sufficient money can make life a lot easier though. Money can buy memories and those memories can make you happy and can last a lifetime. Having a proper financial plan and goals are as important as having an exercise plan and following a well-balanced diet. Your financial wellbeing directly contributes to your overall wellbeing. If you understand the important role financial wellbeing will play throughout your entire life, you will see the importance of working on your financial fitness. The objective of this book is to guide you to take action to become financially fit for life, and to improve your financial fitness in a practical way.

Chapter 2

Be healthy, happy and wealthy

We all want to be the best person we can be. We want to be healthy and happy. Health plays an integral part in striving to be the best we can be but being healthy doesn't refer to a healthy body only. For you to be the best you, it is important to take care of your overall wellbeing.

Wellness can be described as the overall feeling of wellbeing which refers to a healthy balance of the body, mind and spirit. Wellness is much more than meeting the basic needs of food, a place to live and the absence of illness. It is a dynamic process of change and personal growth, an active process of becoming aware of the importance of wellbeing. Wellness is not a one-dimensional concept but consists of the following aspects that all require similar focus and attention:

- Physical wellness: maintaining a healthy body;
- Emotional wellness: understanding and acknowledging your feelings and emotions, as well as coping effectively with life's challenges such as stress, anger, fear, etc. For the purposes of this chapter, emotional wellness also includes:
    - Spiritual wellness: set of values and beliefs that give meaning and purpose to your life in the form of religion and so on,
    - Social wellness: positive relationships with family, friends, colleagues and acquaintances,
    - Intellectual wellness: developing an open mind when encountering new ideas and lifelong learning,
    - Occupational wellness: personal fulfilment through your job and career,
    - Environmental wellness: respecting the environment that you live in and making a positive contribution towards conserving the environment; and
- Financial wellness: managing your financial status in an effective way to create wealth and become financially independent.

There is a direct relationship between physical, emotional and financial wellness. For you to enjoy ultimate wellbeing, you need to focus on all these aspects of your life. When all these aspects are in balance, you can achieve your ultimate potential. Financial difficulty causes stress which has a negative impact on your health. Stress can also result in people overeating or eating unhealthy foods which may result in weight gain. An unhealthy body and weight gain can then make you depressed and lower your confidence levels. A positive spiral can also transpire: a healthy body and exercise increase your energy levels and assist you to feel good about yourself. With improved energy and confidence levels, your productivity levels inevitably improve as well which can have a positive impact on your financial wellbeing.

It is crucially important to look after your health and your body. Poor health impacts other aspects of your life in a negative way. Avoid continuously pushing your body to its limits. Give your body time to rest and recover. Your health is your wealth to a great degree. You can have all the money in the world, but if you are not healthy, you won't be able to enjoy your wealth. Illness can ruin your wealth if you are not adequately covered and insured.

A few important action steps to enhance your physical wellness:

- Go for regular medical check-ups. Prevention is always better than cure;
- Keep an eye on your body weight and put in effort to maintain a healthy weight;
- Exercise 4-5 times a week for approximately 30 minutes to an hour at a time;
- Exercise should be part of your lifestyle. Schedule time in your diary so as to avoid excuses about not having time;
- Eat a healthy, balanced diet. Don't exclude certain food groups from your diet;
- Avoid sugars, white carbohydrates and fatty foods;
- Vitamins and minerals should form part of your daily food intake;
- Drink plenty of water. The general rule is to drink 1 litre per 30 kilograms of body weight daily;
- Get enough sleep, with 6 to 8 hours per night being considered sufficient for adults;
- Don't smoke; and
- Drink alcohol in moderation.

In addition, take care of your emotional wellness. Your state of mind has a direct impact on your health, your energy levels, your appetite, your relationships, your productivity and what you achieve in life. Your partner, children, boss, job or hobbies cannot make you happy. Happiness comes from within yourself. To become the best person you can be, you need to be positive and believe in yourself and your abilities.

A few important action steps to enhance your emotional wellness:

- Surround yourself with positive people who will support and uplift you;

- Schedule time in your diary to do things that you enjoy;
- Spend time with your loved ones. Tomorrow might be too late;
- Continuously look for opportunities where you can expand your knowledge;
- Give and you shall receive. Learn to give without expecting anything in return. It doesn't have to be money: volunteer your time and skills. That feeling when you know you made a difference in somebody's life is priceless;
- Spend a few minutes every day writing down all the things you are grateful for. It will teach you to appreciate the smaller things in life;
- Create a vision board of your life goals and put it up where you can see it daily. Believe that you will achieve all of that and much more. Have a plan and take action to achieve your goals in life; and
- Give more, laugh more and love more.

Your wellbeing is your most valuable asset and only you can take care of it. Choose to live a healthy, happy and wealthy lifestyle and take action to achieve it. Become the best you can be. You deserve it and owe it to yourself!

Chapter 3

Basic financial principles

The two basic principles of accounting are:

- Assets minus liabilities = equity (equity is also referred to as net asset value/net worth); and
- Income minus expenses = profit (or loss when expenses exceed income).

For some people this reminder may evoke nightmares and negative memories, but these two principles encompass the most valuable underlying lessons about finances, whether personal or business. Often coaches and captains of sport teams mention in post-match interviews that they should go back to the basics. The same applies to our personal finances – we need to get the basics right. Applying these two basic principles effectively when making decisions about our personal finances guarantees success almost every time. Let us spend some time to recap the basics.

A positive result (positive equity) is obtained when your assets exceed your liabilities. Essentially you want to maximise your assets and minimise your liabilities. When liabilities exceed assets, the net asset value ends up negative which can result in serious financial trouble. Net asset value is a direct indicator of wealth. The bigger the positive net asset value, the wealthier a person will be. Improve net asset value by reducing your liabilities (repay credit card debt, overdrafts, clothing accounts, personal loans, car financing and bonds) followed by building your asset portfolio (cash in the bank, investments, properties, etc.).

Some people are perceived to be extremely wealthy: they live in a double-storey mansion, have a game farm and a holiday home at the beach, drive expensive cars, have a boat, a fancy art collection, designer jewellery and a fine wine collection. Considering all the debt they have incurred to acquire these assets, this perfect picture starts to fade away. Remember, wealth is the difference between your assets and liabilities. Ideally you want a big asset portfolio with no liabilities whatsoever.

There is always a debate whether the house you live in classifies as an investment. Some financial gurus believe it doesn’t classify as an investment since it doesn’t generate income. That is not entirely true, as in most cases the value of your home increases over time and you benefit from capital gains the day you sell it. There is a big shift towards entrepreneurship with more and more people running businesses from home. More people are also renting out unoccupied spaces in their homes. Suddenly your home can play a big role in creating additional income streams without incurring additional costs like paying rent for an office. The other important factor is to repay your bond as soon as possible. The quicker you can legally own your home without having to pay bond instalments, the more beneficial for your net asset value or net worth position.

Now we tackle the second crucial financial principle: income less expenses = profit. The same logic applies: the bigger the gap between your income and expenses, the wealthier you are essentially. If the boss earns R100,000 per month but spends R95,000 and his secretary earns R20,000 per month but only spends R10,000, who is better off? The secretary actually. It is not about how much you earn, it is about what you do with the money you earn.

When a company is constantly making losses, it will run into financial trouble and eventually bankruptcy. The same will happen to your personal financial situation if you are constantly spending more than what you earn. You will end up making losses and having to rely on debt to get you through the month. Living from salary to salary is not a good situation to be in. Especially if you have to use your salary to pay for expenses you have already incurred before receiving your salary. This scenario can quickly transform into a vicious cycle from which it is difficult to break free.

There are two basic solutions when you end up in a loss position at the end of the month. Firstly, you can increase your income (perhaps seek an alternative opportunity where you can earn more, upskill yourself or add more value at work to earn a promotion, work overtime or create additional income streams by starting a business on the side or buying income-generating assets). Secondly, you can reduce your expenses (analyse your expenses for potential savings, apply effective budgeting techniques, be disciplined and be conscious of your spending).

By effectively applying these two basic financial principles you can build a portfolio of wealth. In summary:

- Increase your asset portfolio, ideally adding income-generating assets;
- Repay your current liabilities as soon as possible;
- Refrain from incurring more debt;
- Constantly look out for opportunities to create more income; and
- Control your expenses and do not overspend.

Chapter 4

Financially fit goal-setting

Who doesn't want to live a financially fit life? Financial fitness and physical fitness have a lot in common. Most people know what their goal weight and fitness goals are. Similarly, you should also know what your financial goals are.

Set financially fit goals

Some people just want to be fit and healthy. Other people want to run 10km races, while others want to run the Comrades ultra-marathon. Some people cycle for fun and others want to participate in the Cape Epic. Fitness goals are different for each person. Financial goals also differ from person to person. People have different priorities: to be financially stable, to live in a designer house and drive an expensive German car, to be debt free, to be able to afford a better lifestyle for the family, to travel the world, to become financially independent or to retire comfortably. It doesn't matter what your goal is, but you need to have a goal. Without having a goal, you will float through life with no purpose. Goals give purpose. Goals give direction. Goals motivate you to thrive instead of just surviving.

First of all set your financial goals in a way that is SMART (specific/measurable/achievable/relevant/timelines):

Be specific – define your goal clearly. 'I want to get rich' is not a goal. Define what 'rich' means to you. For example: I want to buy a red BMW cash within 5 years, or before I am 40.

Measure it – set smaller milestones that can be measured. For example: I want to save half of the purchase price of the BMW by the end of this year.

Ensure it's achievable – dream big but be realistic. Your goal must be achievable to keep you motivated. For example: Maybe your dream car is a BMW, but you won't be able to afford it in the given time. Then it is advisable to first buy a cheaper brand and later upgrade to a BMW when you earn a bigger salary.

Be relevant – it should be relevant to you. Your personal financial goal should be something that inspires you. There is no point in making the neighbour's goal your goal.

Set timelines – establish when you want to achieve what. For example: I want to buy a BMW cash in two years' time.

Spend time thinking about what your goal is if you don't already know. Once you know what your goal is, write it down and make sure you have answers for each SMART point listed above. If you write it down, it creates a sense of responsibility and you will be more likely to achieve it.

Analyse your current state

When you decide to start training for a marathon, you first analyse your current fitness level which determines what programme you should follow and at what intensity level. If you want to lose weight, you must know what your current weight is to know how much you should lose to get to your goal weight. To achieve your financial goals, it is equally important to analyse and understand your current financial status.

Ask yourself these questions:

- What is my net worth (assets less liabilities)?
- What is my financial freedom number?
- How much is my monthly income?
- How much are my monthly expenses?
- How much debt do I have, and what are the interest rates and repayment periods?
- How much do I have available as an emergency fund and how much should I have?
- How much investments do I have, what are the interest rates and how liquid are the investments?
- How much do I currently have in my retirement fund and how much do I need at retirement age to retire comfortably?
- Do I have adequate life, disability and dread disease cover?
- What does my medical aid cover?

Write all the numbers down to obtain an overall picture of your current financial status. Spend time getting to know these numbers and identify some gaps to work on. Financially fit people know their financial numbers.

Compile your plan

It certainly is getting more exciting as everything is coming together. You have defined your financial goal. You understand your current financial status. What is the next step?

People don't just miraculously arrive at their goal weight without having a proper weight loss plan. Nobody just arrives at the starting line to run the Comrades without following a training programme to prepare for the race. To progress from your current financial status to where you want to be, you need a detailed plan. When compiling your plan:

- Be realistic;
- Do it in detail;
- Set timeframes;
- Include calculations; and
- Break it up into smaller milestones.

Once you have a plan written down, you are set to achieve your financial goal.

Take action

As with anything else in life, you need to take action to make it happen. Without taking action, your goal remains a dream. Without changing your current actions, you won't get a different result. You won't lose weight just by saying you want to lose weight. No, you have to start eating healthy and watch your portion sizes. You won't get fit by lying in bed. You need to get out of bed, put your running shoes on and start off with an easy jog. The same applies to your financial goals. You need to make an effort to put your financial plan into action. It starts with a choice and only you can make that choice.

