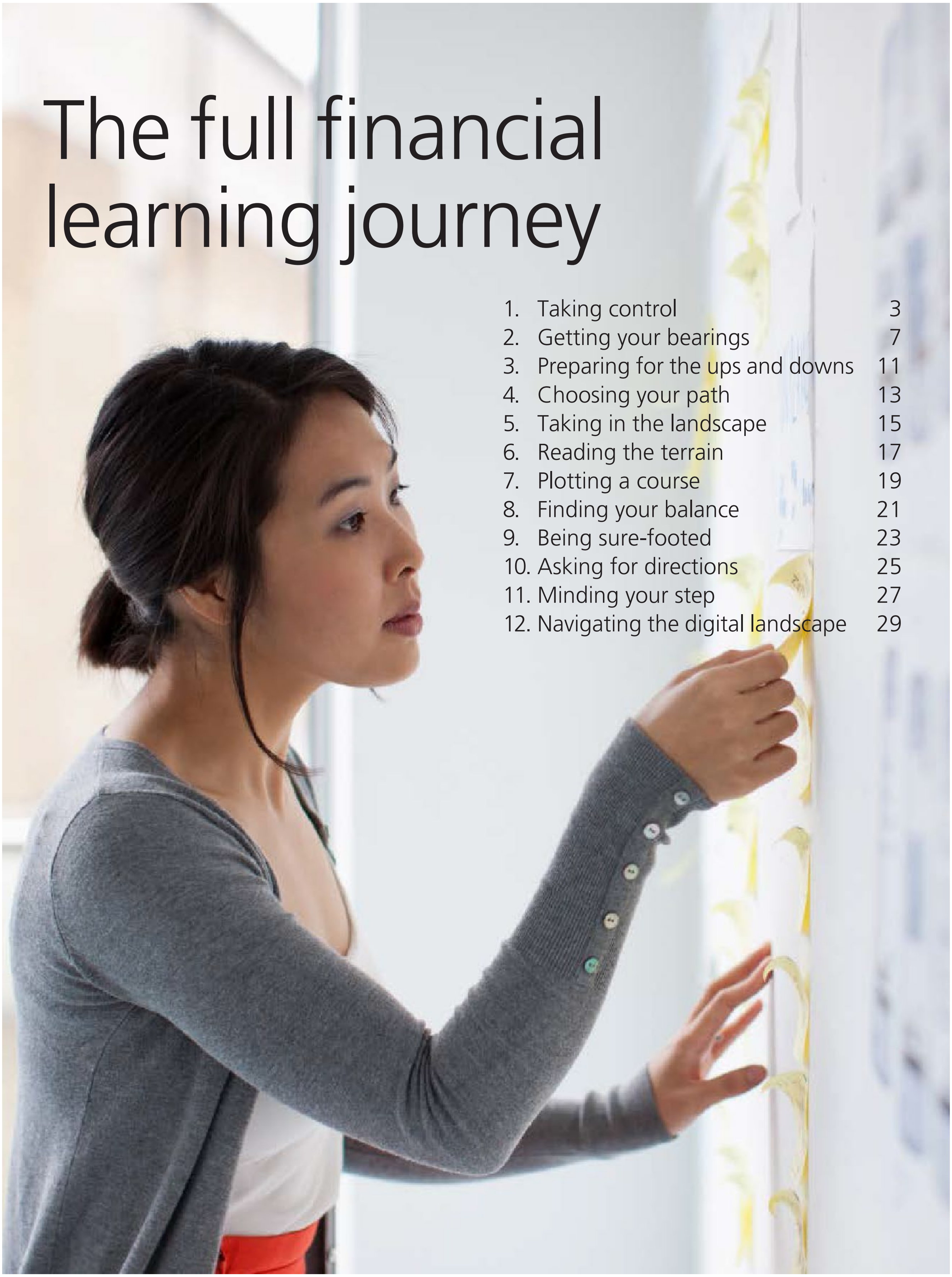
Taking Action

# Deep dive

The complete learning journey to Financial Confidence



# The full financial learning journey

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# Taking control
# Your life, goals and wealth

Thinking about the future can be tricky. And when you‘re busy, there‘s little time to consider what's in store for your life and money. But if you want to achieve your goals and be comfortable financially, it pays to think about your plans for the short, medium and long term.

**The essentials**

- Working out what your goals are makes it more likely you’ll achieve them.
- It’s never too soon to start working towards your goals. You can reach them more easily by starting early.
- Retiring is generally the most important long-term financial goal you should plan for.
- It can be worth saving a small amount towards your long-term goals, even if you’re still paying off debt.

**Your life**

You probably know what’s in store for today, tomorrow and even the next few weeks or months. But what about your plans and goals for the years ahead? It can be difficult picturing everything clearly.

Big changes in society and technology add complexity and speed. Life will probably be very different in five or ten years' time.

This can make living for today quite tempting. But you’ll be more likely to reach your goals by thinking about where you’d like to be in three, ten or thirty years’ time – and starting early to get there.

## Your wealth

Just as your life goes through stages, so will your wealth. This is sometimes called a "wealth cycle," and it features two phases:

| |
|---|
| Once you've gone through childhood and education, you start the journey of your adult life. As you progress, the money you earn is likely to exceed your expenditures. It's called… **The accumulation phase** |
| When you stop working and start enjoying the fruits of your labor (retirement for most of us), the chances are you'll spend more each month than the money coming in. This is known as... **The decumulation phase** |

By the time you reach the decumulation phase, you'll need enough money set aside to cover your living costs (that you can't pay with any guaranteed pension payments). And you might need enough money to cover a longer time, since we tend to live longer these days.

## Your goals

Of course, money isn't everything. It's just something that might be helpful to achieve your goals throughout your life's journey. Knowing your goals will help you to work out how they interplay with your finances. (In fact, research shows that defining goals is vital for achieving them).

