PT WEALTH SOLUTIONS

WAYS TO WEALTH - IN YOUR 20's

TIME TO GET SMART WITH YOUR MONEY

Whether you're studying, working or travelling, living at home or with friends, saving to buy your own place or you have a mortgage, now is a great time to get smart with money.

The choices you make and the habits you form in your twenties may impact how much financial freedom you have through the years and even decades ahead.

- **Manage your cashflow and debt**
- **Bust bad debt, go for good**
- **Saving vs investing**
- **Tips to investing**
- **Start a regular investment**
- **Kick-start your super**
- **Make good choices for super**

MANAGE YOUR CASHFLOW & DEBT

'Why wait? Buy now, pay later.'

Sounds enticing but remember, credit will cost you. Most people don't even think about it but fees and interest payments can add up to thousands of dollars.

It might sound a little basic, but you can put yourself way ahead, simply by budgeting and managing debt well.

Action

Make a budget and use it and STICK TO IT !

Quicktips

- Spend less than you earn.
- Save or invest regularly, even if only a small amount.
- Avoid bad debt / fast track personal loan repayments.

BUST BAD DEBT, GO FOR GOOD DEBT

Bad debt includes debt that carries expenses like interest payments that you can't get a tax deduction on and tends to be used for consumer items like credit card purchases, a car or a holiday which usually reduce in value. It also includes your home mortgage.

Good debt includes debt that is used to purchase investments, such as shares and investment property. These investments generally produce income or capital growth. Borrowing costs, like interest, may be tax deductible. It's generally good to try and avoid bad debt or fast track repayments. Once you have equity in your home or other investments, consider using it to invest elsewhere See Tina's story below,

Quicktips

If you have several loans, consider bringing them together into the one with the lowest interest rate. Pay loans with the highest, non-tax-deductible interest first.

Making larger and more frequent payments off your home loan could save you many thousands of dollars in interest and years off your loan term.

SAVINGS VS INVESTING

Saving is generally about setting aside money for use in the shorter term, such as less than a year. Because the money is usually put in a cash management account or term deposit there is usually little risk involved, but there is also limited growth potential.

Investing is generally about putting away money for the medium to longer term and usually involves a measured degree of risk with the aim of growing your wealth. It usually involves putting in place a plan (investment strategy) to achieve your financial goals.

Tips for successful investing

Remember, it's not what you have that counts - it's what you do with it.

You can build wealth using a number of sources, including:

- your current income (where's your money going?)
- a pay rise, bonus, tax return or tax cut
- the equity in your home or other investments
- minimising tax
- making your investments work harder for you through
- compounding
- investment growth
- the right investment mix
- maximising super contribution limits
- maximising government benefits
- an inheritance, redundancy or capital gain

Quicktip

How are you tracking?

Building wealth comes down to a simple formula - spend less than you earn and invest the difference. If you don't have a budget or don't track your expenses, now is a great time to start. Never underestimate the importance of a budget in helping you take control of your finances and build your wealth.

Get into a good habit early in your working career putting away a certain percentage of your income into an investment that will provide you with a solid return on your investment. The quicker you put in place a plan - the sooner you will be on your way to purchasing your first investment property.

WEALTH SOLUTIONS

TIPS TO INVESTING

These form the foundations for successful investing. They are relevant for all ages, stages and markets.