Start small but start. Once you have started, it quickly becomes a habit and becomes easier. Take action to make your financial goal your reality or else it will remain a dream only. You will not regret it. Visualise your financial future, knowing that nothing is impossible if you set your mind to it and take action steps to achieve it.

Chapter 5

Effective budgeting

A person who wants to participate in a sport needs a fitness base as an entry level. The fitness base provides the foundation on which any goal can be built, irrespective of the goal being to lose weight, to enjoy a sport or to perform and excel in that sport. The more solid the fitness base, the easier it is to achieve the set goals. Budgeting is similar to a fitness base. Budgeting provides an important foundation on which any financial goal can be built. Effective budgeting principles are important for both businesses as well as personal finances.

A budget is an effective financial tool for planning for the future and determining estimated income, expenses, cash flows and capital flows against which actuals are measured. A few of the benefits of budgeting include:

- Understanding and knowing your income and expenses;
- Managing your expenses effectively;
- Helping you not to overspend and at the same time, teaching you discipline;
- Identifying potential savings opportunities; and
- Preparing for unexpected expenses.

Both income and expenses should be budgeted for. The goal is to maximise income and minimise expenses. The importance of a detailed budget cannot be overemphasised – include both cash expenses and expenses on your bank statement. Having cash at hand often causes overspending if it is not managed properly. The income budget should include all income you are receiving, for example salary, commission, business income, investment income, rental income, etc.

The most effective way to budget for expenses is to classify your expenses into the following categories:

- Savings – put away money towards savings and investments first before you start spending (include savings for a holiday or a new TV, contributions to investments, additional payments on bonds etc.);
- Cannot-live-without expenses – expenses that you need to survive throughout the month (include bond and car instalments, insurance, water and electricity, policies, groceries, school fees, etc.);
- Nice-to-have expenses – expenses considered to be luxuries and that you don’t actually need to survive (include magazines, hairdresser, entertainment, clothes, etc.); and

Unexpected expenses (include car and house maintenance, medical expenses not covered by medical aid, etc.).

Good tips when drafting a budget:

Budget on a monthly basis for the year ahead;

Include once-off expenses or expenses that occur less frequently like licence renewals, birthday parties and gifts;

Remember to budget for annual increases, inflation increases as well as interest rate increases; and

Allow for unexpected expenses.

Although you budget for the year ahead, you should also be doing a high-level forecast for 2-5 years and 5-10 years. These forecasts help to identify large expenses or cash outflows that you want to start planning for and may have to include in your annual budget. Examples of large expenses could include: replacing a car, moving to a bigger house, starting a family, child going to university etc. The better you plan and prepare, the bigger the probability that you won’t have to incur debt to finance large expenses.

A budget is not a proper budget if it only exists in your mind. You should have a detailed budget on paper, or in an electronic format like a spreadsheet. A budget is only effective when you measure your actual income and expenses against your budgeted income and expenses. You should analyse and explain the variances between budgeted and actual figures. Only once you are analysing the variances does it help you to understand how much you are spending on specific items and it further enables you to identify any overspending. Measuring actuals against budgeted expenses also helps to identify potential savings opportunities. The ‘cannot-live-without expenses’ are usually fixed to a large extent, and it is difficult to create savings from this category of expenses. The ‘nice-to-have expenses’ is usually the category where most savings opportunities come from as you can reduce or exclude these expenses.

Many will agree that unexpected expenses often cause financial trouble such as when a geyser bursts and the insurance doesn’t cover the replacement cost or when your laptop suddenly crashes or an emergency medical expense is not covered by your medical aid. It is crucial for any budget to provide for unexpected expenses. Having money available for those emergencies will lessen your reliance on debt to pay for such unexpected expenses which in turn should generate peace of mind. Should no unforeseen budgeted events take place during a month, the surplus money budgeted for that month should be retained to build up an emergency fund. Once you have sufficient emergency savings built up, you can use any unforeseen expense money budgeted for, that you haven’t utilised, to repay debt or to invest.

Chapter 6

Become and stay debt free

Debt is certainly the biggest culprit in ruining financial wealth. Debt impacts on your financial wellness in the same manner as body fat impacts on your body. Extra weight or body fat puts unnecessary pressure on your health, and can negatively impact your self-esteem and attitude towards life. Debt has the same effect on your financial health and promotes bad habits such as overspending and buying unnecessary items.

Reducing body fat is no easy task. Apart from requiring a combination of exercise and healthy eating, it requires a good dose of discipline. Strict discipline is required to become and stay debt free as it requires both repaying current debt and adopting a savings mindset to avoid future debt. Fitness training programmes focus on reducing body fat first and then building muscle. It is advisable to first repay your debt (reduce body fat) before you actively start investing (build muscle).

Debt is basically paying a premium in the form of interest for wanting something now that you don't want to wait for until you have saved the money to buy it cash. The most effective way to stay debt free over the long-term is to adopt a mindset of 'cash is king' – if you cannot buy it cash, don't buy it. Spend time understanding the underlying situations and emotions that force you into debt. If you do not manage such situations and emotions effectively, you will repeatedly end up having unwanted debt. Sometimes you must accept that letting go of certain things now will help you to become financially stable in future.

Home loans and car financing which are repayable over a longer term usually have lower interest rates than short-term debt such as credit cards, overdrafts and personal loans. Therefore, be money wise and avoid expensive forms of debt as far as possible. With store cards, the opposite usually applies: higher interest rates are charged for longer repayment periods such as a 12-month repayment period as opposed to a 6-month period. Always select a shorter repayment period when you have a store card to save on interest.

Consider consolidating your debt into a single account, offering you the lowest interest rate possible. Shop around for the lowest interest rate in situations when you cannot avoid having to incur debt. Home loans often offer lower interest rates. It might therefore be wise to rather borrow money from your home loan in emergencies instead of utilising personal loans, credit cards or overdrafts.

These are the main reasons debt has a negative impact on your net worth:

- Paying interest on debt makes you poorer. You are in fact paying away your wealth and making somebody else wealthier;
- The principle of compound interest applies to both investments and debt, but with debt it has a negative impact. You are paying interest on interest. That is the main reason you do not notice a decrease in the outstanding balance of your bond/home loan after paying your bond instalments for many years. Initially, the majority of the instalment is allocated to interest whilst the capital amount (the amount that was borrowed) seems to reduce fairly slowly;
- Interest rates on credit cards, personal loans, clothing accounts and overdrafts are exceptionally high. Considering the high interest rate you are paying on these forms of debt in comparison to how much interest you earn on investments, should already provide you with enough reason to rather save until you have enough money to buy something than to use debt paying for it;
- Mismanaging your debt such as paying late, missing payments or paying short on the actual instalment can result in a poor credit record. A poor credit record counts against you when applying for credit in future and it could potentially have negative consequences when applying for future employment opportunities as well;
- You may lose assets that you have already paid a lot of money for if you can no longer afford the instalments;
- Using debt to buy an item decreasing in value over time or paying more than its value because of interest is considered bad debt and should be avoided;
- Debt is undesirable as it contributes towards forming a habit of buying things you cannot afford and makes living above your means possible. Credit is easily available in South Africa and one of the biggest reasons that South Africans have developed a culture of overspending. When you utilise debt to pay for living expenses it can quickly create a negative spiral that you cannot easily escape from; and
- Debt is robbing you from an opportunity to save, invest and increase your net worth. Instead of expanding your asset base, debt reduces your net worth.

In certain scenarios, debt can be considered good debt if managed well, for example:

- You need debt to obtain a credit record, especially when you are young and need to buy your first home or car. However, it is critical to manage your debt well to maintain a good credit record. When you miss payments or pay short on the amount you are owing, you quickly build up a bad credit record which can be held against you in the future;
- Interest free debt is relatively good debt such as a clothing account offering a six-month interest free payment plan. You postpone paying for something upfront and can earn interest on the cash in your bank account while settling your clothing account over a longer period. This is one option to start building a good credit record if you manage it well;

- A credit card offering an interest free repayment period if the payment is made within the specified period is also a good form of debt. Keep in mind that failing to make the payments within the specified period will be an expensive journey as credit cards are one of the more expensive forms of debt due to the very high interest rates;
- Debt can help you to afford items that you might not be able to afford otherwise, especially if you are still young and haven't saved up capital yet, but limit debt to big expenses like a house or a car;
- When using debt to buy an asset increasing in value over time, this can certainly be to your benefit. That is why your home loan can be considered good debt – it usually has a lower interest rate than other forms of debt. You are also paying off your own assets; and
- Debt can be useful to create wealth, but definitely not to pay for living expenses. Using debt to buy a second property or business of which the rental income or business income covers your instalment and offers good returns in future is a good investment. In such a scenario someone else is paying your bond on your behalf, thus creating wealth for you.

Debt instalments should ideally not exceed 20% of your net salary after tax deductions and retirement contributions. Do detailed calculations to determine whether you can afford the specific debt and what impact the instalments will have on your cash flow. Always make provision for interest rate increases when applying for debt. People often end up in financial difficulty because they apply for the maximum level of debt they can afford and a few months later when interest rates increase, they can no longer afford the increased instalment.

Continue paying the original instalment amount even when your required instalment reduces after interest rates have been reduced. Allocate a fixed amount of savings in your budget to debt repayments by paying it on top of your monthly instalments. If you have surplus money at the end of the month, use it to repay your debt. Use any additional funds that you have available such as bonuses or South African Revenue Service (SARS) refunds to repay your debt. The secret to repaying your debt as quickly as possible is to pay more than the minimum required instalment. You want to reduce the capital balance as soon as possible. This ensures that you will also end up paying much less interest as the debt decreases.

Follow these steps to become debt free:

- Acknowledge to yourself that you are not comfortable with your level of debt. Most people know this but choose to live in denial and avoid the situation;
- Make a conscious choice to become debt free;
- Set timelines regarding when you want to be debt free;
- Calculate how much you will have to pay on top of your current instalment. Stick to repaying the higher amount to meet your timelines;

List all the debt you have, the interest rates and current repayment periods;

One method is to focus on repaying smaller debt amounts first. It will encourage and motivate you when you see your debt levels reducing;

Regarding larger debt balances, start repaying the balance with the highest interest rate first. Once that balance has been repaid, allocate that instalment to repay the next balance on your list and continue to do so until you have repaid all the debt;

Make a conscious decision not to incur more debt. Adopt a 'cash is king' mindset;

Do proper planning and save money for items you cannot afford to buy with your monthly salary; and

Once you have repaid your debt, start building up an emergency fund. Having an emergency fund on hand when unforeseen circumstances take place, can assist you in staying debt free.

Chapter 7

Savings and investments

Once you have a strong fitness base and have reduced your body fat/body weight, it is time to start building muscle. Building muscle is essential to become stronger as well as to achieve your ultimate fitness goals and look your best. The same principles apply in the process of becoming financially fit as in achieving physical fitness. Firstly, compile a budget and apply effective expense management techniques to provide you with a solid financial base. Secondly, focus on repaying your debt to cut out the additional weight/fat that puts a lot of financial stress on you. Thirdly, start saving and investing as you want to start adding muscle to your wealth portfolio and become stronger financially.

The question that is often asked is how much you should be saving every month. The general rule of thumb is to save and invest at least 10% of your net salary or income. The net salary is after tax, medical aid and pension fund contributions have been deducted – in other words, the money that you take home before paying any expenses or debt instalments. You can then allocate a maximum of 20% to paying debt instalments, leaving you with 70% of your net salary for living expenses. As you manage to repay your debt, the allocation of budget for debt instalments decreases and eventually becomes zero. Thereafter, you can increase your percentage of savings accordingly.

It is important to work towards allocating at least 10% of your net salary to savings in your budget and stick to it. Many people first spend their money and then save whatever is left at the end of the month, just to realise there is actually nothing left to save. Get into the habit of putting away your savings portion first prior to paying your expenses. Sign a debit order for your savings portion to be transferred to your investment account on the day after you receive your salary. A debit order forces you to save and after a while you won’t even notice that you are in fact saving money. It boils down to the ‘pay yourself first’ principle. You are worthy and need to take care of yourself first.