So, what are your goals? It helps to put them in the following three categories: short-, medium-, long-term. Here are some examples.

| | |
|---|---|
| **Short-term goals**<br>Things you want to achieve over the next year or two. | • Finding a new job<br>• Paying off your credit cards<br>• Saving money for emergencies |
| **Medium-term goals**<br>What you want to achieve over the next three to five years. | • Taking a career break<br>• Starting a business<br>• Saving for a new car |
| **Long-term goals**<br>Things that may take you longer to achieve. | • Buying real estate<br>• Sending your kids to college<br>• Retiring early<br>• Passing your money to the next generation |

It's all too easy to focus on achieving short-term goals, because they're the clearest and most relevant right now. But it's just as important (and maybe even more so) to work towards your long-term goals as soon as you can.

Why? Because your money can grow over time by earning interest. Or if you invest it, you can earn returns on your money.

Putting even a small amount away can make a big difference over time. Would you rather have a car now, or retire three years earlier? It's worth asking these questions early on. Yes, it can be daunting thinking far into the future. But it's important to start as early as possible – and to set yourself realistic goals to work towards over time.

And while it's good to pay off debts as quickly as possible, it can also make sense to save a little towards your long-term goals.

**Start now**

A financial plan should be about more than money. It should reflect your feelings, values and ambitions. So, what's important to you?

What big things are you likely to buy? Do you have any special projects or plans on the horizon?

## Think about what really matters to you

A financial plan should be about more than money. It should reflect your feelings, values and ambitions. So, what's important to you? What big things are you likely to buy? Do you have any special projects or plans on the horizon?

## Consider what you need when you retire

What kind of lifestyle would you like when you retire? Do you want to leave something for your loved ones when you're gone? Once you've answered these questions, you can work out how much money you'll need to enjoy the retirement you want.

## Look at your current and future finances

Think about your finances today, including your current income and spending habits. Then estimate what you might earn in the future and the expenses you could face along the way.

## Protect yourself from risks

Losing your job, divorcing, falling ill – all these things and more can harm your finances. And you can't always predict them. However, you can protect yourself from them. To get through any rough patches, it's important to save money for emergencies (emergency fund). It's also wise to think about protecting yourself with insurances and family trusts, and planning how you'll leave your legacy (depending on your situation).

## Start planning

This is where a financial adviser can really help you. They can help you work out your goals and what money you need to achieve them. For example, they could help you calculate what you'll need when you retire; your options for investing; how your money could grow over time; how to protect your finances; and even how best to pass on your money to the people you love.

## Revisit your plan regularly

What's important today can change tomorrow. So you should revisit your plan at least once a year, or whenever your situation has changed significantly (like moving home, getting married or having kids). This will help you stay on track for achieving your goals, avoid possible problems, and explore more options for growing your money.

**Let's go**
We recommend discussing your goals with your financial advisor.

## Short-term goals

Things you want to achieve over the next year or two.

## Medium-term goals

What you want to achieve over the next three to five years.

## Long-term goals

Things that may take you longer to achieve.

Thoughts about retirement. Any thoughts about when you want to retire and what lifestyle you wish to maintain in retirement.

Thoughts on potential risks you might be facing in the short term or a couple of years from now.

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# Getting your bearings
## Working out where you are financially

Only when you understand your goals can you work out the money you'll need to achieve them. Working out how to get from A to B involves knowing what you have, the money you need to cover your costs and how much you can save.

**The essentials**

- To help you understand your current finances, create a budget plan.
- From this budget plan, you can work out what you can save – and invest to achieve your goals.
- Revisit your budget plan at least once a year, to make sure it still reflects your life situation.

**Preparing a budget plan**

First things first. What's a "budget plan"? It's a short-term (usually 12-month) plan that details all your income and expenses. It can help you check your earnings and spending – and plan for the future.

So, how do you create a budget plan? Start by gathering your recent bank and credit card statements (which should show most of the money coming in and going out); details of your salary; and figures for any other income and expenses you might have.

Next, go online and search for a "personal budget template". There are plenty to pick from. Or you can use the quick plan page (next page). Enter your income and expenses. Bear in mind that while your budget plan might be a monthly (or biweekly) plan, you may have income and costs that only come up once a year or every quarter (like an annual bonus or car insurance). It's important to include these as well, by breaking them down into monthly or biweekly figures.

Working out what you can save

Once you've entered your income and expenses, your budget plan should give you a clear picture of your finances over the next 12 months. When you subtract your regular expenses from your earnings over that time, you'll be left with an amount for saving. That's what you can use to work towards your goals.

Generally, you shouldn't spend more than 30% to 40% of your income after taxes on 'fixed costs' like your mortgage, rent, and regular bills like energy bills or credit card payments. You should be able to spend a third of your income on 'variable costs' like leisure activities, trips and eating out.

If you can stick to this, a third of your income should be available for saving. It might not be the same for everyone. If you live in an expensive city, you might need to spend 50% of your income on fixed costs (so, the split might be 50% for fixed costs, 30% for variable costs, and 20% for saving). Whatever your situation, your budget plan can help you work out if you're saving enough or spending too much.

**Making room for savings**
If it turns out you don't have enough savings to achieve your goals, drill down into your budget plan. Look for ways you can save more by adapting your lifestyle and spending.

**Staying one step ahead**
As your life, needs and circumstances change, it's worth revisiting your budget plan as often as you can – at least every 12 months. This will help you make sure your current finances are on track for reaching your goals.

## Quick plan for your budget

### Your income

How much you earn from things like…

- regular paid work
- interest payments
- investment income
- business income
- pension payments
- other regular sources

Amount:

……………………………

### Your expenses

How much you spend on things like…

**Fixed costs**
you must pay these regularly, no matter what

- mortgage/rent
- car payments
- transportation
- phone/utilities
- groceries
- repayments
- other regular costs

Amount:

………………………

**Variable costs**
things you decide to spend your money on

- eating out
- sports and hobbies
- vacations and travel

Amount:

………………………

### Your savings

How much you have left to save or do other things with, for example…

- planning for retirement
- saving
- charity/philanthropy

Amount:

……………………………

# Quick plan for your financial situation

## What you own (Assets)

| Liquid assets |
| --- |
| |

| Non-liquid assets |
| --- |
| |
| Other assets |
| |

# What you owe (Liabilities)

Current and future liabilities

Free assets

Mortgage not to be amortized

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# Preparing for the ups and downs

## Protecting your finances

Life can be unpredictable. And while nothing should stop you enjoying the journey, it's good to make sure you're ready for the occasional obstacle along the way. When it comes to your finances, that means thinking about – and preparing for – whatever's around the corner.

