ABF Financial Planning

Prepare for Life

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Financial wellbeing is a gift worth giving yourself

The festive season is a time of joy and celebration but, for some, it can also lead to a financial hangover in the New Year.

Overspending on gifts, parties, and decorations can quickly add-up, leaving us with unwanted debt in the New Year.

In 2022, Australians spent more than $66.7 billion during in the pre-Christmas sales in preparation for the festive season. The rising cost of goods and services mean that even though many are trying to curb their spending, it is expected that we will spend a little extra this year.[i]

5 ways to rein in Christmas spending

1. **Create a Christmas budget** A budget is an effective way of controlling spending. It may not sound like fun, but it helps you to understand what you would like to spend and how much debt you are prepared to live with. List all of the costs you can think of (gifts, decorations, food, travel and entertainment), then set limits for each category and stick to them diligently. Consider using budgeting apps or spreadsheets to track your expenses and ensure you stay on track.
2. **Embrace the spirit of giving** Instead of buying individual gifts for every family member or friend, organise a Kris Kringle or Secret Santa gift exchange. This not only reduces the financial burden for everyone, but it adds an element of surprise and excitement to the holiday festivities.
3. **Take advantage of sales and discounts** Begin your Christmas shopping early to take advantage of sales and discounts. Stockpiling non-perishable food items and other essentials before prices rise closer to Christmas can deliver big savings.
4. **Online shopping** You can often find better prices by shopping around online and various third-party websites offer cash back or rewards not available in store.
5. **DIY and personalised gifts** Tap into your creativity by making your own gifts. Handmade gifts can be a welcome and thoughtful way of giving. Consider creating homemade cards, photo albums, or baking treats for loved ones.

Tackle any debt now

With many households' budgets feeling the pinch due to rising housing, power, petrol and other costs, debts may already be increasing. But if you are feeling burdened with debt, don't decide to leave it until after Christmas. The time to tackle it is now before it gets out of hand.

One option to consider, is to consolidate your high interest debts into a single more manageable loan. This approach can simplify repayments and potentially reduce interest rates, making it easier to eliminate debt over time. But it is important to do your calculations carefully to make sure it is worthwhile for you and then to be vigilant about watching spending.

Another option is to take a cold, hard look at your expenses. Is there something that can be cut back, and that money diverted to repaying debt? Any reduction of your debt load will help, no matter how small. Some people like to implement the snowball method in tackling their debts: while continuing to make the minimum repayments on all your debts you pay a little extra on the smallest debt to pay it off faster. Getting rid of debts can help to inspire you to continue.

Taking control of Christmas spending and debt is crucial for starting the New Year on a positive financial note. So, start planning early, know what you can afford to spend and prioritise your financial wellbeing for a debt-free and stress-free holiday season.

If you are struggling with post-Christmas debt or need assistance to manage your finances, we are here to help. Contact our team of financial experts today to discuss strategies to regain control of your financial future. Make this Christmas season a time of joy and financial empowerment.

i https://www.retail.org.au/media/pre-christmas-spending-forecast-to-tread-water-as-uncertainty-looms-for-discretionary-retailers

Helping the kids WITHOUT derailing your retirement plans

As parents, the instinct to support our children never truly fades, even when they become adults but when you are looking at giving them a financial helping hand there is a bit to consider.

It's important to ensure any support you provide is not at the expense of your financial future. It can also be tricky knowing what form your support should take, in order to maximise the benefits for your kids.

Support in a challenging environment

In today's financial landscape, many young people are struggling to get ahead in the face of skyrocketing housing prices and rising living costs and it's increasingly common for parents to provide some form of financial assistance. In fact, more than half of parents with a child older than 18 provide financial support.[i]

So, if you are giving your adult kids a monetary helping hand, or considering it, you are in good company.

Achieving balance

The challenge for most people is the balance between helping your kids get a head start in life and making sure you have enough for a secure financial future.

It's important to have clear visibility of your own financial situation, of how much you'll need to fund the retirement you aspire to, and how much you can comfortably spare. If your financial future is secure, you'll be in a better position to help your children when they need it most, so ensure that any contribution you make to your kids' financial wellbeing is not at the expense of your superannuation and other retirement savings.

Ways of providing support

When we think of support we often think of the 'bank of mum and dad' helping with a home purchase and that is quite common, with 40 per cent of new home buyers getting a hand from their parents.[ii]

If you're considering this route, you have several options:

Gift funds: If you have the means, you can gift your child a portion of the deposit, however, be mindful of any tax implications.

Going guarantor: Another popular option is to act as a guarantor on your child's home loan. This means that you'll use the equity in your own home to guarantee the loan, which can help your child secure better borrowing terms. It's a significant commitment, so be sure to discuss the potential risks and implications thoroughly.

Co-ownership: In some cases, parents and children can purchase a property together, sharing the financial responsibilities. This arrangement can be beneficial, but it's crucial to have a clear agreement in place outlining each party's responsibilities and financial contributions.