Savings and investments are two different concepts though. Savings refers to money put aside with the purpose of using it for something specific in the future. Savings often has a short-term purpose, such as going on holiday, buying a new TV or paying for a birthday party. It can have a long-term purpose as well, for example saving money for a deposit to buy a new car or home or to pay for your child’s education. Less risky savings or investment accounts are used to save money for a specific purpose. You don’t want to run the risk that the markets are performing poorly at the time when you need your money and suddenly your savings are worth much less than what you have put away or anticipated. Call accounts, money market accounts, notice deposits and short-term fixed deposits are good options to consider when you want to save money over the short-term.

Investments come into play when you want to add muscle to your wealth portfolio. Investments refer to money put away to create wealth with a long-term view in mind. When you invest, you start buying assets to generate income in the future. Investment products can be income-producing, for example fixed-interest earning products or higher risk speculative products such as shares. Investment income refers to the returns you will be earning by investing in these assets. Investment returns comprise various forms of income. Examples include interest from cash investments, rental income from property investments, and dividends from shares/equity investments. Unit trusts offer multiple income streams depending on the underlying assets of the fund.

Property, shares and unit trust investments can offer additional returns in the form of capital growth of the assets. Investment strategies include buying undervalued assets that will likely increase in value and selling such assets at higher prices to realise profits. The increase in price is referred to as a profit or realised gains. Just keep in mind that both investment income and realised gains, or capital growth of investments, are taxable.

To summarise, the reasons you need to save and invest:

- Achieve your savings goals (holiday, new car etc.);
- Avoid having to rely on debt;
- Improve your lifestyle;
- Plan for the future;
- Have funds available for unforeseen circumstances;
- Become wealthier/richer/have improved cash flow; and
- Increase the value of your asset portfolio, your net worth.

Chapter 8

Basic savings tips

Saving money is similar to making small lifestyle adjustments with the end goal, of improving your overall health, in mind. For example: changing from two teaspoons of sugar in your coffee to only one teaspoon; taking the stairs to your office instead of the escalator. Minor adjustments are a lot easier to make than complete lifestyle changes which are often difficult to maintain over the long-term. It might take a bit longer to see results from these smaller adjustments but once you do, you become confident and comfortable which in turn become lifelong habits benefiting your financial wellness, health and overall wellbeing.

It is not difficult to save money, especially if you are conscious about saving rather than overspending. With a mindset to save money, you will find ways to save money. It is not necessary to only look for big savings since multiple small savings have the same effect as a few large savings. It is much easier to find smaller savings in your budget. Focus on these smaller savings as every little bit helps. Small savings quickly add up and before you realise it, you have started to save money.

Here follows a few basic savings tips to consider:

Reduce the 'nice to have' expenses

Go through the expenses that you have identified as 'nice to have' expenses in your budget. Reduce how much you spend on 'nice to have' expenses like entertainment, clothes, hairdresser, luxuries, etc., or if you can, remove some completely.

Transfer excess money out of your living expenses bank account

Make a conscious decision to transfer any excess money you have left at the end of the month out of your living expenses bank account to an investment account or pay off your debt. Don't leave excess money in your bank account. Why? Apart from earning minimal interest on funds in your bank account, you will be tempted to spend the money on something that you don't really need.

Don't spend unnecessary money on bank charges

Review your bank charges on an annual basis. Negotiate with the bank that you get the most cost-effective package available that suits your needs. There is no point in paying for services and facilities that you don't need or use.

Avoid withdrawing cash from other banks' ATMs so you do not incur additional fees. Avoid depositing cash at the teller for which you will be charged a cash deposit fee.

Life insurance should match your circumstances

Life insurance is a necessity in your overall wealth portfolio. The main objective of life insurance is to cover your outstanding debt, followed by the needs of your dependents. If you have no dependents and little or no debt, you don't need millions of life cover. Carefully consider reducing your life cover and save by paying a reduced premium, but still ensure your life cover is sufficient.

Insurance on clothing accounts and cell phones, etc.

Insurance on clothing accounts, cell phones, etc., can come in handy when something goes wrong or your belongings get lost. However, don't tick every insurance option box of every item you are buying. Determine if the total insurance costs are justified considering your risk profile as well as the replacement cost of the item. Saving on insurance premiums may be sufficient to replace a lost phone. An emergency fund may be a lot more cost-effective to replace items like cell phones than taking out expensive shop insurance that is priced for high risk clients.

Review short-term insurance regularly and update accordingly

Short-term insurance policies should be reviewed on an annual basis and updated to match your current circumstances. Updating your car's market value annually on your car insurance policy could result in significant savings that could be invested in your emergency fund, etc. In theory, your insurance premium on your car should reduce as the car's market value reduces but the onus is on you to ensure that the policy is updated.

Update building insurance for renovations and home content insurance for expensive new items that you bought or sold. Do not pay insurance premiums for something you no longer own. Ensure your policies are updated to accommodate any additional items you bought.

Be aware of exclusions on policies

Spend time understanding what is excluded from policies before you commit. A policy should match your circumstances, your needs and your potential risk profile. For example, if a woman has a dread disease policy which doesn't cover breast cancer, she needs to think carefully if the policy really matches her risk profile of potentially contracting breast cancer. Don't pay for a policy only to discover that it doesn't cover a required item, disease, etc., when it is too late.

Maintain your house and car

Maintaining your house and car can save you a lot of money. Preventative maintenance is often less costly than the replacing or repairing costs should something break.

Be aware of 'too good to be true' deals

When a deal sounds too good to be true, it most likely is. Don't fall for every person calling you with the best, cheapest deal 'exclusively for you'. You can only use one cell phone at a time – you don't need two or three 'free' cell phone contracts.

Don't pay for services that you don't use

We are often bombarded with bigger and better package deals such as mobile phone deals. Ask yourself if you really need or use all the services or if the so-called 'benefits' are really worth it? Do you really watch all the channels on a full spectrum television package or can you downgrade to a less expensive package? Do you really need and use all the data on your communication packages or can you manage with less data? These questions are worth asking. Be honest with yourself when answering these questions as this can possibly save you money.

Plan your shopping trips

Compile a shopping list of necessary items and keep to the list when going to the shops. Plan shopping trips in advance to avoid going to the shops multiple times. Avoid going to the shops unless it is essential. Just strolling through the shops without a purpose will most likely entice you to buy something unnecessary. If you pop into the shops to quickly buy one or two items, you are likely to add a chocolate or magazine to your basket at the pay point. Proper planning and strict discipline are great money-saving techniques to adopt.

Make use of reward programmes, loyalty programmes and discount vouchers

Reward programmes, loyalty programmes and discount vouchers are helpful to save money if utilised correctly. Many shops and companies offer excellent rewards that won't cost you money when buying from them. Make use of it.

Don't buy specials unless you need them

Remember a bargain is only a bargain when you really need it. Paying a special discounted price for something you don't really need, or won't really use, is wasting money. Plan ahead and look out for a special price when you need something new or have to replace something.

Study the prices

Consider the cost implications of buying bulk versus multiple smaller purchases. For example, compare bank charges for filling your car once versus topping up regularly. It is cheaper to buy perishables that can last for a few days than going to the shops daily. Buying in bulk can save money, though this is not always the case. Compare the 'per kilogram' unit prices indicated on price tags at supermarkets. Study and know your prices.

Downgrade on branded items

Quality is important and if a branded item really offers better quality and more benefit than a lower priced item, spending the money might be worthwhile. But you need to ask yourself if you really need to buy the most expensive brand from the most expensive supermarket for general household items like bread, milk, sugar and rice. The same argument applies to all other items as well. Becoming less brand conscious can save you a lot of money.

Entertain the clever way

South Africans love to entertain and to be entertained. Entertainment can become expensive and can ruin your budget. Reduce entertainment costs by becoming more creative with your entertainment methods and choices. Entertain at home rather than going out. If you entertain at home, ask all your guests to bring their favourite dish so all can share. This way you discover their unique cooking skills without having to settle a large bill. Look for activities that don't cost a fortune such as a movie night at home with popcorn or mountain biking with the family at your local park. Activities don't need to be expensive to be fun.

Pay upfront to receive discount

Many places offer discounted prices for upfront payment or annually rather than monthly. Some service providers offer you one month free if you pay upfront. Make use of these type of offers.

Take care of your health

Take good care of your health. Go for regular health checks, eat a healthy and balanced diet, exercise regularly, quit smoking, limit alcohol consumption and control your weight. Take multi vitamins and immune boosters, especially during winter time. Prevention is always better than cure.

When you adopt a savings mindset, you will always find effective ways to save money. It is possible to save money and still enjoy life.

Chapter 9

Invest for a better future

Adding muscle to your body enhances your strength and overall physique. Investments play a similar role by adding muscle to your wealth portfolio. The more you can invest today, the stronger financial future you can create. To make sound investment decisions, you need to understand a few investment concepts and principles.

Compound interest

Earning compound interest is earning interest on interest, in other words interest is earned on the interest earned during the previous interest earning period. A simple example is as follows:

A R100,000 investment earns 10% per year, or R10,000 during the first year of investment. The investment becomes R110,000 for the second year and you earn R11,000 interest at 10% per year.

Now your money is starting to work for you. Compound interest can add a lot of muscle to your investment portfolio over time.

Risk and return

Risk is defined as the uncertainty that an investor is willing to take to realise a gain from an investment knowing that a loss can be realised as well. The higher the risk of a specific investment, the higher the potential return can be. The opposite is unfortunately also true. The higher the risk, the higher the possibility for potential loss. Lower risk investments will realise lower returns which are more stable and guaranteed. Remember that no investment return is ever 100% guaranteed. Investments can be divided into three categories:

Low-risk investments – cash, fixed deposits, notice deposits, bonds, money markets, endowment policies and certain unit trusts;

Medium risk investments – property, certain unit trusts and ETFs (exchange traded funds); and

High risk investments – shares, certain unit trusts, forex trading, derivatives and cryptocurrency.

Shop around for the most appropriate investment that suits your needs and risk profile, but at the same time offers the highest after-tax and after-costs returns. There is no reason to only use investments from your bank. Look at what other banks and investment houses offer. Do research and use the internet to determine which institutions or investments are performing the best for the type of investment you are considering. However, ensure that the institution is authorised and legitimate.

Risk profile of an investor

Investors have different risk profiles. The risk profile is determined by the level of risk an investor feels comfortable with. Some investors don't want to risk losing money and feel more comfortable with lower but relatively guaranteed returns. Other investors are comfortable to lose everything, knowing that if they realise gains, they gain vast returns. Investments can sometimes be compared to gambling – one day you might win big and the next day you might lose big. It is important to understand your risk profile and your investment portfolio should be set up accordingly. The three different risk profiles include:

Conservative investors prefer low-risk investments with lower, more guaranteed returns;

Moderate investors prefer a mixture of lower and higher investments with moderate returns; and

Aggressive investors prefer high risk investments delivering high returns and they are prepared to lose money in the process.

Age also plays a role when it comes to investing and level of risk. Younger people can afford riskier or more aggressive investment choices simply because they have more time in their lives to recover from bad investment choices or can wait for financial markets to recover after a period of poor performance. Older people should consider more conservative investment choices, thereby minimising the risk of losing a lot of money at a mature age. There is also the possibility that you won't recover losses and it can cause serious financial difficulty during retirement.

Liquidity and investment periods

Liquidity refers to how easily you can access your money or convert it into cash. Cash is the most liquid form of all investments. Notice deposits and fixed deposits are less liquid because you have to wait for a notice period to pass or the fixed term to end before you can access the money. Shares and property might take a lot more time to convert into cash and are therefore not liquid investments as such. The required notice period as well as the time it takes from disinvesting until the money reflects in your bank account should be taken into account, especially if you need the money on a specific day.

