# YOUR MONEY IN 2011

PONTA DO OURO: At the start of every year it makes sense to revisit your finances to ensure that you are still doing the best you can with your money. This is a guide to some of the issues you should be considering in the year ahead.

## *DEBT*

When interest rates are so low, it is tempting to become lax about your debt management. If you have debt, your monthly repayments would have dropped substantially over the last two years which probably makes you feel much better about life. Unfortunately, interest rates don't stay low forever, they move in cycles which means that rates will go up again. If you owe money on your credit cards, personal loans or store cards, now is the time to pay them off. For people with a high debt burden, the current interest rates are the equivalent of a stock market boom – you need to take advantage now.

## *INVESTMENTS*

It is a good idea to review your overall investment portfolio on an annual basis. I prefer to do it at the start of the year on the same date every year i.e. 31 January. The actual date is not important but you should use the same date every year. When you do an investment review, start by determining how much capital you have in shares, property, cash and bonds i.e. your asset allocation. Every person's asset allocation will be different - if you would like 50% of your investments in shares, then you need to ensure that your current allocation is near this target. If your allocation to shares is actually 70%, it might be time to start reducing your investment in shares to move to your 50% target. This strategy works because it helps you to manage your risks – you really don't want a nasty surprise during the next market crash. If you realise that you only have 20% in shares, then you need to take steps to increase your share exposure now. The stock market has done very well over the last 12 months so you might want to phase your money into the market over a period. This will help you if the market has a big drop in the next few months because you will be buying the shares at a discount.

If you have investments that are not doing well, try to understand why before you get rid of them. For example, many offshore investments are doing very badly now, especially when they are denominated in rands. There is a very clear reason for this underperformance...the rand has wiped out all the gains that you might have had in the offshore currency. Now is not the time to sell a high quality offshore investment. If you have a unit trust, you should compare it against its peers to get an idea of how it is really doing. You might be happy that your local stock market portfolio grew by 10% over 2010 however you need to know that the All Share Index delivered more than 20% last year. That means your investment is not looking that fantastic and needs some investigation.

Once you have determined your asset allocation, try to develop an investment plan for the year. If you have extra money to invest, you need to plan how the extra money is going to be allocated and take steps to ensure that you stick to the plan. As an example, if you are going to invest in a global ETF, then sign a monthly debit order to ensure that you actually implement your plan. As we all know, good plans are worthless without implementation.

## *TAX*

February is the end of the tax year, which means you don't have much time to get your tax affairs in order. If you have a car allowance, make sure you have done enough mileage to warrant the allowance. If you are short on mileage, it might be an idea to stop your car allowance for the last two months of the tax year. If you received a bonus at the end of the year, you can reduce your income tax by making an extra contribution to a retirement annuity but you must do it before the end of February.

## *YOUR WILL & LIFE ASSURANCE*

Make sure you have a will and that it is reasonably current. It won't take long and you will be saving your loved ones a lot of heartache and dog-work if you take the time to do it now.

Life assurance is my least favourite aspect of financial planning because the products are so expensive and far too complicated. Unfortunately, there are very few people that can afford to live without life assurance. Make sure that you have sufficient disability cover in the event of a tragedy that leaves you alive but unable to earn an income. Life cover is also important if you have dependants that will be affected if you cannot provide for them. Life cover is usually a necessary evil, but you should take the time to ensure your loved ones are protected.

## *INVEST IN YOURSELF*

Most people retire with insufficient money because they failed to plan correctly. An annual review of your finances is a great way to ensure that you don't end up becoming another unhappy statistic – make the time to help yourself.