1. The right balance

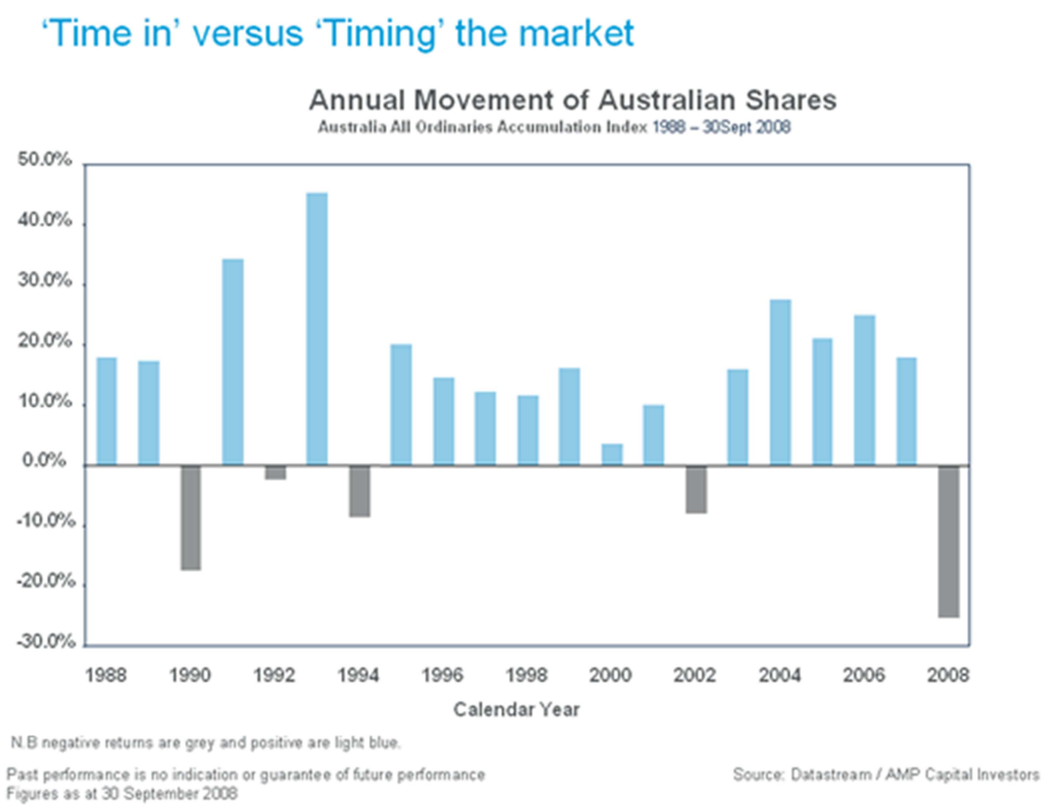
All investing involves some risk. The potential for higher returns also generally means an increased chance of higher negative returns. You need to strike a comfortable balance between the level of risk you are prepared to accept and your desired level of return. Your investment timeframe and diversification will both be important in working out the right balance for you. History shows while returns of investments, like shares, may fall in the short term, over the long term the returns are higher than less risky investments like cash and fixed interest. If you have a long-term strategy, it's important to keep this in mind and not be distracted by market down turns that, while disconcerting, are a normal part of the economic cycle.

Quicktip

Are you investing for a short time or a long time?

History shows while returns of investments, like shares, may fall in the short term, over the long term the returns are higher than less risky investments like cash and fixed interest. Cash and fixed interest tend to deliver more stable returns so may be more suitable for shorter term investing.

The following chart shows the relationship between risk, return and your investment timeframe.



2. A Good mix

Spreading your money across a variety of investments can help lower investment risks as the values of different types of assets can rise and fall at different times. Diversification generally reduces the impact of any single investment or asset type negatively affecting the value of your overall portfolio. The right diversification can help you ensure you have exposure to growth assets to help achieve long term objectives, as well as including more defensive assets that provide more stability and help ensure you can sleep at night.

3. After tax returns

Tax applies to different investments in different ways. Some investments, like super, are taxed at lower 'concessional' rates and enjoy other tax advantages. Tax considerations include capital gains tax, income tax, as well as offsets and deductions. You should consider the impact of tax when making or switching investments. While before-tax returns might make one investment look better than another, it's usually the after-tax results that can make the difference to your actual wealth

4. Super size your investments

Investing over a longer period and reinvesting returns can help you 'super-size', or boost, your investment through compound returns. Your money starts working harder for you by earning returns on your initial investment as well as on earlier returns you have reinvested.

5. Contribute regularly

Rather than waiting to have a lump sum to invest, you might reap real benefits by investing smaller, regular amounts over a longer timeframe - also known as dollar cost averaging. Because markets move up and down, you will sometimes buy at higher prices and sometimes at lower prices. So the price you'll pay over time will be averaged out. You can also benefit from compound returns as each contribution has the opportunity to start generating earnings immediately. Salary sacrificing allows you to dollar cost average in your super.

The following table shows how this works.

Investment principles: smoothing investment bumps

Month	Investment	Unit Price	Units Purchased
January	$1,000	1.00	1,000.00
February	$1,000	0.80	1,250.00
March	$1,000	0.70	1,428.57
April	$1,000	1.30	769.23
May	$1,000	1.20	833.33
June	$1,000	1.00	1,000.00
TOTAL	$6,000	0.955 (avg)	6,281.13

START A REGULAR INVESTMENT PLAN & RE-INVEST EARNINGS

As a younger person, by starting now and reinvesting any interest or earnings back into your investment, you can maximise the power of what's called compound interest. Time is in your favour.

What you don't see, you won't miss!

You've heard the saying out of sight, out of mind. To avoid the temptation of spending more than you'd planned, set up a regular direct debt into your savings or investment plan.

Tahlia & Pete's story*

When Tahlia turned 25, she started investing $250 a month in a managed fund and reinvested investment earnings. She kept it up every week until she turned 45, when her investment was worth $126,904.