Investment periods have an impact on the returns you can expect. Short-term investments generally offer lower returns while long-term investments offer higher returns. Investment periods should match your goals. You cannot invest your day-to-day money in a notice or fixed deposit, because you will most likely not be able to wait that long before you need to use the money. It might be a good idea to invest your December holiday savings in a six-month fixed deposit at the beginning of the year, but if you are three months away from the December holidays you should not invest it in a six-month fixed deposit. Keep in mind that penalties can be charged should you withdraw money prior to an investment reaching maturity date. Ensure that you choose the most appropriate investment term for your investment.

Fees payable

Some investment returns quoted or advertised, are gross returns and appear to offer attractive returns. Fees payable on such investments can be quite costly. The investment might become less attractive compared to similar or other investments considering the fees payable. The more knowledgeable an investor becomes, the less the need to obtain financial advice for uncomplicated investments. Investors can invest directly into multiple investments which can save you money not having to pay fees for intermediary services (brokers, etc.). If you go this route it is imperative that you do your homework and that you constantly monitor your investments as well as market performance and trends.

Diversification

Diversification refers to the process of investing your money in more than one investment (for example cash, property, shares, endowment policies, etc.) to minimise risk. You should diversify your investments to ensure you get maximum returns while spreading your risk. You can diversify on different levels by investing in different asset classes, utilising different funds or products, as well as different banks or investment houses.

Important principles for solid investments

Start small. It is a myth that you need lots of money to start investing. Look for investments with no or smaller minimum investment requirements and start building up your funds till you can invest in more sophisticated products with higher minimum investment requirements offering higher returns;

Investments take time to mature and render healthy returns. You need time for your investments to reach maximum growth and returns. A longer investment term yields higher returns and maximises compound interest returns. Investments are less impacted by market volatility over the long-term;

Whenever you have excess cash available, transfer it out of your day-to-day bank account to an investment account. You receive very little interest on money in your day-to-day bank account and you will be tempted to use it;

Be willing to take some level of risk. If you don’t have excess money and are not willing to accept the risk of potentially losing it by investing in high risk investments, then rather stick to investment options with lower to medium levels of risk. If you are knowledgeable about the investment options and financial markets, you will feel more comfortable to take calculated risks. By having proper financial knowledge, you can manage the level of risk downwards;

Ensure you have a suitable, diversified investment portfolio;

- Be disciplined. Be diligent and invest on a regular basis. Don't be tempted to spend your investment money. Be patient and don't panic when markets are going down, as they will recover;
- Monitor your investments on a regular basis. Look for alternative investments if your investment is no longer performing. Know what is going on in the financial world, news, politics and economy and how this could potentially impact your investment decisions; and
- Understand what the tax implications of your investments are and budget to pay those taxes. Investors often forget to take taxes into account when making investment decisions. The tax implications can make certain investments less attractive.

The main investment types include:

- Cash investments: call accounts, notice deposits and fixed deposits, etc., offered by banks;
- Properties: vacant land, residential or commercial property to rent out or resell;
- Unit trusts: money from multiple investors is pooled and invested according to a specific strategy;
- Exchange traded funds (ETFs): very similar to unit trusts but more cost-effective;
- Shares: investing in the shares of a company;
- Bonds: a loan an investor makes to an organisation in exchange for interest payments over a specified term plus repayment of the bond amount at the bond's maturity date;
- Annuities: a contract between the policyholder and an insurance company in which the insurer promises to make periodic payments, either starting immediately (immediate annuity) or at some future time (deferred annuity);
- Retirement: pension, provident and preservation funds as well as retirement annuities; and
- Other investments include: derivatives (options, futures, forwards, swaps), foreign exchange (forex), cryptocurrency, gold, silver, art, game farms, businesses, etc.

Cash, property, unit trusts and share investments are discussed in more detail in the following chapters.

Chapter 10

Investing in cash

Cardiovascular (cardio) fitness is critical for any person irrespective of whether you want to run, cycle, play golf, tone, build muscle, lose weight or just be healthy and active. Fitness programmes incorporate cardio exercises to a lesser or greater extent. Cardio refers to any activity (i.e. walking, running, cycling, etc.) that raises your heart rate. You are effectively making your heart stronger by doing cardio exercises which result in a more efficient and healthy body. Cash flow plays a similar critical role in financial fitness. Cash forms the backbone of paying for daily living expenses, savings and investments as well as repaying debt. Profitable companies with many assets often fail because of cash flow problems. The better the cash flow is managed, the easier all other financial goals can be achieved, not only for companies but for individual households as well.

Cash investments refer to short-term investments, usually less than 90 days, that provide an investment return in the form of interest payments. With cash investments your capital is relatively guaranteed. Your investment cannot be worth less than your initial investment. Your risk is much lower but because of this, the returns are also relatively low. The returns are less risky compared to other investment options although no return is ever 100% guaranteed. Since interest is earned on cash investments, it is directly impacted by the prime interest rate. If interest rates decrease, you earn less interest and vice versa.

A benefit of cash is that it offers the most liquid form of investment with easy access to your money. Having cash in your investment portfolio is an important building block of your financial stability and wealth. You should have sufficient cash available to cover your daily living expenses, your short-term savings goals, as well as any unforeseen expenses. Learning to manage your cash flow effectively is a significant benefit to your overall financial fitness.

The main cash type accounts include:

- Bank accounts – normal bank accounts that you use for your daily living expenses and in which your salary is deposited. Very little interest is earned on day-to-day bank accounts. If you have excess cash that you want to save or invest, transfer it to another investment account offering a better interest rate. Bank charges are payable on bank accounts. Bank accounts can have an overdraft facility whereby the bank lends money directly on your bank account. Although an overdraft is an expensive form of debt, it is usually a cheaper option than credit card financing or personal loans;

- Call accounts – a bank account that offers a higher interest rate than a day-to-day bank account. A call account is often utilised for investing. A call deposit account has no fixed deposit period, provides instant access to funds (liquid) and allows unlimited withdrawals and deposits;

- Notice deposits – a savings account that requires the account holder to give notice of any withdrawals within a specified number of days (i.e. 32 days) prior to making the withdrawal to avoid paying penalties. Notice deposits usually offer higher returns than call accounts and day-to-day bank accounts;

- Fixed deposits – a savings and investment account that requires money to be invested for a fixed period (i.e. 3 months, 6 months, 12 months, etc.). Money can be withdrawn prior to the deposit's maturity date but penalties will be charged. Fixed deposits offer higher interest rates than bank accounts, call accounts and notice deposits and the longer you choose your fixed investment period to be, the higher interest rate you will earn; and

- Money market accounts – a savings and investment account with no fixed investment period or notice period requirement but offering higher interest rates than most notice and fixed deposits. Money market funds also qualify as a unit trust investment as these funds are held as units in the fund. The difference between a money market fund and other unit trusts is that with a money market fund, the unit price is always equal to R1. The unit price does not fluctuate. Interest is earned on your investment making these investments as safe as normal bank accounts but with the benefit of earning higher interest rates. The minimum deposit required is however higher than normal bank and other savings accounts.

If you start out saving and investing, a good idea is to start with a call account, then move to a notice or fixed deposit account and onto a money market account once you have enough savings to open a money market account.

South Africa has a culture of overspending and high debt levels. As a result South Africa's savings statistics are exceptionally poor. The National Treasury introduced the tax-free savings account (TFSA) in 2015 to encourage South Africans to save. When you invest in a TFSA you will pay no income tax, dividend tax or capital gains tax on the returns you are earning. There is a maximum annual limit for contributions per tax year as well as a lifetime limit per person. Once you exceed these limits you will pay tax on the amounts exceeding these limits. You need to make sure that you invest in an account that qualifies as a TFSA, for example pre-selected fixed deposits, unit trusts (collective investment schemes), endowment policies and exchange traded funds do qualify. Make sure that you select a TFSA option. Only certain designated service providers offer TFSA options. You cannot use these accounts for transactional purposes and only new investments qualify for tax benefits.

Keep more cash rolling in rather than out to stay financially fit for life.

Chapter 11

Investing in property

Regardless of the differing opinions and debates, properties are still considered to be one of the best performing investments over time. One option for an investor is to buy a property at a reasonable or below market price, perhaps renovate it and sell it at a higher price, realising a profit. An alternative and more popular option is to buy a property and rent it out to earn rental income.

Fitness is not only about speed. Even the fast athletes incorporate long, slow runs or slow, steady cycling rides into their training. Training for longer at a slower pace has the benefit of building endurance, burning fat and reducing injury risk. A property investment can be viewed in a similar light: it produces good returns over the long-term and even though it might not be as exciting as the speedy investment types, it poses a lower risk, which is great for any diversified investment portfolio.

A few advantages and disadvantages of property investments:

Advantages

Property investments provide investors with two types of returns in the form of rental income, as well as an increase in property value which will result in a profit when selling the property;

Location is an extremely important consideration when investing in property. Properties in a good location can increase significantly in value;

Over time properties are still considered to be one of the better performing and more stable investments since property markets have proven to be less volatile;

When an investor invests wisely it is possible for rental income to cover both the bond costs and additional expenses like building insurance, levies, maintenance, etc. This is the ideal situation as the tenant is paying for the asset on the owner's balance sheet;

Appointing a property rental agency to manage the rental agreement on the owner's behalf can lessen concerns in locating reliable tenants. A real estate rental agency advertises the property, screens the tenants, collects the rental income and manages all the administration. If a good property rental agency is appointed, paying them their commission or fee is a small sacrifice in exchange for peace of mind. In this scenario, renting out a property can realise a passive income stream;

When interest rates decrease, the rental income will either remain the same or increase annually resulting in better profit margins;

Interest rates on home loans/bonds are low compared to other forms of debt, which makes it a better and less expensive form of debt. An access bond registered over a property can become a convenient and less expensive form of funding in case of emergencies;

Selling properties at the right time can result in healthy returns;

Owners often experience strain on their cash flow when interest rates rise and they have to sell the investment property for less than its actual value or purchase price. Investors can buy value-for-money properties during such times and realise fantastic profits on the property when reselling it; and

There will always be demand for accommodation.

Disadvantages

Properties in a good location tend to increase in appeal and value, but the opposite can also happen. Properties can take years to sell when the location becomes less popular due to spatial developments such as new noisy roads, new developments that are not to the benefit of the current area, or the property market going into a downward spiral;

Investors often disregard the money spent on transfer duties, bond interest, insurances, maintenance, municipality rates, taxes and renovations. These costs are high, accumulate and it could take years to recover. Selling a property before the capital appreciation could have recovered those costs can result in financial loss;

Purchasing property from property developers who are not financially sound or honest can result in big losses as can poorly managed body corporates not attending to your property management needs;

Maintenance on properties can become extremely expensive which is for the owner’s account;

Investors who do not want to manage the tenants themselves can appoint a property rental management agency. Keep in mind, rental agencies charge commission and/or management fees which reduces the anticipated profit margin on the rental income;

Poor paying tenants or tenants who damage the property can cause sleepless nights for any property owner. Vacant properties result in a serious loss of income;

The return on property through rental income can become less attractive when the costs like building insurance, levies, water and electricity, and maintenance are taken into account;

When a second or third property is sold and a profit is made, capital gains tax comes into play which reduces the profit margin. The impact of tax on property investments is often forgotten and may surprise the investor when it is too late;

Registering a bond and a property into a purchaser or owner’s name can become a tedious and frustrating process;

- Property investments are not liquid investments and the period to convert the property into cash can be a long and stressful process; and

- Properties forming part of a deceased estate are often sold on auction for less than market value.

Always consider all the advantages and disadvantages before making a decision to invest in property. Once all the blocks are ticked, property investments still remain one of the most sought-after and profitable investments over the long-term.

Chapter 12

Investing in unit trusts

Investing in unit trusts, also known as mutual funds or collective investment schemes (CIS), can be compared to doing the circuit in gym. The circuit in gym consists of a variety of training equipment to enable a full-body workout – shoulders, back, biceps, chest, abdominal muscles (abs) and legs. You don't need to stress about what muscle group to train next or which equipment to use next. The circuit training programme has already been worked out according to set rules.

