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10 Reasons why You Need to Manage Money Successfully, and why You Need to Start now

"The number of managers that can successfully pick stocks are fewer than you'd expect by chance. So, why even play that game? You don't need to." **David Booth**

Reason #1. To save for a house

Many people start work and, after a few years, decide that renting is no longer for them. It is still the Australian dream to own your own home, even though over the past 20 years the cost of housing has increased dramatically. It is harder now than ever to save the deposit required, but at the same time interest rates are at historic lows, so there is a trade-off. Even so, the median house price in many Australian capital cities is $809,349[2]. In the chart below we list the median prices across all major cities:

STRATIFIED MEDIAN HOUSE PRICE

Capital City	Dec-19	QoQ Change	YoY Change
Sydney	$1,142,212	5.7%	6.8%
Melbourne	$901,951	5.0%	8.7%
Brisbane	$577,664	1.3%	1.5%
Adelaide	$542,947	1.3%	1.1%
Canberra	$788,621	7.3%	5.4%
Perth	$537,013	0.7%	-1.9%
Hobart	$530,570	8.5%	15.6%
Darwin	$509,452	-3.0%	-1.1%
National	$809,349	4.2%	5.5%

To save for a house you can no longer just invest in cash, because all you get is a return of 0.25 per cent. You need to think about longer-term investments.

You need a plan and a sensible long-term investment approach.

- The earlier you start the better.
- The smarter you invest the better.

Reason #2. To eliminate personal debt

Australians have a high level of personal debt, fuelled by relatively easy access to finance and the recent addition of buy-now pay-later products in many stores. You can have a new car, furniture, phone or IT equipment, but at a huge extra cost as credit cards can have very high costs and interest charges.

The problem is that this type of debt is really bad. The cost is usually high, while the asset behind the debt is depreciating fast. It makes no sense to have a high cost of debt when the asset ends up worth very little.

Based on Australian Bureau of Statistics (ABS) data, in 2015-16, 74 per cent of households held an average household debt of $168,600. The most common form of debt was credit card debt, held by 55 per cent of households, followed by home loans (34 per cent) and student loans (17 per cent).

Most store credit schemes and cards charge an interest rate of over 15 per cent per annum, and some as high as 20 per cent or more! If you are one of the 55 per cent with credit card debt in Australia, please read on.

To get yourself out of the credit trap, you need to learn to spend less and to invest.

Reason #3. To protect yourself from a rainy day event.

So, do you think that a major disaster such as an accident, your car being stolen, house going up in flames or being flooded, parents falling ill and needing care, a seriously sick child will never happen to you? And then there are external events: the global financial crisis and, more recently, the Coronavirus pandemic…

For many Australians Coronavirus is their first wake-up call — the realisation that events can occur we have no control over. And these events will change our outlook, future and sense of security drastically.

We have been lucky in Australia for generations as the general population has never really gone without since World War II, which ended in 1945. That was 75 years ago. And we haven’t had a recession for 30 years. So, if you’re 40 years old or younger, 2020 is your first ever recession.

Yes, there is poverty in this country and we have had recessions, but in general we are very well off.

There are many ways to measure Australia’s relative wealth as a nation, one being median wealth per adult where Australia comes in at No. 2 in the world with $181,361.

Median and mean wealth per adult, in US dollars. Countries and subnational areas. Initially in rank order by median wealth. (2019 publication).[3]

Rank	Country or subnational area	Median wealth per adult (US dollars)	Mean wealth per adult (US dollars)	Adult population (thousands)
1	Switzerland	227,891	564,653	6,866
2	Australia	181,361	386,058	18,655
3	Iceland	165,961	380,868	250
4	Hong Kong	146,887	489,258	6,267
5	Luxembourg	139,789	358,003	461

Source: Credit Suisse Global Wealth report

But, as we know, there may be tough periods in any economy or country.

So what is a rainy day event? A member of your family may fall ill, you may be injured or lose your job — the list goes on. Not many of us go through life unscathed — that's life. So you need to have a backup financial plan. And this plan should be to save some money, just in case.

According to a 2018 Australian study, 49 per cent of Australians old enough to save had saved less than $10,000. This is not enough to get through most issues.

A rule of thumb is to have at least three months' expenses in a rainy day account — and ideally six months and up to 12 months.

So how much is that?

