How to survive *the financial crisis*

WealthAdviser

Contents

Before you get started

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

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

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

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

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

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

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

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

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

Knowledge gives you a huge advantage

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

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

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

Take the next step

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

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

Wealth Adviser Library

Introduction

When world financial markets are approaching panic mode, many investors and consumers feel they should take immediate action. But what kind of action makes sense? Buy? Sell? Hide money under the mattress? Stock up on tinned goods?

Probably not. Sure, you may consider changing the mix of investments in your portfolio to minimise the damage from falling share prices. But your main goal in uncertain economic times is to evaluate your current situation – both financial and job-related – and take steps to put yourself in a stronger position if we enter a recession.

A quick side note: What's the difference in a recession and a depression? We once heard it described this way: "A recession is when your mates lose their jobs; a depression is when *you* lose your job."

All economies move through cycles over the long term. Most of us realise that a downturn, no matter how severe, will eventually pass. What probably stresses you most when you pick up the financial section of the paper is the feeling of "not knowing," especially in the short term – not knowing whether your job is safe, whether your investments will stay afloat, whether the business you just started will survive, or even whether your carefully thought-out roadmap to early retirement will stay on track.

Fortunately there are ways to reclaim a sense of security in the face of uncertainty. Let's look at how.

Know where you stand

When times are good it's common to get "financially lazy." If your income meets or exceeds your typical expenses, it's easy to stop thinking critically about what you spend.

So, your first step is actually to take a step back and get a handle on your finances: income, debt, payments/expenses, discretionary spending, etc. Your goal is to know where you're starting from so you can make rational, logic-based decisions. Let's look at a few key categories:

- Net worth Your net worth is the difference (hopefully a positive difference) between your assets and your debts. Simply add up everything you owe: mortgage, loans, credit cards, etc, and subtract that total from your assets: home, automobile values, investments, bank accounts, etc. The difference is your net worth.

  Your net worth is a reference point on your financial road map. Knowing your net worth – and the assets that make up your net worth – can help you through difficult times, especially if you need to tap into certain investments or even your home's equity.

  A quick note: It's easy to fool yourself into thinking you have a high net worth because you have equity in your home. Say your home has a fair market value of $400,000 and you only owe $350,000. That results in an asset worth $50,000… but wait. You have to live somewhere, so can you really access that money in an emergency? Maybe, but maybe not, so don't be tempted to think you're in great shape because you have money in your home. Even if you sell the home to tap the equity, you'll need a place to live and you'll still to spend money for housing.

- Income and expenses Unless you're paid by commission, your current monthly income is predictable – even though the possibility of getting a pay raise in the near future may not be. But do you truly understand your expenses? Not just the bills you pay, but your discretionary spending, too? Take a few minutes and jot down all your expenses. Some are easy to determine; just reach for your bills and credit card statements. Others are a little tougher:

  petrol, food, entertainment, clothing,

etc. Think hard about what you've spent in the last few months, and create a monthly estimate.

Then subtract your expenses from your income. Hopefully there's a surplus; if not, immediately tighten your belt. If you do have a surplus, are you surprised it's not larger than you thought? You're not alone; most of us spend more than we think we do. The key is to have an accurate picture of your monthly cash flow, both incoming and outgoing.

- Investments If checking your investment portfolio balance makes your stomach sink like recent share prices, we understand. But you simply need to do it. Not so you'll get scared and immediately sell, but so you'll maintain a clear picture of your financial situation. Warren Buffet is often quoted as saying that "The markets are a very efficient mechanism for transferring wealth from the impatient to the patient." Creating wealth is a long-term process; don't hit the panic button. But do know where you stand at all times.

So where do you stand? Keep in mind that most experts recommend having at least three and preferably six months of emergency cash savings on hand – that way you can continue to pay your bills if you're temporarily unemployed. If you don't have that kind of savings, work hard – starting now – to build that financial safety net.

Now let's look at some steps you can take to increase your financial security.

Reduce your debt levels

Meeting minimum debt repayments may be tough in a recession or when you face a personal financial emergency.