With unit trusts, investment funds from multiple investors are pooled and invested according to a specific diversified investment strategy. Unit trusts are made up of portfolios of assets such as equities, bonds, cash and listed property in which investors buy units. Unit trusts are managed by fund managers and are regulated by a mandate. Unit trusts offer investors exposure to a variety of different asset classes. It is less risky than a direct investment since you have an experienced and dedicated fund manager who manages the fund on your behalf and spreads the risk amongst a variety of asset classes. The fund manager decides to increase or decrease the level of exposure to underlying assets depending on performance.

Depending on the type of fund you are investing in, which is linked to an underlying class of asset, investment returns are derived in the form of interest and dividends. The units have a unit price which can increase or decrease depending on market performance, the economy, additional investments or disposals within the fund, etc. The number of units you own in the fund multiplied by the current unit price is the value of your investment. When the unit selling price increases above the purchase price, your investment value increases. You make a profit or capital gain when you sell your units. The opposite is also true: when the unit selling price decreases below the purchase price, your investment value will decrease, resulting in a loss when you sell units.

Unit trusts cater for both conservative and aggressive investors as well as moderate investors. You can select a fund with a lower risk, i.e. a fund with a high allocation of cash as the underlying asset. You can also invest in higher risk funds with equities as underlying assets. A balanced fund has exposure to lower and higher risk assets combined into a single fund. Unit trusts can offer lower to higher returns depending on the risk level of the fund and the underlying assets. Unit trusts vary from liquid funds to less liquid funds.

Advantages of investing in unit trusts

- A relatively small investment can get you exposure to bigger and more sophisticated investment types which you may not have been able to afford if you had to invest directly;

- Diversification in a variety of underlying asset classes like cash, property, shares, bonds and offshore investments through a single portfolio is possible;
- Unit trusts are a lot less complicated since the fund manager does all the research and makes all the decisions regarding the fund on your behalf;
- Since many investors invest in a fund, unit trusts are more affordable than direct investments; and
- Unit trust investments can be made as a lump sum investment or a monthly debit order payment. Minimum amounts apply to both payment options. These investments are contract free and monthly debit orders can be changed or stopped, without penalties.

Disadvantages of investing in unit trusts

- A percentage spread between the unit purchase and selling price is charged. This percentage spread covers once-off fees, commissions and taxes;
- There is an annual administration cost to cover fund management and other such costs;
- The costs on unit trusts are more expensive than on exchange traded funds (ETFs)
- Unit trusts cannot be purchased through a share trading portfolio account.

The main categories of unit trust funds are:

- Balanced funds – the portfolio comprises of a mix of cash, equities and bonds. Due to the spread of underlying assets, the risk of investing in major asset classes is reduced significantly although exposure to all asset classes is possible;
- Equity funds – invest in various listed equities (companies) based on the rules of that unit trust's specific mandate. Certain equity fund unit trusts only invest in a specific sector (e.g. financial services shares) or a specific type of share (e.g. large caps). Equities are the underlying assets of these funds, resulting in higher risk with potential higher returns;
- Fixed-income funds – invest mainly in fixed-income products like bonds and money market instruments. This type of unit trust provides a regular source of income in the form of interest. Their underlying assets offer guaranteed investment returns. Fixed-income funds are ideal for conservative investors or investors who are close to retirement;
- Index funds – invest in companies that closely track a market index;
- Global or offshore funds – these funds are domiciled in South Africa (thus the administration of the fund is in South Africa and investments in the unit trust are made in rands). These funds invest in assets on foreign stock exchanges like the London Stock Exchange or New York Stock Exchange. The underlying assets are

priced in foreign currencies such as the dollar, euro or British pound. Global or offshore funds offer access to more industries and this is an effective way to diversify a portfolio that already holds local investments;

Money market funds – invest in liquid, low-risk money market instruments that are in effect short-term deposits/loans to banks, low-risk financial institutions or short-term government securities;

Sariah Funds (ethical unit trusts) – invest in Sariah compliant investments, therefore companies involved in activities, products or services related to gambling, alcoholic beverages, etc., are excluded from the portfolio; and

Real estate investment trusts (REITs) - a REIT is a listed company or property unit trust that invests in immovable property. Returns are in the form of rental income. The unit trust buys, manages and operates the property on the investors' behalf. This is definitely a cost-effective and hassle-free method to benefit from investing in the property market without having to own physical property and having to manage the property or tenants. Since REITs typically operate with high debt ratios, income from REITs reduces when interest rates go up.

Unit trust fund fact sheets are very informative and provide all the information about a specific fund such as what the fund can and cannot invest in, which type of investor is suitable for the fund, the asset allocation, performance history of the fund, minimum investment requirements and the applicable fees. Fact sheets are prepared by the fund manager and are updated on a regular basis. It is important to analyse fund fact sheets before investing in unit trust.

Chapter 13

Investing in shares

Investing in shares (also referred to as stocks or equities) means you are buying shares that a company has issued and you are technically becoming a shareholder of that company. Shares have a share price that fluctuates during trading. The value of your investment in a specific company is determined by multiplying the number of shares that you own in that company by the current share price of the company. The share price can increase or decrease depending on how the financial markets are performing as well as how the company is performing. Selling shares at a higher price than the purchase price results in a profit. Selling at a lower price than the purchase price results in a loss. Brokerage fees need to be taken into account as well.

Ordinary shares (also referred to as common shares) usually entitle the shareholder to one vote per share during the company's annual general meeting. Ordinary shareholders have a lower priority than preferential shareholders when it comes to company assets in case of insolvency. Ordinary shareholders receive a return on their investment in the form of dividends although dividends are paid at the discretion of a company's management. Most companies have a dividend policy, for example dividend payable per share equal to 50%, or any other percentage of the company's earnings per share. Investors in preference shares usually don't have any voting rights during annual general meetings. However, these investors have a higher priority when it comes to company asset distribution and they receive a fixed dividend distribution which is paid out before the company's earnings per share is calculated.

Listed shares are shares that are traded (bought and sold) on a stock exchange. In South Africa our stock exchange is known as the Johannesburg Stock Exchange (JSE). Other popular exchanges include the New York Stock Exchange and the London Stock Exchange. A public company needs to list its shares on the board of the exchange before its shares can be traded as listed shares. Unlisted shares are not traded through an exchange but through the over-the-counter (OTC) market. Market makers facilitate the trading process of unlisted shares in an OTC market.

Shares are considered good investments due to the probability of earning two streams of income by receiving dividends as well as capital growth should the share price increase. Some investors trade quite frequently and capitalise on buying shares at a lower price and selling at a higher price. Other investors buy shares as a long-term investment and wait for the value of the investment to increase over time while earning dividends.

Investing in shares can be viewed as fairly similar to doing high intensity interval training (HIIT) for physical fitness. With high intensity training you train in intervals – a short period of intense anaerobic exercise followed by a short period of less intensive training to recover. An example of an HIIT training programme is walking briskly followed by a light jog followed by a short period of running at full speed. The sequence is repeated. The benefit of HIIT lies in the fact that the heart rate is spiked, and then allowed to recover. The financial markets, or shares, do exactly that: the markets and share price can increase at a significant pace resulting in large profits earned by investors only to decrease significantly the next day. With share investments the drop in share price, or markets, can result in big losses.

Markets and share prices are volatile. Volatility means the markets and prices can change rapidly and unpredictably within a short period of time. Due to this volatility, investing in shares is a high-risk investment. With high-risk investments, high returns can be earned but at the same time losses can also be realised. Due to market volatility and high-risk embedded with shares, investing in shares is more beneficial over the long-term. The volatility and risk can be managed more effectively over a longer period.

Investing in shares can be costly due to stock broker fees payable. Investing in shares is also more complicated than cash or unit trust investments. Investors need to know what they are doing. They need to understand the financial markets, the impact that politics and the economy have on financial markets as well as how a company they are investing in is performing. Incidents like change in senior management, retrenchments or fraud happening at the company can also impact negatively on the share price. Share investments need to be monitored on a regular basis in order to identify market trends and the financial status of companies' shares being held. Apart from the risks and disadvantages involved, investing in shares is still one of the most lucrative investment vehicles. However, choose shares as an investment option only if you can afford to lose on your investment. It is not wise to invest money in shares that you might need for immediate or near future use.

Chapter 14

Emergency funds give peace of mind

Emergency funds provide the same benefits for your financial health as strong core muscles provide for your body. Core muscles are those muscles in your pelvis, lower back, hips and abdomen that improve your stability, give you better balance and help to prevent injuries. For most sports as well as daily activities, core muscles are used although those muscles are often neglected. Strong core muscles are a key element in any well-rounded fitness programme and an emergency fund is a key element for your financial fitness.

The question you should always ask yourself is: If I lose my job tomorrow, will I be able to survive financially for the next six months? If you can comfortably and confidently answer that question, you most likely already have an established fund to cover your expenses. If that question scares you, start building your emergency fund today. Considering the current economic environment worldwide, losing your job might be more of a reality than you can imagine. Having an emergency fund to fall back on will give you peace of mind if something like that does happen to you.

The purpose of an emergency fund is to have money available to pay for emergencies and unforeseen expenses. Think of it as your personal disaster support fund. The money set aside should be used for real emergencies and only for big expenses. Things that qualify as emergencies would include: major car or house repairs that aren't covered by your insurance, losing your job and having to pay for your monthly expenses without receiving an income, major medical expenses, etc. Something like having to go to the dentist for a routine check-up, buying a new TV or going on holiday doesn't qualify as an emergency. Those type of expenses should be budgeted for as expenses in your normal annual budget and short-term savings should be used to pay for that.

The rule of thumb is that your emergency fund should cover at least six months of your monthly expenditure. That includes all your usual monthly expenses like your home loan, school fees, car instalments, policies, insurance, groceries, etc. Ensure that you also consider those once-off annual expenses like new school uniforms, health check-ups, car service costs, etc. If you have a lot of debt, aim to initially set aside three months of expenses in your emergency fund. Thereafter focus on repaying your debt and once you are debt free, continue building your emergency fund.

It is important that the money in your emergency fund is easily accessible (liquid) and that it carries no or low risk. The best options would be a savings account, money market investment or a credit card that is specifically used as an investment vehicle for your emergency funds. Refrain from notice deposits or longer fixed-term investments where you cannot get access to your money within a few days. Also consider any penalties that might be charged if you withdraw your money before the maturity date of your investment. Don’t be tempted to invest your emergency funds in higher risk investments like equity or offshore funds. You could receive higher returns but you are at risk that your funds might be worth much less than what you originally invested, should you urgently need to withdraw those funds. If you do have to use your funds for a real emergency, it is important to top up afterwards for future use.

Calculate how much your emergency fund should be, compile a reasonable plan to get there and start building your emergency fund today. It does require discipline to put money away for something you might hopefully not use or to resist the temptation of buying that new big screen TV that is on special by using your emergency funds. Having an emergency fund is a crucial step in building your financial wealth portfolio and becoming financially independent. Remember, the peace of mind derived from having an emergency fund available is priceless.

Chapter 15

Protecting you and your wealth

A combination of exercise and a healthy, balanced meal plan is required for optimum physical health. It is true that you cannot out-train a bad diet over the long-term. To protect your body from disease, you need to fuel it with healthy and wholesome nutrients. A balanced meal plan involves eating the correct portions of protein (to build and repair body tissue), carbohydrates (to provide energy for the body), fat (a necessary part of every cell to protect internal organs), vitamins and minerals (to regulate body processes) and water (important for many chemical reactions in the body). Healthy eating protects your body from illnesses and gaining weight. You also need to protect your wealth portfolio from potential losses or being destroyed.