Pete also put $250 a month into an investment with the same annual return as Tahlia, but he didn't get around to starting until five years later, when he turned 30. He kept up his weekly investments and by his 45th birthday the overall investment was worth $78,934. Although Tahlia only contributed $15,000 more than Pete, by age 45 she had $47,970 more than Pete.

By starting earlier, the power of compound interest put Tahlia $32,970 ahead of Pete.

** Assumes level contribution amount throughout the term, invested in Australian shares with 6.5% annual return. Distributions are reinvested. Initial investment of $1,500, 0.4% fees on investments, 3% inflation.*

Quicktips

Consider tax implications of different investments. For example, Australian shares can offer the benefit through your dividend of the company having already paid tax on its income. Using direct debit will help you stick to your investment plan.

How to invest

You can usually invest a one-off lump sum, regular amounts, or both. Regular investing in a managed fund or shares can help you build your investment in affordable chunks and give the added advantage of smoothing out the cost of buying into the investment. Investing a set amount at regular intervals is called 'dollar cost averaging'.

You could invest into an asset directly - for example, buy property or shares yourself - or through a managed fund.

If you are lucky enough to own your own home and already have a mortgage, do you increase your mortgage payments or invest elsewhere?

Since you pay your home loan from after-tax dollars, money you put in is effectively giving you a return at the same rate as your home loan rate. If you invest elsewhere, your earnings will likely be subject to tax so, depending on your personal rate, up to almost half of your expected return could go in tax. You might be better off putting money into your mortgage.

But there are benefits of investing you should consider before you've paid off your mortgage:

- Some investments have the potential to deliver better performance, even after tax, than your mortgage rate.
- It can be wise to have your money spread across investments rather than all tied up in your home.

Some investments like shares and property both being growth assets generally perform best over a longer term so if you wait until you pay off your mortgage before investing, you could miss some long term performance benefits.

Tina's story

After making extra mortgage payments and the increased market value of her property, Tina has built up some equity in her home. After meeting with her financial planner, she decided to draw on some of this equity to invest in a managed fund. As well as helping her reduce her tax - since interest on the investment loan was tax-deductible - her managed fund investment generated extra income which Tina paid into her home loan.

So even though Tina drew on her equity in the property to invest, she was still able to keep paying off her mortgage and build a managed fund investment at the same time.

Our advisers can explain to you in detail how the mortgage reduction strategy can help you pay off your home loan sooner using your existing cashflow.

KICK - START YOUR SUPER

Get a boost from the government

Retirement is a long way off, so the last thing on your mind is your super. But what if you could make up to half your money for nothing? Sounds too good to be true? It's not!

If you earn less than $49,488 in a financial year (2014/15 financial year, indexed annually) you could be eligible for a boost from the Government's co-contribution scheme.

The maximum co-contribution or boost from the government is $500. If you earn $34,488 (indexed annually) or less in a financial year, the government will put in $0.50 for every $1 you contribute from after-tax money - up to the $500 maximum.

This means your $1,000 contribution could effectively be increased to $1,500 in your super. The maximum co-contribution reduces by 3.33 cents for each dollar you earn over $34,488, phasing out if your income is over $49,488 (indexed annually).

MAKE CHOICES FOR SUPER - POTENTIALLY YOUR BIGGEST INVESTMENT

It could be your biggest asset ever, worth maybe even more than your home - so get interested in your super.

Take control

You might be able to choose which fund your super is paid into - millions of Australians can - and what sorts of investments your super is invested in. Making the right choice now could make a big difference to how much you get in super benefits.

Keep it together

Don't end up like some people who have multiple super accounts, pay multiple fees and end up losing touch with some of their money. Instead, keep your super together in one fund. Before consolidating your super accounts consider all of the consequences, such as any impact on existing insurance cover you have within super.

Think about it

Are you making the most of your super? While it may not be your main focus right now, with time on your side it may make sense to consider:

- investing in growth assets, such as shares
- bringing all your accounts together
- taking advantage of the co-contribution boost from the Government - if you're eligible

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WHAT NEXT

Building and maintaining wealth is an ongoing journey. Stay proactive and keep looking for ways to make the most of what you have.

Some of the strategies outlined may be simple enough for you to act on immediately. Some are more complex and you should consider seeking advice from a financial planner.

In planning your way to wealth you should take a holistic approach, looking at your debts and assets, present and future needs, and considering tax implications and If you would like further information on this wealth building strategy, please contact **Tony Rimac from PT Wealth Solutions on 9891 1544 or tony@ptws.com.au** who can assist by providing you with the correct tax and investment advice on any of the strategies discussed.