**The essentials**

- Your personal life – just like your career – will have ups and downs. These can disrupt your finances.
- Should something bad happen, it pays to have a plan to protect your finances.
- Think about how much these events might cost you, and how they could affect your earnings.
- It's a good idea to start an emergency fund. You can also have insurance to protect yourself from the unexpected.

### The highs and lows

You're likely to experience highs and lows in your career and personal life. You can usually plan for the highs, like having a baby or buying a home. But the lows can take you by surprise, such as falling ill, a loved one dying, or a relationship failing.

As human beings, our instinct is to focus on how these events affect us emotionally. But to avoid more heartache and uncertainty later, it's also important to address how they might affect us financially up front.

#### When illness or disability strikes

If you or a loved one are diagnosed with an illness or disability, it can affect the financial wellbeing of the whole family. There are the potential costs of medical treatment, equipment and care. But it's only when you realize how it can affect everyone's earnings and ability to save, that you appreciate the full harm to your finances.

#### When you or your partner dies

Losing a loved one can be devastating emotionally and financially. Especially if they were the main income provider and still working up until their death. Whatever their role and responsibilities in the home and family, the surviving partner will need to adapt. They'll still need to earn enough to live on, maintain the home, and pay for additional costs like childcare.

### Going your separate ways

When a relationship breaks down, both people – and their children, if they have them – might need to accept a lower standard of living than they're used to. Even when a couple separates later in life, dividing what was once a single nest-egg can be difficult. And many expenses, such as housing and utilities costs, will increase with two separate residences to support.

All this can seriously affect your finances. It can reduce your household's income, and lead you to paying out for things you haven't planned for. And it can stop you saving, or even force you to dip into money you've set aside for achieving your goals.

**Changing goals and priorities**

It's not just the ups and downs that can affect your finances. So will your changing goals and priorities. Even the most independent and adventurous person can reach a point when they feel being financially secure for the long term is more important than living for today. And that's when they'll need to start saving for the future.

**Hoping for the best, planning for the worst**

It can be tricky thinking about and planning for all these possibilities. The truth is, most of us shut our eyes and hope for the best. But failing to plan for the worst (or your own shifting priorities) can mean struggling for money later.

So, it's wise to be practical and act early. It also means you can easily change your plans when you need to. The result? You'll protect yourself and your loved ones financially when life doesn't go quite to plan.

## Let's go!

Things to do and discuss with my financial advisor:

**Build up an emergency fund.**

Would it make sense to put some money aside regularly for the unexpected?

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## Make sure you're covered.

How would your family cope financially if you weren't around? And what if you, orthe main breadwinner in your family, became ill and couldn't work? Insurance (like life and critical illness coverage) can help cushion the blow of losing an income.

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# Choosing your path

## Understanding how big decisions can affect your finances

Maybe you think it's time to start a business or take a break from your career to pursue other goals. They're all big decisions. But how can they affect your finances now and in the future?

**The essentials**

- Every big decision you make will affect your finances in the long term.
- It's great being your own boss – but you should still protect your finances, should things go wrong.
- Taking a break from your career might mean you'll need to think about investing, or working a little longer.

Every big thing you decide to do will affect your finances. Understanding how and why this happens will help you act wisely.

**Starting your own business**

More and more people are deciding to start a new venture. However, going self-employed and starting your own business can put your finances at risk. So, if you're thinking about launching your own venture – or you've already done it – it pays to think about how you can protect your finances, even if your start-up should not be as successful as you might have hoped for.

The main things to consider are:

1. Protecting your retirement plans
2. Protecting your family's assets in case of legal or financial problems
3. Consider not relying on selling your business to pay for your retirement
4. Getting additional financing, e.g. a loan can be more difficult if you are self-employed

And even if your business is doing well, it can be hard getting a loan when you're self-employed. So you might find it tricky buying a home if you don't have another reliable source of income.

**Taking a career break**

There are many reasons to take a career break. You may want to further your studies, spend more time with your family, or help your local community.

Career breaks can be incredibly rewarding. But they can eat into your savings, especially over the long term. You'll need to find money to pay for your living costs. And you probably won't be saving for when you retire while you're not working.

What's more, the longer you're away from work, the less opportunity you'll have to develop your skills. That might harm your future earnings.

So, is taking a career break right for you? Think about how important the time is to you, and how you might use it. Work out if you're on track to achieve your retirement goals. And if not, will you be willing and able to work longer than you planned? There may be other ways to overcome any harm to your finances, for example, by investing.

## Let's go!

Things to do and discuss with my financial advisor:

**I'd like to start my own business.** But how can I protect my finances, even if theworst happens and my business fails?

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**If I ever take a break** from my career, how could I cover my living costs?

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If I have children or take a career break, how might I **give my money the chance to grow**, so that I can still achieve my goals?

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# Taking in the landscape
## Developing a basic understanding for big economic factors

When planning your life, it's sometimes good to get a birds-eye view of things. Fancy traveling abroad in a couple of weeks? You might want to check the long-term weather forecast for that country. The same goes for managing your finances: what is the forecast of the global economy?

**The essentials**

- Major economic factors like inflation and interest rates can affect your finances significantly.
- A country's Gross Domestic Product (GDP) is a good sign of economic health.
- A little inflation is natural in a growing economy. But too much can devalue your savings and reduce what your money can buy (spending power).
- Most savings products advertise a "nominal" interest rate. For the "real" rate (which shows how your money's spending power will grow) you need to subtract inflation.

**Seeing the big picture**

Macroeconomics helps forecast how an economy will perform over the long term. "Macro" comes from the Greek word "makro", meaning "large". So macroeconomics deals with large-scale (think countries and regions) economic factors, like national growth and interest rates. How can macroeconomics help you make the most of your finances? Here's a quick example.