Building wealth depends not only on your ability to generate income during your lifetime, but also on your ability to build an asset portfolio that can grow in value and generate income. Your health, investments and assets are important dimensions making up your total wealth portfolio. Your health is affected when you fall ill or become disabled, while your wealth is affected when you lose your assets, or assets get stolen or damaged. You want to be healthy and wealthy and then you want to maintain and protect it.

You can take precautionary measures to protect your health and ultimately your life – go for regular medical check-ups, exercise, eat a healthy balanced diet, get enough sleep, be cautious when driving, etc. Precautionary measures to protect your assets include: installing security systems at your home, keeping your home and car well maintained, being alert when driving, specifically at night, etc. All these precautionary measures minimise the risk of something happening to you or your assets, although it may not completely prevent this from happening. You need to protect yourself and your assets/wealth portfolio against financial loss in the event of something happening.

The secret to maintaining a healthy weight lies in finding a healthy meal plan that works for you. There is no one-size-fits-all diet. Some people can eat chocolates and not gain weight, while other people only look at chocolates and the scale is already tipping in the wrong direction. The same applies to your financial protection: you need to find insurance and medical health products that work for you and cover your needs. Many people believe there is no need for insurance and medical health protection. These products are in fact key to an overall financially fit lifestyle like a balanced meal plan is key to healthy living.

Medical protection

Medical services are extremely expensive and can potentially destroy your wealth. Due to the high crime rates, motor accidents and occurrence of critical illnesses in South Africa, not having medical protection in place can put you under severe financial strain. It is highly recommended to at least have a proper hospital plan in place to cover your bills while being in hospital if you cannot afford a more comprehensive medical plan. Having an emergency fund in place to cover any medical bills that might not be covered by your medical aid or health insurance will definitely give you additional peace of mind.

Make sure your medical plan fulfils your needs. If you are planning to start a family, ensure that your plan covers maternity benefits to the extent you would need. On the flip side of the coin, you also don't want to pay for benefits that you don't need. When buying medicine, make use of pharmacies that offer loyalty programmes or cash-back rewards.

Medical aids apply waiting periods and late joining penalties if you haven't been on a medical aid and want to join when you are older. If you wait until you fall ill and then want to join a medical aid, the medical aid could exclude those pre-existing medical conditions. Ensure you are aware of all the rules, regulations and exclusions.

Medical aid

Medical aid provides cover for private medical care and medical costs should you be involved in an accident, fall ill or require emergency medical treatment in hospital. Depending on your medical aid plan option, your medical aid can cover costs while being in hospital as well as out-of-hospital benefits like paying for doctor visits, chronic medication, etc.

Health insurance

Health insurance (also referred to as medical insurance) is an insurance policy that pays for medical expenses incurred by the policyholder due to illness or injury. Health insurance can pay out directly to the policyholder. Health insurance policies are issued by insurers and are governed by the Long-term Insurance Act while medical aids are governed by the Council for Medical Schemes. The policy will pay out the stated amount and can assist in covering shortfalls not covered by the medical aid. Health insurance is more affordable than medical aid but provides limited cover. It is a good idea to have health insurance in combination with a medical aid. Take into account the tax implications/benefits of health insurance policies and medical aids.

Gap cover

Gap cover (also known as medical top-up insurance) is an insurance product that covers any shortfalls between what service providers charge for a hospital procedure or emergency surgery and what the medical aid pays from your medical scheme hospital benefit. Don't assume that you will be fully covered when you have gap cover in addition to your medical aid. There are certain exclusions, so always read the fine print in the contract.

Protecting your wealth

Risk products are designed to provide financial protection for your life, your health and your assets (property, furniture, vehicle etc.) in the event of death, loss or damage. Risk products require you to pay regular premiums in return for a risk policy that offers protection or covers you and your assets in the event of some adverse event. You are covering yourself against financial loss if a certain event occurs, but if that event doesn't occur, you are losing the premiums paid. This is the main difference between risk products and investment products.

Risk products are issued by insurance providers. Insurance can be divided into two types of insurance:

- Long-term insurance which includes life, funeral, disability, dread disease, income protection insurance; and
- Short-term insurance which includes building, household content and motor vehicle insurance.

Life cover

Life cover pays out a lump sum when the policyholder dies. The purpose of having life cover is to take care of loved ones or dependents of the deceased, to settle any debt that the deceased might have; to pay estate duty costs or to pay for the funeral. Life cover is critical when you have dependents or if you have large amounts of debt which the assets in your estate may not be able to cover. If you don't have dependents or large amounts of debt, you can opt for a smaller amount of life cover. You might also be over-insured, taking into account your personal life policy as well as any group scheme life cover taken out by your employer.

Funeral cover

It often happens when somebody dies, that family members are put under financial strain to cover funeral costs. Funeral cover pays out in the event of death and pays for the funeral costs. The advantage of funeral cover is it pays out immediately, whereas life cover might only pay out after a few months once the claim administration process has been finalised. This is considered a big advantage since access to the deceased's bank accounts is suspended until the estate is wound up which might take months or, in certain cases, years. It is advisable to have funeral cover in place in addition to life cover.

Disability cover

Disability cover pays out when the policyholder can no longer work due to permanent illness or injury. A medical evaluation will have to be performed to prove that the policyholder qualifies for the disability benefit. Depending on the policy, either a lump sum or monthly income or both can be paid out. The cover can certainly assist in paying for additional costs that your medical aid doesn't cover such as buying equipment like a wheelchair or adjusting your car and home to cater for your needs. Disability cover can be taken out in your personal capacity although some employers include disability cover as part of their group scheme policy offering to employees.

Dread disease

Dread disease cover (also referred to as severe illness or critical illness cover) is an insurance policy that covers the policyholder in the event of being diagnosed with a specific severe illness and pays out a lump sum. The illnesses that are covered are predetermined and are listed in the insurance policy. Cancer, heart attacks and strokes are classified as serious illnesses. Ensure that you do understand your policy in terms of any pre-existing medical conditions, the list of illnesses that are covered and to what extent, as well as the exclusions.

Income protection

Income protection (also referred to as 'salary protection') is an insurance policy that covers policyholders who are unable to earn an income due to serious illness, accidents or unemployment, depending on the nature of the policy. The policy pays out a monthly 'salary' during a period that the policyholder is not earning an income to help cover living expenses. This type of policy is particularly useful for people who are self-employed and don't have paid sick leave. Of course, it is most valuable if you lose your job. Just make sure to understand the policy's conditions and exclusions.

Short-term insurance

Short-term insurance policies can be divided into three broad categories:

- Building insurance – covers the structure of your home for damage or loss because of natural disasters, fire, flooding etc;
- Household content – covers the content of your home which might include furniture, clothing, equipment or jewellery in the event of damage or loss because of burglaries, natural disasters and so on; and
- Motor vehicle insurance – covers your motor vehicle for damage or loss during accidents, theft, fire etc.

Short-term policies should be reviewed and updated annually. Whenever you make renovations to your home, buy or sell household content or motor vehicles, your policies should be updated. If you have specific high-value items like paintings, jewellery or sound systems, it is important to ensure those items are separately specified on your policy. Short-term policies also list certain preventative conditions relevant to the items that are insured. For example, a home with a thatched roof might need fire extinguishers, your home might need an alarm system and locked garage doors, your car might need a tracking system, etc. Ensure that these preventative measures are in place and are in working order to prevent claims from being denied.

Leave a legacy, have a will

With risk products you are covering an event that may or may not happen. The one event that nobody can escape from is death. Be prepared and have a will.

A will is a legal document in which a person specifies the method to be applied in the management and distribution of his or her estate after death. A will specifies what will happen to your wealth portfolio when you are no longer around. Important tips to remember:

- It is of utmost importance to sign your will and destroy any outdated wills;
- A will is even more important when you have dependents, if you have special wishes for when you are no longer around, as well as when you have assets like fixed property;
- Update your will regularly especially after the occurrence of big life events such as getting married, divorced or having children;
- Appoint an executor for your estate;
- Create a life file containing all the important information that your loved ones and executor of your estate will need. The life file should contain your bank account information, policies, will, investments, property registration documents, SARS information, passwords, etc. Your life file should be kept updated; and
- Inform your loved ones about where you keep your life file.

The bottom line is, don’t wait until it is too late to get your medical, life and asset protection in order. Something could happen to you tomorrow, no matter how healthy you may be today.

Chapter 16
Retire comfortably

Even top performing sports people do not train continuously without taking a break; their bodies need time to rest and recover. Training programmes emphasise the importance of recovery periods. Your body needs rest to recuperate which is essential to perform optimally. At a certain point in life, we also reach a more permanent state of rest called retirement. Your retirement experience depends solely on the training you have put in over the years in the form of your retirement savings. According to the National Treasury, less than 3% of South Africans are able to retire comfortably without having to make drastic changes to their lifestyles. These statistics are worrying. Do you want to work hard all your life only to struggle financially when you are retired? Rather train hard by putting away sufficient funds towards your retirement to ensure you can reap the full benefit of your rest period in future.

Retirement products are designed to help individuals save money towards retirement, usually with tax benefits. The purpose is to provide individuals or their dependents, with an income upon retirement. This income can be paid out in the form of a lump sum and/or a monthly pension until death.

Most employers structure retirement benefits as part of their employees' remuneration packages. Examples of retirement benefits offered by employers are as follows:

Pension fund – on retirement a lump sum in cash equal to one third of the total retirement value plus an annuity/monthly pension over the rest of the lifetime of the employee are paid out;

Provident fund – the full benefit is paid out as a lump sum upon retirement; and

Preservation fund – when you change jobs, or become self-employed, and don't cash in your pension, a preservation fund enables you to preserve your pension or provident fund savings in this fund until you retire. A once-off contribution is thus made into a preservation fund once you resign or are retrenched.

Retirement annuities are available for individuals who are self-employed, who work for a company that doesn't offer pension benefits or for employees who want to save for their retirement in addition to their existing pension or provident fund contributions through their employer.

Why is it so important to start saving for retirement as early as possible? Consider a simple example to bring this into perspective. Previous generations generally started working after school at the age of 18. If they had to retire at age 65, they would have had 47 years to save for retirement. In those days people died on average at a much younger age. If they lived on average to age 75, they had 10 years to live off their retirement savings. Thus they had 47 years to save and their savings had to last 10 years. These days many people go to university or college and only start working on average at age 23, which means they have already lost 5 years of their potential retirement savings period. Current generations tend to live much longer, and it is not uncommon for people to reach 95 years of age. The result is that we have about 42 years to save for retirement, and our retirement savings have to last for 30 years should we reach age 95. This simple example illustrates why it is important to start saving as early as possible for retirement. If you haven't started yet or you are not saving enough, don't wait any longer. Start working towards creating a solid retirement plan today.

A few good tips to consider for your retirement planning:

Calculate how much you will need for retirement and review it annually. As your salary package grows and your standard of living improves, your expectation with regard to retirement savings will increase as well;

Be realistic and make sure you save enough. If your monthly living costs are R40,000 for example and you consider your second property providing you with R10,000 rental income on a monthly basis as your retirement plan, you must realise that R10,000 will not be enough to cover your living costs. Additional retirement savings will have to be added to your retirement plan;

Don't be tempted to use your retirement savings to start a business or buy a bigger home. Once you have used your savings, it will be extremely difficult to catch up or recover;

You can get tax deductions for your monthly contributions towards your retirement savings. Make use of these tax savings to build a tax effective asset portfolio;

Younger people can be much more aggressive with the underlying asset allocation of retirement funds. As you get older it is advisable to be more conservative. You don't want to invest in high risk assets a few years before retirement with a risk of losing the money that you worked hard for over many years; and

Don't be tempted to buy expensive cars or a holiday home on receiving a lump sum retirement pay-out. Invest your lump sum wisely as you need the money to maintain your required living standard throughout retirement.

Chapter 17

Financial freedom

What is financial freedom?

Whenever the question is asked ‘Who wants to become financially free?’ all hands in an audience would usually be raised. Financial freedom is an attractive dream and aspiration for many people irrespective of gender, race, current financial position or current career path. What is financial freedom though and how can it be achieved?