Other ways of providing financial support

There are lot of other ways you can help your kids with a range of expenses. Nearly 40 per cent of parents pay for their adult children's groceries and around the same proportion allow their adult children to live at home rent-free, while around a third pay their adult children's bills. One in five fork out for their kid's car-related costs like registration fees and petrol and 20 per cent pay for their kids to take off on holidays.[iii]

Non-financial support

Financial assistance isn't the only way to support your children. Often, your time and knowledge can be just as valuable. Encourage them to develop good financial habits, such as budgeting, saving, and investing. You might even consider involving them in family discussions about money management, which can empower them to make informed financial decisions.

Communication is critical

Regular, honest conversations about finances can strengthen your relationship with your children. Discuss their financial goals and challenges openly and encourage them to share their aspirations. These dialogues will allow you to gauge how best to support them and sometimes, just being there to listen can make a world of difference.

Setting clear boundaries is also crucial when offering financial support. Discuss how much you can provide, whether it's a one-off gift, a monthly allowance, or a loan. By being transparent about your limits, you can prevent misunderstandings and help your children set realistic expectations and become financially independent.

Navigating the complexities of financial support can be challenging, especially when balancing your own needs with those of your children. We can provide assistance and advice tailored to your unique situation and help you create a sustainable plan that allows you to assist your children without compromising your retirement goals.

i https://www.finder.com.au/bank-accounts/finder-bank-of-mum-and-dad-report-2021

ii https://www.apimagazine.com.au/news/tag/deposit

iii https://www.domain.com.au/news/the-bank-of-mum-and-dad-slightly-less-generous-than-before-covid-19-survey-shows-996809/

UNLOCKING SUCCESS:

LESSONS FROM THE WORLD'S BEST INVESTORS

While effective investing is crucial for wealth creation, there is a lot to know and many pitfalls to avoid, as many of the world's most successful investors have learned over their respective investment journeys.

Those who have achieved success have often spent a considerable amount of time developing the requisite knowledge and skills to achieve solid and reliable returns, learning from their failures as much as their triumphs.

There is a lot to be gained by looking at the methods and philosophies of those who have mastered the art of sustainable wealth creation, and their learnings can serve to inspire you on your own investing journey.

Emphasise long-term value

One of the most enduring lessons from legendary investors such as Warren Buffett is the importance of focusing on long-term value rather than short-term gains. Buffett, known for his role as the chairman and CEO of Berkshire Hathaway, advocates for investing in companies with strong fundamentals that can generate consistent returns over time. His approach emphasises patience and the belief in the intrinsic value of a company, which requires thorough research and understanding of the business.

Diversify your portfolio

Diversification is a cornerstone of successful investing, a principle espoused by investors like Ray Dalio, the founder of Bridgewater Associates. Dalio's strategy involves spreading investments across various asset classes to manage risk and improve potential returns. His approach, known as "risk parity," aims to balance risk across different investments rather than concentrating it in a few.

A diversified portfolio includes a mix of asset classes such as stocks, bonds, real estate, and cash. Diversification helps mitigate the impact of any single investment's poor performance on your overall portfolio.

Manage risk wisely

Managing risk is crucial to preserving capital and ensuring long-term success. Investors like George Soros, known for his successful currency speculation and macroeconomic trades, emphasize the importance of risk management. Soros's investment philosophy includes a strong focus on assessing and mitigating potential risks, as well as having a clear plan for when to cut losses.

Soros was quoted as stating, "It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."

Stay disciplined and patient

Discipline and patience are critical traits of many successful investors. For instance, John Bogle, the founder of Vanguard Group and a proponent of index investing, encourages investors to stay disciplined with their investment strategies and avoid being swayed by market volatility. Bogle's emphasis on low-cost investing and long-term holding reflects his belief in the benefits of staying the course.

One way to emulate Bogle's discipline is to create an investment plan with specific goals and stick to it, even when market conditions are volatile. Avoid making impulsive decisions based on short-term market movements or hype. Regularly review your investment strategy to ensure it aligns with your long-term objectives.

Learn from mistakes and adapt

Even the best investors make mistakes, and learning from them is essential for growth. Howard Marks, co-chairman of Oaktree Capital Management, is known for his insightful memos on market cycles and risk. Marks emphasizes the importance of understanding market dynamics and adapting strategies based on past experiences and current conditions.

Reflect on your investment decisions and outcomes and be open to learning from both successes and failures. Stay adaptable and be willing to adjust your strategies as you gain more experience and as market conditions evolve.

Enlisting expert help

Finally, successful investors often leverage expert help to enhance their investment strategies and achieve better outcomes.

We can work with you to create tailored investment plans based on individual financial goals, risk tolerance, and time horizons, as well as assist in navigating complex financial products and avoiding common pitfalls. By providing ongoing analysis and adjustments, we can help ensure that investment portfolios remain aligned with evolving market conditions and personal objectives. Our expertise helps investors make informed decisions, manage risks effectively, and optimise long-term returns.

If you would like a hand with any aspect of wealth creation, please give us a call.

We hope you enjoyed our quarterly newsletter Prepare for Life.

Please contact our office if you would like to discuss anything in this edition.

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