- Build a buffer for loan repayments. That way, if your income stops or is reduced temporarily, you'll have a cushion to help you get by. You may also slightly reduce the total interest you pay on the loan, provided you have an offset account. Aim to set aside two to three months of extra repayments at the very least.
- Consider refinancing. Interest rates have started to fall after hikes in recent years. If you locked in a fixed interest rate that now seems high, consider refinancing to a lower rate and/or a more flexible package. If rates have dropped 2% or more below your fixed rate, refinancing may save you money, even with break and exit fees taken into consideration. A good mortgage broker can do the shopping around for you and find you the most competitive rates and products. While you should review your debt periodically, good times or bad, you'll have more options if you refinance while your income is stable and before any potential drops in property values. In other words, don't wait until you – and your lender – get even more nervous.

  If you do achieve a lower interest rate, keep your repayments at the same (or even higher) dollar level to help you build a buffer and pay down your debt more quickly.
- But keep "bad debt" at front of mind. Focus on paying down high interest rate debt, first; if your mortgage rate is 7% and your car loan is 12%, work hard to pay down your car loan.

Protect your income

Say the worst occurs and unemployment levels reach 15 to 20%. Two out of 10 people will be out of work... but eight out of 10 won't be. Make sure you're one of the eight who keep their jobs.

The key to "employability" is to ensure you provide value to your current and to potential future employees. How do you provide value?

- Broaden your skills by completing additional, relevant professional development.

- Find ways to be more productive by improving systems and eliminating waste.
- Know your role. Middle management positions are typically most at risk during a recession. Why? Middle managers tend to do less supervising, taking on strategic, long-term planning and development tasks. In tough times, long-term considerations are often sacrificed for short-term survival. If you're in a vulnerable position, consider shifting to a less vulnerable position... or at least watch carefully for any sign that your position or department is in jeopardy, and be ready to act.
- Find ways to win new (unexpected) business and retain existing business. Bringing in additional revenue during tough times is guaranteed to boost your status.

Just in case, spruce up your resume and keep it up to date, and maintain contacts with friends and colleagues who may be able to help if you do lose your job – in other words, brush the cobwebs off your network.

And while you're at it, consider developing a second income. Part-time work, consulting, even converting what is now just a hobby into a profitable sideline. Not only will you earn additional income, but it could lead to a different, more profitable career. Check with your accountant first, though – make sure you take advantage of any tax deductions available and also you understand the tax repercussions of additional income.

The key is to be proactive, especially during an economic downturn. Don't wait until you find yourself unemployed to take action – even if you do keep your job, improving your performance, building your network, and upgrading your skills will still pay off.

Review your investments

No one knows just how deep, or long-lasting, recent share market losses will be. You can't control the markets, but you can take steps to protect yourself and even profit from a downturn.

- Avoid impulsive decisions. Government bailouts and free-falling markets make great news but not great indicators of the market fundamentals. Keep up with current events, but don't be tempted to make hasty decisions based on the latest news report.

  You may wish to weed out weak performers. But rather than dwelling on the losses in your investments so far this year, keep a longer-term perspective. Historically, the stock markets have declined about one out of every five years, and stocks gained in each year from 2003 to 2007. Despite declines in 2008, if you've been investing in the share market over the past several years, you're still ahead.

  Make adjustments to your portfolio, but make sure you have a solid, strategic reason for making changes, rather than selling and running away in fear.
- Seek expert advice and ignore media hype. Headlines sell newspapers, but if you're looking for guidance, turn to the experts. A financial adviser who knows your unique needs and financial goals can help you navigate choppy waters... and keep you from panicking.
- Protect and preserve. Keep in mind there's no way to protect all your share, bond, and index fund investments from losses short of selling everything and putting the money into interest bearing accounts. While this could seem like a smart move if the market keeps declining, the challenge will be deciding when to get back into the market. Many times in the past when

the stock market rebounded it did so very quickly.

Instead, aim for the middle ground between staying put and heading for the savings accounts.

Here are a couple of ways you can protect your money and reduce your losses while leaving yourself positioned to benefit from market upswings.

- Buy dividend-paying stocks. Stocks that pay dividends typically fare better in declining stock markets compared to stocks that don't; plus, they provide a small amount of income each time dividends are distributed.
- Rebalance your investments. While repositioning your investments to add to stocks may counter-intuitive, it's a strategy that proved to be wise in past bear markets. If you have a target percentage of stocks you want to maintain, chances are that your portfolio now has a lower percentage of stocks than your target, simply because of the drop in share price value. Rebalancing back to your target percentage will involve adding a bit more to your stock holdings. But, at least you'll buy low and will be poised to profit from a market rebound.
- Stick with liquid assets when possible. Shares and relatively liquid and cash is liquid; a second home is not. You may need cash in an emergency.