Say you want to invest in property. All the signs in the financial markets and your personal finances seem healthy. And it looks like you'll grow your assets. But maybe things don't look so bright in the national economy. Perhaps unemployment is rising and while optimism is propping up the real estate market, there's a risk the bubble might burst. Knowing this, you might decide to look elsewhere for opportunities. Or you might wait for the market to cool off so you're not over paying for your investment.

To stay ahead, you don't need to be a macroeconomics expert. But to make the right decisions about your finances, it helps to have a general idea of the economic concepts that could affect your money.

**Knowing what to look for**
So, what major economic factors should you understand? What can you learn from them?

### Gross domestic product (GDP) and economic growth

GDP is the total value of all goods and services produced by all the people and companies in a country. Why does it matter? GDP provides a great way of measuring the health and progress of a country's economy which impacts financial markets. Governments usually calculate GDP every three months. They report quarterly and annual figures, and compare them to the previous period to determine the rate of change.

So, when people talk about economic growth, they're usually talking about a percentage increase in GDP over the previous year. And economies can contract when the change is negative.

It's natural to think growth is always a good thing. Experience shows that a healthy rate of economic growth is between 2% to 3% a year. A country is generally thought to be in recession if its GDP contracts for two consecutive quarters. But if it grows too fast, the price of goods and services can spiral (see "inflation" below), canceling out any increase in spending power.

### Inflation

Inflation is the average rate prices are rising. It's generally expressed as a percentage and determined by a "consumer price index" (CPI). This index is based on the cost of a typical "basket" of goods and services, which is checked each month. Comparing these figures over time reveals how quickly average prices are rising.

A little inflation is usually seen as a good thing, as it's a sign of healthy economic growth. But when the economy is growing very quickly, inflation can get out of control. That's bad news for savers, as it devalues their money faster over time, reducing its spending power.

### Interest rates

Interest is the price you pay for using someone else's money or assets (for example, loans, mortgages, or even vehicles and buildings) and it is the return you earn for lending your money to other people (e.g. buying bonds). It's usually expressed as a percentage. If the person or business lending to you trusts you to pay it back on time and without trouble, they consider you "low risk" – and usually charge you a low interest rate. If they consider you "high risk", you'll be charged a higher rate. For savings, interest is what you earn on your money – because the company you're saving with can lend it to other people looking to borrow.

It's important to remember that the interest rate advertised on savings accounts is almost always a "nominal" rate. This means the rate doesn't necessarily reflect how much your money's value will grow, because it doesn't account for inflation.

To work out the 'real' interest rate, subtract the rate of inflation from the nominal interest rate. If the result is positive, your money's spending power will still grow over time. If it's negative, its spending power will diminish.

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# Reading the terrain

## Understanding how the economy affects your finances

The price of household bills and shopping. The cost of mortgages and loans. The return you get on your savings and investments. All this can affect how you manage your money. But there are other important economic factors you should be aware of.

**The essentials**

- Keeping track of the business cycle can help you make better decisions about your money.
- The policies of governments and national banks can affect your finances significantly.
- "Fiscal policy" is how governments adjust their spending and taxes to achieve their big economic goals.
- "Monetary policy" is how national banks influence the supply of money and interest rates to ensure the economy stays healthy.

### What is the "business cycle"

In a relatively stable economy, you might think that the Gross Domestic Product (GDP) would rise steadily. (GDP is the total value of all goods and services produced by all the people and companies in a country). The reality is, in any economy, GDP rises and falls naturally over time. It's called the "business cycle". Here are its phases.

#### Expansion

In the "expansion" phase, real GDP increases relatively quickly, and a country can see its employment and profits increase. However, wages and prices can start rising as the unemployment rate falls and a country uses more of its productive capacity. And labor becomes more expensive as employees demand higher wages. This also leads to higher prices.

#### Boom

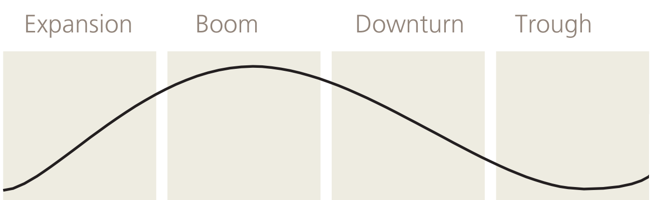
During the "boom" phase, GDP growth reaches its maximum. Unemployment falls to its lowest point, consumer spending and business investment are peaking. Inflation may become a problem, due to increased prices (e.g. higher wage costs). That's why many central banks aim for a 2% inflation rate. At this highest point in the business cycle, economies can start contracting.

### Downturn

After a boom economic activity might cool down. GDP growth will slow and eventually turn negative. If the period of negative growth last for two or more quarters it is called a recession. In a recession company profits decline, unemployment starts to rise quickly, business investment and consumer spending slows down. The inflation rate usually declines. If things get really bad, a recession can turn into a depression. This happens when real GDP declines more than 10%, or when a recession lasts more than three years (like the 'Great Depression' in the 1930s).

### Trough

The bottom of the cycle is called trough. At this point the unemployment rate peaks and business sentiment is at its low. This phase marks the transition from downturn to recovery. The economy picks up speed again and the cycle starts again.




**What this can mean for your money**

Market forces largely push the business cycle along. But governments and national banks can do some things to try and stabilize the economy. Their actions can affect your finances so it's good to understand a bit more about them.

### Fiscal policy

Fiscal policy is essentially how governments adjust their tax rates and spending to achieve their big economic goals (macroeconomic goals). The policies often aim to kick-start a slow-moving economy, or put on the brakes if GDP is growing too fast.

For example, if an economy is in recession, the government might choose to lower taxes. This is called an "expansionary fiscal policy". It aims to grow the economy by encouraging people to spend more. This increases demand, which leads to companies hiring more people. As demand for labor increases, wages rise – giving people more money to spend and invest.

On the other side, if an economy is growing out of control, the government might increase taxes. This is called a "restrictive fiscal policy". It's based on the idea that if people are paying higher taxes, they'll have less money to spend or invest. This can help reduce competition in the labor market, and slow growth until the economy is at a healthier level.

### Monetary policy

Monetary policy is how national banks keep the economy strong by controlling the supply of money and influencing interest rates. To ensure growth and prosperity, it's important to keep prices stable. This is known as "price stability" and is measured as the rate of inflation. Most industrialized countries' monetary policies aim to stabilize prices in the medium to long term.