For a single person paying a rent of $500 a week, running a car and a smartphone, and who likes going out, monthly expenses will be at least $5,000. So you should have at least $15,000 saved. Have you got that?

For a middle-aged couple with kids and a mortgage, this is more likely to be $30,000 - $50,000. If this is you, have you got that money?

And I like to suggest that a retiree should have one year of living costs in cash and 3-5 times that amount in defensive assets like bonds. So if you spend $50,000 a year, then you keep $50,000, just for peace of mind.

You need to know how to invest so you can survive a rainy day, month or year.

Reason #4. You will live a long time

Chances are you will live longer than your grandparents and your parents. Some people actually find this daunting, and often ask some of the following questions:

- How can I make sure I have enough money for that long?
- What if I live to 90, but want to retire at 60?
- What if I get sick and need expensive medical care?
- How can I make sure I have enough money to move into the aged-care facility I want or stay at home with personalised care?

Your working life is around 40 years, and you want to live off what you saved then for 30 years.

Most Australians can expect to live to at least 80, and if you are in your 20s now that will be more like 85.

According to the Australian Institute of Health and Welfare, an Australian male born between 2014 and 2016 has a life expectancy of 80.4 years, and female life expectancy is 84.6 years, In fact, Australia now enjoys one of the highest life expectancies of any country in the world.

If you plan to work less when you reach 55, 60, 65 or 70, then you will be semi-retired or retired for a long time. If you're not investing wisely, you may not be able to work less or retire — you may have to keep on working if you can keep or find a job.

You simply have to invest to secure your long-term wealth and start to see the long-term picture. Unless of course you envisage living on the age pension, which in 2020 is about $430 per week.

Reason #5. To retire and be free

Leading straight on from reason #4 is the million-dollar question: how much will you need in retirement? Short answer: a lot. A slightly more nuanced answer is, as much money as you can possibly save.

The best way to have a great retirement is to start saving early. Ask anyone who is retired and they will tell you an 'if only' story — if only I had started saving a bit earlier, if only I had bought that property in 1982 that's now worth $3m.

If you can put away even small instalments during your 30s and 40s, then that will make a huge difference. It always seems expensive now. You never seem to have the money now. But it's this incremental saving that will help with your longer-term financial security.

It's time to take a long-term view and not have any regrets.

After all, your parents may live until 85 or more, so you can't bank on an early inheritance to get you through. Increasingly, they'll be using their savings and investments to fund their life, care and housing options.

The difference between starting when you are 30 or 40 to when you are 50 is huge. At 40 you probably have a lot of commitments, such as kids, sports, nice dinners and red wine. And it's hard to not dip into savings for a holiday, a new car or school fees.

But if you had $20,000 to invest at 40, and added $100 a month and invested it all in a low-cost diversified share fund, it could be worth over $325,000 by the time you are 65. And if you saved $200 a month, it could be worth $450,000 by the time you are 65.[3]

This is just simple maths and compound returns.

Long-term investing works. The earlier you start the better. The smarter you invest the better.

Superannuation is great, but most of us will need more than that. You have to invest to ensure that your future lifestyle is as good if not better than your current lifestyle.

You need to be a smart investor, because based on your life expectancy you will be retired for a long time. And require a lot of money.

How much will you need? Aim to have as much as you can. To do that means starting as early as you can.

Reason #6. Superannuation

Australians have a great system called superannuation. It has some flaws, but in principle it's great. It is effectively tax-advantaged forced savings, and has raised the wealth of many Australians over what they would have achieved without this mandatory system. As a result, the whole nation is better off, because fewer people are relying on the age pension which we all have to cover through taxes.

However, many people still will not have enough money for their lifestyle in their superannuation.

To enhance your future lifestyle, you need to take some control of your superannuation to ensure it's well managed. After all, it is your money. You need to know what it's invested in, and to help steer the ship. Simply ignoring your superannuation until it's too late is not an option, and just putting it in a low-cost option is not good enough either. Costs are important, but what are you invested in?

The superannuation system actually allows you to invest the funds and have a lot of say, but the superfunds haven't told you that because they have a strong vested interest in making investing seem complicated as they make huge fees from investing your money.

You don't need to have a self-managed fund to make some smart decisions about your money.

Once you understand and want to invest in the philosophy and evidence-based approach I share with you in this book, you can invest this way in many superannuation accounts in Australia.

So why are almost three trillion dollars invested in expensive and underperforming funds?

Why is there 'lost super' – funds people have put in super accounts and never claimed?