Financial freedom is achieved when you can make a living without relying on a partner, husband, wife, an employer, parents or debt providers. Another inspiring way to describe financial freedom is: you have what you want, do what you want when you want and with whom you want. It is all about freeing up some of your time and putting you in a position to earn money without actively having to work for it.

Financial freedom can be described as experiencing that ultimate feeling of joy and fulfilment when you cross the finish line of a tough race that you have trained really hard for. That feeling that all the hard work you put in has paid off and you can appreciate the moment and be proud of what you have achieved. That moment of true satisfaction and knowing that you can fully enjoy life now, you have conquered the challenge.

Why is it important to become financially free?

Economies worldwide are taking strain and businesses and corporates across the world are struggling. Ultimately it has an impact on you as an individual;

Retrenchments are a reality and can happen at any time. You need to be prepared should it happen to you;

Divorce rates are on the rise. The more reason why you shouldn’t rely on a partner to financially provide for you. Don’t be naïve to believe divorce will never happen to you; and

Crime, disease and fatal motor accidents are part of our daily lives. Your partner or employer, who you rely on to make a living, can fall victim to these, leaving you without an income or financial security.

What can steal your financial freedom?

Be aware of these four thieves possibly stealing your financial freedom:

Debt;

Overspending;

Lack of savings; and

Lack of financial knowledge.

Seven strategies to achieve financial freedom

Now that you know what financial freedom is all about, the question remains: how can you achieve financial freedom? The answer lies, amongst others, in these important strategies to achieve financial freedom:

Believe you can do it

Financial freedom can be achieved no matter who you are or what your current financial status is. Identify the obstacles keeping you from being financially free. Do you have debt? Are you spending more than you earn? Do you lack discipline to save money? Is your lack of financial knowledge preventing you from making good financial decisions? Do you rely heavily on a partner to provide for you financially? Are you in a comfort zone and scared to make changes? Are you clinging onto your job purely to survive?

If you have the right mindset and believe you can do it, it becomes much easier to overcome obstacles in your life. With a positive mindset you attract positive things into your life. Many people have done it before you and so can you.

Set goals and take action

Financial freedom and goals have a different meaning to every individual. Financial goals can include: to live your ideal lifestyle, to be debt free, to earn income from a property portfolio, to have multiple income streams, to do what you love without having to stress about money, etc. You should define what financial freedom means to you as a person. Once you know what your definition is, set yourself a goal. Write it down, be realistic, be specific and set a timeline for yourself.

Analyse where you are in terms of your current financial position and what it will take for you to be financially free. Identify obstacles and how you can overcome them. Be honest with yourself. Once you know what your goal is and what your current situation is, create an action plan to get you from your current situation to your future goal. Develop a detailed plan with small milestones and specific timelines. The most important step is to take action. Make a conscious decision to become financially free and to put your plan into action. The financial freedom dream will remain a dream unless you take action to achieve it.

Avoid debt

It is easy to get into debt. A day seldom goes by without receiving phone calls or messages offering you loans or other forms of credit. Paying interest on debt is making you poorer and preventing you from becoming financially free.

Adopt a mindset to avoid debt. Debt should only be used for expensive items like buying a house or a car that you cannot yet afford to buy cash. Don't use debt to buy luxury items or to pay for your living expenses. If you have current debt, use all additional funds to repay your debt as quickly as possible.

Invest in income-generating assets

By increasing your assets and decreasing your liabilities, you build your wealth and increase your net worth. Focus on investing in assets that will provide a complementary return on the investment. Assets that also provide positive growth in value in addition to generating income are favourable assets. Keep in mind that the tax payable might reduce your returns.

Control your spending

It is easy to live above one's means. It isn't your salary that will make you rich, but your spending habits. The bigger the gap between your income and your expenses, the easier it will be to become financially free. If you are a compulsive or emotional buyer, be aware of the triggers and take decisive action to control this accordingly. Implement a budget and stick to it. Before you buy something, always ask yourself if you really need it.

Create additional income streams

Start creating multiple income streams as soon as possible. The ideal is to earn passive income. Passive income generates income without requiring you to spend time on it. Passive income can be earned through properties (rental income), investments (investment income) or starting businesses. By earning income from multiple sources and diversifying your assets, you also spread and minimise your risk.

Expand your financial knowledge

By expanding your financial knowledge, you will be able to make better and more informed decisions. Most people don't learn about money and good financial management from their parents, at school or at university. It is your responsibility to ensure you have a good understanding of financial matters.

These seven strategies are important to apply on your journey towards financial freedom. To summarise: you know what financial freedom is and what it means to you personally; you know why it is important to become financially free; you know what the obstacles are that can hold you back from achieving freedom and how to overcome these; you know what the potential thieves of financial freedom are; and you know the strategies to achieve financial freedom.

Do you believe that you can achieve financial freedom? Are you ready to take action? Are you prepared to start with your journey towards achieving financial freedom?

Chapter 18

Create additional income streams

Cross-training is an important aspect of any training programme. Cross-training refers to different activities performed on different days or performing the same activity but at a different level of intensity. Runners, for example, opt to cycle or swim on the day following a tough run, or maybe go for a slow run the day after an intense training session. The biggest advantage of incorporating cross-training into any training programme is decreasing the likelihood of potential injuries as a result of overtraining while fitness levels are maintained. It is a gentle way to recover since other muscle groups are used and the impact on the body is reduced. It also prevents boredom and creates variety to keep you interested in your training programme. Athletes rely on various fitness activities to remain fit and healthy and to supplement their main fitness activity. The relevance of cross-training in fitness programmes explains why it is so important to create multiple income streams to become financially fit for life.

What do most wealthy people have in common? They have multiple income streams and do not rely on only one source of income. The income streams are derived from various businesses, investments, properties, etc. By having multiple income streams, you can build a bigger wealth portfolio. You can spread your risk and when a certain income stream is taking strain, the others can make up for it. You are also not as vulnerable as you would be if you relied on one income stream to make a living.

If you are earning a salary, you most likely get annual salary increases. By comparing your salary increases to inflation rates you can determine if your real income increases. Don’t use South Africa’s inflation rate as an inflation indicator applicable to your personal expenses; rather use your monthly budgets or calculate your total monthly expenses and compare that year on year. This process should indicate how your expenses increase compared to your salary increases, not only in percentage terms but also taking after tax cash flow into account. Expenses like policies, insurance, petrol prices, interest rates, food items and other luxury items usually increase with a bigger percentage than the average inflation rate. These calculations may prove that it is difficult for a salary income (after taxes) to keep up with increased living costs. The gap between your salary and expenses may become smaller in time to come, making it increasingly difficult to keep within your budget. The best way to counteract this is to create additional sources of income over time.

One way to increase your wealth is to generate more income for yourself. Further educational training improves the likelihood that you get promoted and earn a higher salary. Working overtime is another way to earn extra income. Being a good performer or taking on more responsibilities at work might assist you with upward salary adjustments or earning performance bonuses. Another way to create additional income is to utilise your hobbies and skills in a way that you can earn money from it. If you are creative, consider selling your artwork or giving art lessons in your free time. Fitness fanatics can host a training camp for friends at home. Accountants can assist other people completing their tax returns during weekends or after hours. Be creative and turn your skills and hobbies into money-generating activities. All of these additional income-generating activities will require time and effort from your side. If you don't have sufficient time, it might be a limiting factor to your income-generating capacity.

Another way to create additional income is to build income-generating assets which can generate passive income. Passive income doesn't require time and effort from you which is the ideal form of income. You don't have to constantly work in order to generate income. You can even be on holiday while still earning income. You want to be in a position where you can earn passive income.

Passive income can be generated in various ways such as:

- Property – buying additional properties that you can rent out. You could also benefit from the capital growth of these properties should you sell them;
- Investments – earning investment income and capital growth from your investments which can include cash, unit trusts, exchange traded funds (ETFs), shares, offshore investments, forex trading, art collections, fine wine collections; and
- Business – you can start a business on the side or invest in other businesses where you can share in their profits.

You might argue that building passive income streams requires money to start. You might think it is too risky or too complex. There are however ways and means around it. If you understand the importance of creating additional income streams, you will find a way that can work for you. Once you have started, you will realise it is not impossible and before you know it, you have started to build up a solid base of additional income sources.

- Look out for property in a price range where the rental income covers your bond and expenses;
- Start investing minimum amounts in higher risk investments until you get comfortable and knowledgeable to invest larger amounts. Gradually build your investment portfolio by continuously adding additional investments to diversify your portfolio and improve your earning potential; and
- Start with a business on the side that doesn't require a large initial capital outlay.

A few more ways to create additional income:

- If you have rooms in your house that you don’t use, rent them out. There are always people looking for accommodation or even office space;
- Buy a jumping castle or other children’s entertainment equipment that you can rent out for children’s parties;
- If you love cooking, prepare home-cooked meals for others who don’t have time to cook;
- Offer to look after your friends’ houses and pets when they are away for a fee; and
- Perhaps consider multi-level marketing opportunities. If this is something that interests you and you feel comfortable with it, give it a try.

When you have identified potential ideas that can earn additional income for you, do the required research to understand the legalities, financial requirements and whether there is a market for your product or service before you jump into the opportunity.

Chapter 19

Financial thinking patterns

Your thinking patterns have an impact on your financial decisions. There are four broad groups when it comes to thinking patterns. You may demonstrate characteristics from more than one group. You will not always think like this, but it is a good indication of your tendency to think in a certain way. All four groups have strengths and weaknesses when it comes to financial management. You should be aware of your strengths and weaknesses and most importantly how to manage your weaknesses. The ideal is to manage your weaknesses and adopt strengths from the other groups that can help you on your journey towards financial fitness.

The 'brand is important' group

The following are characteristics and strengths of this group of people:

- Good at setting financial goals and meeting them;
- They are focused and can easily keep to a budget and savings plan;
- They are able to say no if they don't have money;
- Facts and statistics are very important to them. They will analyse an investment before investing; and
- Good performing investment returns are very important to them:
  - They want a good return on their investments,
  - They take calculated risks and invest in funds with higher returns. These people are typically aggressive investors,
  - They are more likely to invest in exclusive investment types such as equities, art, game farms and holiday homes as status and performance are important to them.

Potential weaknesses of this group:

- Status is very important to this group and brands are crucial to them. For them, it is important to drive an expensive brand vehicle, live in a designer home and wear branded clothes;
- They want to be perceived as being successful and they link possessions to success. They easily spend money on something that makes them look successful or wealthy; and

This group tends to overspend on status symbols and might have lots of debt to keep up with their standard of living. They often earn lots of money and have many assets, but their net asset value can be negative or small due to large amounts of debt.

How to manage these potential weaknesses:

- Don't overspend on items that you don't really need;
- Avoid debt as far as possible; and
- Adopt a mindset whereby you only buy luxury items if you can pay cash for them.

The 'practical and steady' group

The following are characteristics and strengths of this group of people:

- Routine is important to these people. They are good at budgeting and keeping to a budget;
- They love going into detail. These people typically know their monthly income and expenses as they analyse this and they also analyse investments in detail before investing;
- They are good planners. They plan for retirement and their will is always up to date;
- It is easy for them to save money as they won't buy unnecessary items;
- They are practical people who buy special offers to save money, and are comfortable buying less expensive items. Branded goods are not important to them. They want value for money;
- Safety in investment is of utmost importance to them:
  - They prefer low-risk investments and are happy earning lower but guaranteed returns. They are conservative investors,
  - This group feels comfortable to invest in cash, money market, fixed deposits or property to rent out.
- This group is less likely to have lots of debt; and
- They don't like change and will keep to an investment which will help them benefit from the growth in investments over the long-term.

Potential weaknesses of this group:

- They are resistant to change and hang on to an investment that might no longer be the best option for them, simply because they don't want to change to something more suitable;

- Their tendency towards detailed analysis prior to making a decision may limit them when quick investment decisions are required; and
- They remain loyal to a specific institution or person although better prices or value for money might be available somewhere else. They stick to their bank even though they pay higher bank charges or higher interest rates on their bonds.