For many central banks, price stability means inflation of around 2% a year. If inflation is forecast to rise above this, the central bank might choose to slow down the economy by raising interest rates. This is called "restrictive monetary policy" as it reduces the supply of money by making mortgages and credit cards more expensive. While this can help cool things down, central banks must make sure inflation doesn't fall too low or even tip into deflation.

If a central bank forecasts deflation (which often happens when an economy is in the contraction phase of the business cycle), it might lower interest rates. This is called an "expansionary monetary policy". It can stimulate the economy in the short term by boosting demand for goods and services, encouraging investment and making exports more competitive. But there's a risk it will lower the value of the currency (depreciation) – and increase inflation in the longer term.

To balance out and take advantage of all these factors, diversification for your portfolio might be very beneficial.

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# Plotting a course
# Planning to grow your money with investments

How your money is allocated to different investments defines the success of your investment strategy. What is explained here in simple terms in reality is a science in itself and many expert providers spend a lot of skill and knowledge in determining the different allocations. To define a proper strategic and tactical asset allocation you might benefit from working with an expert.

**The essentials**

- Risk, return (how much your money might grow) and liquidity (how easily you can get your hands on your money) are three characteristics of any investment.
- Your investment portfolio should always reflect your feelings about investing and your long-term goals.
- Spreading your investments in your portfolio (diversifying) can make it more stable and less risky.
- You should understand how much it costs to buy, hold and keep different investments – and only choose those you really understand.

**Finding out your feelings about investing**

To invest wisely, it's important you figure out how you feel about investing. Generally, three things define an investment: risk, return (how much your money might grow) and liquidity (how easily you can get your hands on your money).

How soon might you need to get your hands on your money?

Are you happy for your money to be tied up in an investment, where you can't access it straightaway? Will you have enough money to cover you in an emergency? Like most things in life, you don't get something for nothing. So if you want your money to grow a lot (high returns) when investing, you'll probably need to accept there will be more risk of losing it. And if you want less risk, you may have to accept lower returns.

**Building your investment portfolio**
Think about what you want to achieve with your portfolio. For example, do you want to fund a comfortable retirement? Pay for your children's education? Buy a house? Or have extra money to grow your business?

### Structuring your portfolio for the long-term
Once you know your goals, the next step is to allocate your money into groups of investments that are similar to each other and behave in similar ways (asset classes).

The most common asset classes are:

- Equities: Investments in shares of a company – also known as stocks or shares.
- Bonds: Investments that pay you a regular income.
- Real estate: Investments in property and vacant land.
- Commodities: Investments in basic goods and raw materials, such as precious metals, oil, natural gas, agricultural or mining products.
- Alternative investments: Investments – such as hedge funds – that are outside the traditional asset classes. To perform well, they usually need investment specialists to manage them carefully.

So you need to decide how you'll split your money between asset classes. For example, 20% in one, 40% in another, 30% in another and 10% in another.

Next, to make your portfolio more stable and less risky, you may need to diversify your investments so they're not too similar. You can do this by defining the countries, industries or topics you want to invest in within each asset class.

The industry term for this well-diversified asset class mix is "strategic asset allocation".

### Reacting to market changes
Staying flexible and adapting your portfolio regularly helps protect your investments – keeping it on track when economies and markets change. At times you might adjust slightly the asset allocation to take advantages of certain situations or adjust back to long-term structure. The industry calls these short-term changes to your portfolio "tactical asset allocation"

The strategic asset allocation is usually responsible for approximately 80% of the outcome of your portfolio, the tactical asset allocation for 20%.

What is explained here in simple terms in reality is a science in itself and many expert providers use a lot of skill and knowledge to determine the different allo-cations. To define a proper strategic and tactical asset allocation you might benefit from working with an expert.

### Deciding on investments
So, you've decided on the long-term shape of your portfolio. And to keep it on track, you know you can adapt it occasionally to changes in the markets. Your next step is to choose your portfolio's investments. To help you decide, here are some questions you can ask about each investment:

- How might the worst possible loss in the investment affect my financial situation?
- How much will it cost me to buy, sell and hold my investment?
- How easy is it to buy or sell the investment?

Here's the main thing. Before choosing an investment, you need to feel comfortable with it. Don't sign anything if you don't understand the investment or big parts of it, like the risks and how much it costs.

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# Finding your balance
# Reducing your debt and saving some money

Debt can be tricky. It's easy to take on, and hard to pay off. The longer you take to clear it, the more it costs. On top of all of this, it's important to save too. But how? Here are some tips.

**The essentials**

- Your priority should be to pay the minimum on all your debts.
- High-interest debts are the first you should pay off.
- Building up savings can help you avoid borrowing money if things go wrong.
- The interest you might earn on investments can be greater than the interest you pay on things like mortgages and student loans.
- Sometimes, bringing debts together in one place (consolidating) can make them cheaper and easier to manage.

The sums usually suggest you should pay off debt before saving. That's because the interest you pay on debt is generally higher than the interest you'll earn saving. But it's not always quite that simple.

**Good debt, bad debt?**

Debt generally comes in two camps: good and bad. Good debt gives you assets that can become more valuable over time, like a house or business. It will generally make you wealthier, because the amount you can earn from the asset will usually be higher than the interest you pay on the debt.

Bad debt? Think credit cards or car loans. They enable you to purchase items that become less valuable over time. In other words, the amount you can earn selling the items will be less than the original cost, plus interest, that you pay on the debt.

So, you should generally pay off bad debts first. It's good for your finances. That's because the interest rates on bad debts are usually higher than the returns you might get investing on the stock market – and definitely higher than the interest you could earn on normal savings accounts.

**When it pays to save**
It can sometimes make sense to save while you're paying off debt. Here are a few situations:

Get a safety net
Building up savings (an emergency fund) that help you cope with unexpected events in life can be more important than paying off debt. It's generally good to have savings that cover between three to six months' income. And it helps you avoid borrowing money if things go wrong.