Fearful times create opportunity. Buying while others sell is a time-tested way to accumulate long-term wealth; today's ugly ducklings may be tomorrow's swans. Accumulating wealth requires a broader perspective – for example, banking and resource stocks have taken major hits, but could make excellent long-term investments when the economy rebounds. An experienced financial adviser can help you cut through the fog of panic to determine an investment's future value.

Cut spending

Sure, you can start packing your own lunch, and you can forgo shouting your friends to lunch once a week. (And those may be sensible steps to take.) But before you start clipping coupons, look for painless ways to reduce your expenses. The key is to briefly audit your credit card statements and monthly bills to identify items you don't need – and you may not even realise exist. For example:

- Foxtel, internet, and phone services Consider a package deal from your local cable or phone provider. You can get digital phone service through a broadband connection, high-speed Internet, and digital channels for much less than you will pay separately. And while you're at it – how many of your premium cable channels do you really watch?
- Credit card rate reductions Call your credit card company and ask for a rate reduction. Simply say you want an interest rate reduction or you'll take your business elsewhere. If the first person you reach can't or won't help, ask to talk to a supervisor. If you have a $5,000 balance, even a 3% rate reduction in rate saves you $150 a year; even if it takes you an hour to get what you want, in effect you made $150 an hour for your efforts.
- Home insurance Reducing cost may be easier than you think. First consider raising your deductible; on average raising your deductible from $500 to $1,000 saves over 10% on annual premiums. Make sure the policy value covers your home, not the land – land doesn't burn in a fire. Ask about security items you can add that will provide rate discounts, and consider buying your car and home insurance from the same company – many offer multi-plan discounts.

- Auto insurance Evaluate your policy every year. If you haven't had an accident or a ticket, ask for a reduction. If you don't ask, you won't receive. And depending on the age of your car, you might be paying for roadside assistance you don't need – many new motor vehicles are sold with a manufacturer's warranty that includes roadside assistance in the event of a breakdown.
- Car loans Some finance companies now refinance car loans. If you have a high interest rate and you can qualify for a lower rate because your credit rating has improved, you may be able to reduce your monthly payments by refinancing. But be careful; if you also extend the term of your loan, you may end up paying more in total. Check out the total cost, not just the difference in interest rate.
- Gym membership Use it or lose it. If you pay your $60 a month and you use your gym three or more times a month, that's great. If you don't, cancel your membership. Start walking, jogging, or riding a bike.
- Subscriptions Do you get a daily newspaper? (Better yet, do you read it?) You can still check out most papers online, at no cost. Many magazines offer the same service.
- Avoid extended warranties Electronics and home appliances are more reliable than you think. Paying for "peace of mind" is a more often than not a waste of money; make a smart purchasing decision up front if you want peace of mind.
- Book your travel early Buying airline tickets early can create significant savings, sometimes of over 50% or more. Begin your planning now. The planning itself can be fun, and you can save money while you're at it.

Small cuts help, but don't forget the big things, too. What about the motorcycle you ride less than 500km a year? It will decline in value every year; maybe now is the time to sell and invest the proceeds while the market is down. Or what about the trip overseas you're contemplating? Possibly now is the time to vacation closer to home – you'll not only save money, but you may find a less stressful, more relaxing option that may provide better family time, too. Take a critical look at what you have, what you can do without, and most importantly, what you could then do to profit from the funds you'll free up.

Conclusion

The recent economic crisis is not the end of the world. Current events have been compared to the Great depression, but keep in mind that even during the depression, there were only two years when equities produced a negative return. (When investors bought shares just before the First World War and sold them during the Depression.) The longer the period of investment, the more likely it is that shares will provide a better return than cash.

The key to surviving – and thriving – during an economic downturn is to take steps to reduce your anxiety and position yourself to profit when things get back on track. The "unknown" is incredibly stressful.

Fear of the unknown is what can create incredible stress and anxiety. Fortunately the unknown can be easy to conquer. Understand and evaluate your current situation, ignore doom-and-gloom pronouncements, and seek guidance from an experienced financial adviser to create a plan that reduces your risk and more importantly takes advantage of opportunities others are likely to miss.

Appointment booking request form

About the Adviser

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

Appointments are available Monday-to-Friday.

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

Preferred appointment day and time

Day

Date

Time am/pm

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

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