How to manage these potential weaknesses:

- Expand your knowledge about financial markets and investments. Being financially savvy can mitigate your risks which in turn could equip you to invest small amounts into more aggressive funds to earn higher returns; and
- Teach yourself to become comfortable taking calculated risks.

The social group

The following are characteristics and strengths of this group of people:

- They are not into brands or perception. They are less likely to overspend on luxury, expensive items;
- They ask for investment advice from family or friends before investing or prefer to invest at the same institutions as their family or friends. They prefer a proven strategy; and
- This group is well connected and can use their network to their benefit.

Potential weaknesses of this group:

- This group of people are very sociable and need to be around people. As a result, they overspend on entertainment and social activities;
- They typically buy drinks for everybody when they go out and do not have a savings mindset;
- They easily lend money to friends or family. They are the type of people who help everybody, often to the detriment of themselves;
- They give money to beggars and every charitable cause, which is a great characteristic to have but can put financial strain on them if not managed carefully;
- They easily buy things from people because they are nice to others and might easily be trapped by scammers; and
- This group is easily influenced and may buy something they don't need, simply because their friends believe it is nice to have.

How to manage these potential weaknesses:

- Learn to say no when your budget doesn't allow for the item;
- Adopt a savings mindset when going out or entertaining at home; and
- Use your network to your benefit.

The 'trendy and innovative' group

The following are characteristics and strengths of this group of people:

- They know what they want in future;
- They tend to see the bigger picture. They understand the end goal of savings and investments;
- This group is much more comfortable with change. They easily move to another bank or investment that is more suitable for their changing circumstances;
- They are comfortable taking risk or making mistakes. They learn from their mistakes and don't repeat the same mistakes;
- This group likes variety. They need a big investment pool, which is great for diversification;
- As a result of their need for variety, they are naturally good with spreading their risks;
- They are great innovators. They can take bold steps and generate fantastic returns;
- They are very comfortable with high-risk investments and will always be first to try out a new product on the market. They typically invest in private equity or venture capital, offshore funds, derivatives, forex trading and cryptocurrency; and
- This group is known to be successful entrepreneurs. They start businesses on the side to supplement their income and are not afraid to try out new ventures.

Potential weaknesses of this group:

- These people often have innovative goals for the future but no plan to achieve their goals;
- They tend to be great innovators but not great finishers. They tend to buy into a new product but after a while think it is no longer a good investment and opt to change to an alternative investment. This habit can result in them losing out on investment growth over the long-term;
- Since they are trendsetters, they always buy the latest fashion products or gadgets and tend to waste money accordingly as these items are not always practical or long-lasting;

- This group likes to buy items because they are pretty or attractive and not because they are practical or suit their needs. They buy a new product because the packaging is attractive and not because they need the product;
- They tend to be unstructured. They are not focused on maintaining a budget or keeping financial records. They usually don't know what goes on in their finances. They tend to forget about payments due and they often leave chaos behind when they pass on; and
- Due to their impulsive nature, they don't think through their purchase or investment decisions.

How to manage these potential weaknesses:

- Compile an action plan and stick to it;
- Get yourself an accountant or partner to assist with your administration; and
- Get into the habit of asking yourself before buying: Do I need this or do I want it? If you don't need it, reconsider buying it.

Working through these different thinking pattern groups, you should be able to recognise which group demonstrates your thinking patterns more closely. Your thinking patterns are however influenced by your experiences, background and inner circle. You will notice that each group has excellent strengths that are required to create wealth. Work on adopting these key strengths from the different groups. It should benefit you on your journey towards financial fitness and building wealth.

The strengths that you should adopt from each group:

The 'brand is important' group

- Set financial goals and work towards meeting them;
- Focus on becoming financially fit for life; and
- Get comfortable with taking calculated risks.

The 'practical and steady' group

- Discipline is crucial on your journey towards financial fitness;
- Understand the detail and learn to analyse situations, contracts and products before making decisions; and
- Plan for your financial success.

The social group

- Don’t be afraid to ask for advice from a trustworthy and knowledgeable source when it comes to finances, but ensure this source has adequate knowledge and credentials;
- Build yourself a resourceful network. Network with more successful and wealthier people and learn from them; and
- Ultimate wealth is not only about gaining – it is also about giving. The wealthier you become, the bigger impact you can make in the lives of others.

The ‘trendy and innovative’ group

- See the bigger picture and have a vision for your life;
- Be innovative and be prepared to sometimes take risks if a good opportunity presents itself; and
- Diversification is key for your success as an investor.

Chapter 20

Positive financial habits

The single biggest reason that most weight loss programmes don't work is because people view them as quick-fix solutions. People cannot maintain these programmes and often fall back into their old habits. To achieve lifelong health and wellness, exercise and healthy eating should become a lifestyle. You need to adopt healthy, good habits. It takes only 21 days, or times, of doing something repeatedly for it to become a habit. To become financially fit for life, taking care of your financial wellness should be your priority. You need to adopt positive financial habits and those habits need to become a lifestyle. Positive habits to adopt to become financially fit for life are as follows:

Adopt a positive mindset

One of the biggest challenges you may face in becoming financially fit and stable is your mindset. Perhaps you don't believe it is possible to become debt free, financially free or wealthy. If you don't believe you can achieve your financial dreams and goals, you will not achieve them. It is true that you can achieve anything you set your mind to. Adopt a 'can do' mindset and positive habits. Make a decision not to fall back into your old, negative habits.

Set financial goals and have a plan

If you don't have financial goals in life, the likelihood of you becoming wealthy and financially independent is fairly slim. Financial goals can include a variety of things and this differs from person to person. Whatever your goals might be, write them down and then develop a plan to achieve your goals, otherwise they will forever remain a dream and you may never achieve them. When you have a goal with a plan and you are actively working towards it, you will achieve it. You need to start by taking action.

Discipline

If you have strict discipline when it comes to your finances, this will benefit building your wealth. Discipline plays a vital role in multiple financial decisions. Here are a few techniques that can help you to apply financial discipline:

Don't spend more than you earn;

Saving money should become a lifestyle; and

Develop a mindset of 'cash is king'. If you cannot buy something cash, don't buy it. It is not always possible to buy a house or a car cash, but avoid using debt to pay for luxury items like bigger TVs, holidays and clothes. Teach yourself the discipline to wait until you have saved sufficient money to buy something cash.

Time equals more money

The younger you are when you start taking your financial future seriously, the more you will gain from it. Very few people make large amounts of money overnight. Most people build a solid wealth portfolio over time. This is where the principle of 'time value of money' comes into play. Over time your money starts working for you. For example, your interest starts earning more interest as discussed under the compound interest section. Invest in unit trusts, shares, offshore investments or properties when they are undervalued; wait patiently and sell these investments either when you are satisfied with the returns, or when they reach maximum value. Time also plays a crucial role when it comes to retirement planning. Don't delay saving for retirement because you believe you are still young and a long way off from retirement age. You have limited time to save sufficient money to retire comfortably one day. Make good use of the time on hand by starting today.

Start small

Do not use 'I do not have enough money' as an excuse. Start saving for retirement or paying back debt with small amounts. Start small but at least try to start saving or pay back debt. Every little bit helps to either earn interest or save interest on debt. By tracking and analysing your expenses on a regular basis, you will most likely find an expense that you can live without. Use that money to start working towards your goal no matter how small it is. Read the life stories of very wealthy people and you will realise that few of them started off with lots of money. Most wealthy people started off small, but they had a goal and a plan and they worked hard to achieve it.

Plan for the unexpected

Those unexpected emergencies are often the root cause for derailing your financial position. When you think you are going to have extra money, an emergency appears and there goes your extra bit of money again. It is crucial to build up an emergency fund as soon as possible. Put away money that you can utilise when unexpected emergencies occur. It is important that you have access to money that you can use for these emergencies rather than using debt to fund it.

Be money savvy

Financial knowledge and applying it is powerful. The more you know about finances and your own financial position, the better financial decisions you will be able to make. Educate yourself about financial terms, principles and products. Financial knowledge is a critical element in your journey towards financial fitness. Read books, read newspapers, gather information, attend seminars or get yourself a financial coach. You are never too smart to learn something new that will benefit you and make you a wealthier individual.

Chapter 21

Your financial fitness programme

One would follow a dedicated exercise programme combined with a suitable diet plan to achieve the best results with physical fitness. A similar disciplined approach applies to achieve optimal financial fitness. This book covers several financial fitness principles. Gather and compile the information into a programme that you can follow to achieve maximum results on your journey towards financial fitness. Executing your programme in a disciplined manner is essential.

To summarise your financial fitness programme:

Financial fitness check and calculate net worth

Complete your financial fitness check to determine how healthy your finances are; and

Calculate your net worth to determine how wealthy you are.

Financial goal-setting

Set your financial goals;

Analyse your current financial status;

Develop a plan to help you to achieve your financial goals; and

Take action to achieve those goals.

Budgeting

Compile a monthly as well as an annual budget;

Also compile a long-term forecast; and

Measure your actual income and expenses against your budget.

Debt management

List all your debt with interest rates and repayment periods;

Prioritise which debt to repay first and set timelines by when you want to be debt free;

Develop an action plan to repay your debt;

Whenever you have excess money, use it to repay your debt; and

Adopt a ‘cash is king’ mindset.

Savings

Analyse your expenses as part of your budgeting process to identify potential savings;

Make a list of things you want to save money for;

Develop a plan to achieve those savings goals with timelines;

Allocate at least 10% of your monthly net salary towards your saving and investment goals; and

Adopt a savings mindset and always look for opportunities to save more money.

Investments

Understand what type of investor you are and what level of risk you feel comfortable with;

Research the different types of investments and decide which investment suits you best;

Start your investment journey, no matter how small the investment is;

Based on your investment goals, make sure you choose the correct liquidity profile and ensure that you are aware of the fee structures;

Understand the tax implications of the investments you prefer;

Monitor your investments on a regular basis; and

Understand and monitor the impact of the financial market, the property market, interest rates, company news, politics and the economy on your investments.

Emergency funds

Calculate how much you will need as an emergency fund;

Establish your emergency fund and start building it up to its required level; and

If you do use funds from your emergency fund, replace these as soon as possible.

Protecting you and your wealth

Ensure you are adequately covered for medical expenses;

Ensure you have life cover and that it is sufficient to take care of your dependents and your debt when you die;

Remember to have a funeral plan in place;

Disability cover, dread disease cover and income protection have to be on your priority list;

Ensure your house, household content and motor vehicle are insured; and

Update your will on a regular basis and keep an up-to-date life file.

Retirement

Retirement planning is crucial, irrespective of your age;

Calculate how much you will need to retire comfortably;

Have a retirement plan to help you meet your retirement goals;

Review your retirement savings on a regular basis and adjust where necessary; and

Make sure you do save enough for retirement.

Financial freedom

Define what financial freedom means to you personally;

Understand what barriers are keeping you from being financially free;

Calculate your financial freedom number; and

Develop a plan to help you achieve financial freedom and start taking action.

Create additional income streams

Decide on a method that can help you earn additional income; and

Take action to start earning additional income no matter how small.

Financial thinking patterns

Be aware of the different thinking patterns and how this impacts on your financial decisions;

Identify potential weaknesses and implement an action plan to manage your weaknesses; and

Adopt strengths of the various groups as discussed to grow your financial fitness.

Habits

Be aware of your habits when it comes to financial planning and decisions and be honest about this; and

Adopt positive habits and do everything in your power to eliminate any negative habits you might have.

Plenty of financial principles and financial management techniques were shared in this book. When you understand and apply effective financial management in your personal situation it certainly will contribute towards your financial wellbeing. Make a choice today to work on your financial fitness and ultimately create the lifestyle you dream about and deserve. It will not be easy, it will not be without challenges, it will not be achieved over-night, but it definitely will be worthwhile. If you can dream it, you can achieve it. Good luck with your journey towards creating financial fitness and wealth.