Have cash on the side
It's good to get your hands on cash when you need it. For example, if you're paying a mortgage, you might want to put some money aside. Because once you pay money into a mortgage, you can only get that cash back by selling or remortgaging your home. That can take time and be expensive. Putting cash aside can mean you don't need to take out more loans.

Put your money to work
Sometimes, it can make sense to invest your spare money. You might consider this when the amount you could make investing over time is higher than the interest on your debt. That's often the case with mortgages and student loans. But remember that interest rates which aren't fixed can change rapidly. If they rise, so will the cost of your debt – and the minimum you need to pay to clear it. So before investing, think about how interest rates could change.

Look for support from government or employers
Depending on where you live, you might find government or employer schemes that match your savings up to a certain level, or give you tax credits for retirement savings. Saving can be really attractive with these schemes.

Leverage
Some instruments can have an inherent leverage component, which means that investors can have a much higher exposure to an asset than the nominal amount invested.

## Let's go!
Here are some things to think about.

- **Which debt has the highest interest rate?** You'll generally want to repay the debt with the highest interest rate first.
- **Do you need to pay a minimum amount each month on your debts?** You should always pay the minimum amount on your debts.
- **Is the interest on any of your debt tax-deductible?** Your debt is effectively cheaper if the interest is tax-deductible. Depending on where you live, this may be the case for a mortgage or student loan. Assuming the interest rates are the same on your debts, you should first repay debts that aren't tax-deductible.
- **Can you combine your debts into one (consolidate them)?** You could reduce your debts and make them easier to repay by bringing them together. It's often the case that this will reduce the total interest you pay.

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# Being sure-footed
# Getting support from financial experts

It's great knowing people are looking out for you. Especially when it comes to your finances. Having a good partner can save you time, give you peace of mind, and help you build the wealth you need to achieve your goals.

**The essentials**
- Some financial firms specialize in certain areas, while others (often bigger firms) offer a broad range of services.
- Good advisors will have the right qualifications and credentials – check them before you meet.
- Financial companies with strong brands generally invest more to protect your data and privacy.
- When comparing the costs of different institutions, ask if there are any additional or hidden charges.

### Knowing your advisor
What makes a good financial advisor? A lot comes down to their qualifications, experience, and expertise in different areas. An insurance specialist won't be able to advise you on investments. And an investment bank can't help you manage your money. So, who does what? Here's a quick overview to help you work out who to contact first.

#### Retail banks
They're usually just called 'banks' in everyday conversation. And they offer basic advice and services for your daily banking needs, like current and savings accounts, deposits, mortgages, and credit cards. So you can manage your money without visiting a branch, most offer online banking. But most also have branches that you can visit to meet advisors or perform transactions.

#### Independent financial advisors
These are qualified financial advisors who advise people and companies without receiving commission for products they recommend. This means you can feel sure they're not biased by financial incentives when they advise you. Many charge a fixed fee or by the hour. And in many countries, independent financial advisors have their own associations, credentials and memberships.

#### Wealth managers
Banks with wealth managers are often known as private banks. They specialise in advising wealthy people

(including those with complex finances) on their money and investments. To help people with every area of their life and finances, they often tackle lots of topics – such as investments, passing on wealth to the next generation, retirement, and charitable work.

### Corporate banks

Corporate banks serve businesses which often have complex needs, such as managing large lines of credit, and complex import and export transactions. To make sure transactions run smoothly, businesses also often work closely with investment banks.

### Investment banks

Investment banks serve businesses, institutions, hedge funds, governments and, in some cases, individuals. They offer advice and research on financial markets, and support on complex transactions like mergers and acquisitions (M&A), initial public offerings (IPO), hedging, and debt financing.

### Online banks

These generally give you the services of retail banks – but only online. So they can often charge lower fees than larger banks that employ advisors and run branches. However, it can mean they're less able – or unable – to support or advise you. With more and more online banks launching, fraudsters can pose as advisors or even create fancy websites to trick you into trusting them. So, do your research before putting your money into any kind of online bank or company.

## Things to look for when choosing a financial advisor

Before you approach any financial institution or advisor, find out if they're licensed in your country. Or you may not be protected by regulations if something goes wrong. Check the financial strength, history and reputation of the bank or institution. And find out if their claims are credible by checking trustworthy sources like association and government websites.

### Qualifications and credentials

Every country has different rules on the qualifications and credentials people need to work as a financial advisor.

To understand the rules in your country, check government or association websites. These sites usually have lists of accredited advisors that may help you find the right person to work with. To see how advisors work in your location, useful documents to ask for are FAQs (frequently asked questions) and codes of conduct.

Good advisors will list their qualifications and credentials on their website, in a brochure, or on a business card. You can also check the quality of an advisor's company by looking at the grades rating agencies have given them.

**One bank or more?**

Your accounts might be with just one bank. And that keeps things simple, because there's only one place to go when you need to do or check anything. But there are times it might pay to put your money in more than one place…

- **Thinking twice:** If your savings are with another bank, you might think twice about dipping into them – especially if it takes a while to access the money.
- **Getting a better deal:** Your current account bank might not offer the best rate on your savings. So it's worth looking around for a better rate.
- **Spreading your money:** Some schemes protect people's deposits and savings up to a certain limit, in case the bank goes out of business. If your savings total more than the limit, to protect all your money, it could be worth spreading it between different accounts.
- **Specialization in service:** you might need specialists for certain types of services.

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# Asking for directions
# Getting the best from your financial expert

A good financial advisor will always take the time to understand your financial situation and goals, before recommending what to do. One way they do this is by walking you through a process of gathering information on your finances, goals, and feelings about investing.

**The essentials**

- Your financial advisor should fully understand your financial situation.
- They should appreciate how much or little you know about money and investing, and do all they can to ensure you understand.
- They must understand your goals for your investment, capacity for losing money, and feelings about risk.
- They should never try to pressure you down a particular path.

**Why have a financial advisor?**

A financial advisor is a qualified professional who can help set up your finances in a way that enables you to achieve your goals. This involves helping you think about your needs and ambitions, and creating a financial plan to meet them.

**Preparing for your meeting**

It's worth thinking about your financial situation before meeting a financial advisor. It will help make everything clear, and give you an idea of how much you can save and invest.

Completing a budget plan can help (you can find lots online). But for the full picture, ask yourself these questions too.

- What assets do I own? (like property)
- How much of my money is tied up in things like property, cars and other investments?
- What debts and obligations do I have (liabilities)? For most people, a mortgage is the obvious one. But do you have any more?

To help you get the most out of your meeting, it's a good idea to gather this information and perhaps even share it with the financial advisor before you meet.

**Questions to ask in the meeting**

There might be lots you want to ask as the meeting progresses. Remember, there are no silly questions, so don't hold back. A good financial advisor will answer all your questions clearly and patiently, and in terms you understand.

### Do they usually look after people like you?

To help you achieve your goals, a financial advisor needs to understand your world and the things that are important to you. They're more likely to recommend the right things to do, if they're experienced helping people in similar situations to yours. Ask which kinds of client they have experience with. This is particularly important if your family situation includes multiple nationalities and jurisdictions.

### What will they charge you?

Before taking you on as a client, a financial advisor should be clear about the fees they charge – whether it's an hourly rate, a fixed fee or a percentage based on the value of your investment. They may not be able to give you an exact figure upfront. But they should be able to give you an estimate – or at least an upper-limit figure. And once an investment proposal is made, all costs should be made fully transparent. Always ask to see total costs, not just percentages or basis points (fractions of a percentage).

### What influences their recommendations?

Find out whether they're independent. Some financial advisors are linked with certain companies and will only recommend their products. But an independent financial advisor can offer you many more products from different financial companies. Most big brands work in what is called an "open architecture", offering both, own and third party products.

### Do they understand your financial situation?

Any good financial advisor will aim to get the full picture of your financial circumstances. The more transparent you are about your situation, the better quality advice can be given.

### Do they know what you want to achieve?

You might have a goal for your investments – like saving for retirement or buying a holiday home. Or you may just want to protect or grow your money. You goals and wishes can affect how you invest (your investment strategy). So it's important your advisor knows what you want to do with your investment.

### Do they know how much you can afford to lose when investing (personal loss capacity)?

Your financial advisor should be able to work out your personal loss capacity, based on discussing your financial situation. This is your ability to cope with the risk you'll lose money when investing due to falls in financial markets.

Most financial advisors will base your personal loss capacity on the ratio between your "free assets" and your total liquid assets. Your free assets are calculated by deducting foreseeable future financial liabilities from your total liquid assets. This ratio gives you an indication of the maximum relative loss that you could bear without it directly affecting your current lifestyle.

### Do they know your feelings about risk?

They should understand your thoughts about risk when investing. In other words, how much risk are you willing to accept that you might lose money while trying to grow it? To make this easier to understand, some financial advisors use 'reference portfolios' that show different levels of risk and match your feelings against them.

### Do they account for how much or little you know?

A good financial advisor should work out how much you understand about investing. They should provide you with all the information you need to fully understand a product and its risks.

**After the meeting**

Remember, you're in the driving seat. Don't rush into anything during your meeting. Don't feel pressured to take hasty decisions. Take time to reflect on the information, and whether you'd be happy to follow the advisors suggestions.

## Most importantly, if you feel the meeting didn't go well, ask for another financial advisor. Find someone you trust and feel comfortable with.

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# Minding your step
# Protecting yourself online

You look after yourself in life. But what about online? Billions of us are spending more time on the internet, using our phones, laptops, tablets, computers and smart TVs. And with cyber criminals becoming ever more sophisticated, there's a growing threat to your personal information and finances.

**The essentials**

- Shred any printed material you don't need.
- Update your passwords regularly (such as every three months) – and use strong passwords that mix capital letters, lower-case letters, numbers and symbols.
- Check your online accounts in a secure setting, not a public place, like a coffee house.

**Secure your devices**

Criminals love hacking into devices that connect to the internet, like laptops, tablets and smartphones. You need to secure them. You'll also need to make sure people can't access your devices if you lose them.

So, only install software from trusted sources, and keep it up-to-date. The same goes for anti-virus software. Make sure it's good quality, and look for such features as 'virus scanners'. To stop dangerous attachments reaching your email inbox, it's worth choosing software with a feature called 'spyware detection'.

When you're traveling, always lock your devices. And to stop important information getting into the wrong hands, avoid doing business on public devices like computers in hotel lobbies and conference centers.

**Surf safely**

Here's how to protect yourself when browsing the internet.

- Update your passwords regularly, for example, every three months. Also, use strong passwords and don't re-use old ones. Create passwords that mix capital letters, lower-case letters, numbers and symbols; and use different passwords for different websites (so criminals can't access all your accounts if they find one of your passwords).
- Only go to sites that are secure – look for 'https' at the start of the website address.
- Use '2-factor-authentication' (2FA) if it's available, for example, on Gmail and iTunes.
- Use strong passwords and don't re-use old passwords. Create passwords that mix capital letters, lower-case letters, numbers and symbols. This makes them difficult for criminals to hack. And use

different passwords for different websites. This means criminals won't be able to access all your accounts if they find one of your passwords.
- Don't leave passwords near your computer, for example, on post-it notes.
- Criminals love hacking into email accounts. So, use a secure portal to access and share your financial documents. Their extra layer of security helps protect your identity and information.
- Only check your online accounts in places you know are secure. Avoid checking them in public places like coffee houses and airport lounges.

It's not online, but it's still important to remember: shred any printed material you don't need, especially if it contains personal and financial information.

**Don't give anything away**

Criminals can learn a lot about you by looking at your social media information, such as on Facebook, Twitter and LinkedIn. And they can find ways into your accounts, because they know so much about you. They might also trick you into telling them your personal information. For example, you might receive an email asking you to click a link urgently, and provide account information. However, it's likely to be software that grabs your passwords and passes them onto criminals. Some illegal software can even record which buttons you press.

- Choose the highest privacy settings you can when using social media. For example, choose which people can see your posts and information.
- Watch out for emails asking you to click links and provide information (these are known as 'phishing' and 'social engineering' attacks).
- Be careful not to discuss personal information in public places – you never know who might be listening.

**If in doubt, call**

A professional financial advisor will never ask you to provide confidential information or passwords via mail. If in doubt, call your advisor to be sure they sent you the e-mail, if anything looks unusual or suspicious.

Also, a professional advisor should ensure a" call back" procedure: if they receive an e-mail order, they should contact you personally to ascertain the instructions came from you.

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# Navigating the digital landscape

## Spotting the opportunities and risks

Shopping, socializing and banking – it's all in easy reach from the comfort of your computer and smartphone. There are new ways to make the most of your money online too. Here's a snapshot of the big developments in the digital world, and the opportunities and risks to look out for.

**The essentials**

- Cryptocurrencies are a form of digital money, like Bitcoin. The technology behind them – block chain – could have a big impact on global industries.
- Roboadvisors are online services that invest people's money automatically in investment portfolios. Before using them, check they're genuine.
- Crowdfunding is a way of raising money online, for example, to launch products, offer shares in companies, ask for donations to charities, and lend to people and companies.
- Never click on a link or attachment in an email from a person or address you don't know or trust.
- Keep an eye out for 'phishing' emails, which often have poor formatting and spelling, and come from unusual email addresses.
- Be wary of emails that appear to be from executives in your business, asking you to do things like transfer money.

New digital technologies and services are launching on the internet all the time, such as cryptocurrencies, roboadvisors and crowdfunding. So, what are they? And what should you consider before exploring the opportunities?

**Cryptocurrencies**

So, what are cryptocurrencies? They're a form of digital money (Bitcoin is the most famous), issued completely de-centrally by a network of computers. The technology that drives cryptocurrencies is called 'block chain' – an enormous digital database of transactions. Because it is distributed over a vast number of computers, a block chain based system is virtually indestructible. Unless every single computer in the network is destroyed, there will always be a valid version of the database available somewhere to keep the system going. Instead of each member of the network having its own list in its own proprietary system, there is one list – the distributed ledger – which everyone shares. Since the list runs on an open platform that contains verifiable consensus mechanisms, all parties can be sure of its validity. This verification system makes fraud on the block chain itself virtually impossible, but it does not prevent online wallets or exchanges being hacked, so a great deal of caution is advised if you decide to trade or hold cryptocurrency.

Cryptocurrency investments are becoming increasingly popular. With this popularity comes a risk to investors of a 'bubble' bursting – where values grow to unrealistic levels, then crash soon after. While it is doubtful cryptocurrencies will ever become a mainstream means of exchange, the underlying technology, block chain, is likely to have a significant impact in industries ranging from finance to manufacturing and healthcare.

**Roboadvisors**

Roboadvisors are digital services that invest people's money automatically in investment portfolios. They're becoming quite popular, especially for new investors, as people can invest a relatively small amount for a low fee, compared to traditional funds. However, unlike a financial professional, they can't advise you individually, based on knowing about you, your life and situation.

As roboadvisor services are launching all the time, you should check if they're genuine before using them. Find out where the business providing the service is based, and whether it's a certified financial company licensed to operate. Before handing over your money, you should also look at the company's reputation, financial strength and brand.

**Crowdfunding**

Crowdfunding is a way of raising money online for different things. It allows people, groups and companies to ask for money from people who support them. Usually, the person or company using a crowdfunding service (platform) will set an amount they want to raise and the date they need the money. There are four main types of crowdfunding platform:

- **Rewards-based:** Individuals and groups run campaigns to raise money, for example, for a product (such as a band wanting to release a new album) or an idea. Those asking for donations then offer rewards, for example, a signed copy of the album or, for a higher donation, a house concert.
- **Equity:** Investors can buy equity (shares) in a company. This can help the company fund new ideas. However, investing this way can be risky. So make sure you're comfortable with everything before going ahead.
- **Donations:** Individuals and groups can ask for donations to charitable causes – such as raising money to build a school for a poor community, or paying the medical expenses of someone who can't afford them.
- **Lending:** Investors can lend money to people or companies who need it. The borrowers can often repay the loans using the same crowdfunding service.

What goes online doesn't always stay online. The data behind everything you do – like online banking and shopping – can end up in the hands of hackers. Here are a couple of the biggest risks around, and tips on how to stay safe.

**Held to ransom**

One day, you're happily using your computer. The next, you can't access your files. A message pops up saying you can only access your files by paying a ransom – usually in a digital currency like Bitcoin, because it can't be traced. If this happens, you've been hit by 'ransomware': malicious software that locks data on computers and any device connected to the internet (including phones and even smart TVs). It's currently one of the biggest menaces on the web, and striking more by the day, especially through 'phishing' emails (fraudulent emails that trick you into revealing your personal information).

There's software that can help you retrieve your data without paying a fee, if you fall prey to ransomware. However, it can be tricky to do. So it's best to be careful: never click or open anything you're unsure of (especially in emails); and always back up your data, for example, to an external hard drive. Phishing emails usually look unprofessional, with poor formatting and spelling. And some arrive from odd-looking email addresses. But not always, so be vigilant.

**The big risk**

'Whaling' is another major threat, especially for businesses. It usually involves a hacker pretending to be an executive of a business – and emailing an employee, asking them to transfer money. The hacker either has access to the executive's email inbox, or sends emails from a fake domain name. The emails can escape spam filters and reach employees, because they're written by humans and have no attachments.

You can protect yourself from whaling by installing special software. But as with any online threat, it's best to be careful. Hackers are always creating new domains for sending their emails. So, check the email addresses carefully. And only act on email instructions when you're sure it's from someone you trust. In case of doubt, call back on an number you know is genuine (not the one in the e-mail).

# Conclusion

Congratulations! You're off to a great start!
Now just keep going. Where will you go next?

It's time to celebrate. You've made it to the end of this part of your journey.

Congratulations for setting out on a journey that will lead you to your lifelong goals. And you've achieved the most difficult part of the trip: deciding to start. The rest just takes determination.

Indeed, this is just the beginning. Even financial experts know the journey lasts a lifetime. So we hope the information and ideas in these pages have inspired you on yours. And that your financial confidence will grow every day.

"Some people dream of success, while other people get up every morning and make it happen."

Wayne Huizenga, American business magnate (*1937)

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