Most people take very little interest in their superannuation, in fact only 35 per cent of Australians know how much money they have in superannuation![4]

You must change this: it is your money and it's too important to not take any interest and learn how to invest.

As of 30 June 2019, Australians had A$2.9 trillion in superannuation assets, making Australia the fourth largest holder of pension fund assets in the world.

You need to be a more knowledgeable investor to lead the pack and make sure your superannuation is successfully invested, but over time it will make a huge difference to your superannuation savings.

If you have $200,000 invested now in superannuation, a 2 percent difference in return over 20 years could make a difference of over $350,000 to your capital.[5] You have to know how this works.

Reason #7. To care for your children, parents-in-law and out-laws

Whether you have a family or not, plan to or not, there is a high chance that you are not the only person you worry about.

Most people have children or parents to care for. Mum and Dad may need to enter a care facility one day, so it's essential to understand how that works, and how to invest their savings to pay for their care.

You may have a large family and need to save for education. You may get divorced and find yourself on your own, or part of a new, blended family.

Whatever your situation, your investments will need to make this all work out for you.

If looking after yourself and your family is important to you, you must learn how to invest properly.

Reason #8. To be independent from the government

I don't believe any financial advice should include relying on the government. We should all plan to be completely financially independent. And most of us can be if we know how to invest.

Government is there as a backstop for those who need it, and that is awesome. Australia has a pretty good system. It's not perfect, but try living in any other country and Australia comes out pretty well. We have lots of opportunities, but we also look after our sick, incapable, disabled, elderly and those in need. The system also helps many people who would not need government funding if they had understood how to invest sooner.

If more Australians invest earlier then they will not need government help unless there is an emergency. And this means there is more money available to look after people who really need help.

For example, if every Australian invested $1,000 at birth in a share fund that earned 8 per cent a year compound over 60 years, how much would they have at 60?

The answer is just over $93,000.

Now let's change that initial amount invested to $2,000. The result is just over $187,000

And how about $5,000 – it would be $468,000.[6]

This is without any tricky investment management or even adding funds.

Long-term investing works, and the earlier you start the better. It is that simple.

We should all plan to be self-sufficient and only rely on the government when really necessary. If you know how to invest, you will not ever have to rely on government support.

Reason #9. Australia is a growing country. This means opportunity.

We have a growing population, plenty of space, intelligent people and lots of opportunities.

According to the Australian Bureau of Statistics (ABS) the Australian population is now 26 million and forecast to be 30 million by 2030 and 40 million by 2050.

We are a fortunate country, and with a rising population come more growth and opportunity. There is plenty of land, and progress will provide more employment and business opportunities. We should think big and, for example, build larger inland cities and better infrastructure.

Here is an example of forward planning and thinking big: the Sydney Harbour Bridge was planned in the 1920s and completed in 1932. It has six lanes, train lanes, and used to have tram lanes. It connects on the northern side to the Warringah Expressway, which was intended to go all the way to Warringah, 10 km north of the city, but it ends in Cammeray which is only a few hundred metres to the north. In 1932 an average of 10,000 cars crossed the bridge every day. Why do we not build motorways with 10 lanes today, and why are we still debating roads like the Spit Bridge and tunnels to Warringah in 2021 when town planners in the 1920s were thinking like that?

We need to think bigger as a nation, and this is just one example. I'd like to see a plan for an inland city, like Las Vegas in the US. I'm not a gambler and I don't go to casinos except for events or conferences but, for gamblers and tourists, rather than building more casinos in Sydney, Melbourne and Brisbane, why not make Broken Hill our Las Vegas? That would create boundless jobs and opportunities. But that's for another book!

Australians need to think big and invest for the long term.

And as an investor you need to be part of this growth.[7]

Reason #10. To pass wealth on to the next generation.

If you invest successfully, you will not spend all your money. How nice to set up a legacy for the next generation and beyond, especially when today's under-25s are entering a radically different economic environment to ours: constant gig work, large HECS debt, fewer jobs, increasing taxes, unaffordable housing.

There is going to be a huge transfer of wealth over the next 30 years as baby boomers[8] pass their super and assets on to the next generations. If you are doing this, or are likely to receive these assets, do you know how to invest?

Your kids or grandkids may have large sums of money to manage. Don't you want to make sure they are well-informed and have sound investment skills?

If you are not an investor now but suddenly inherit some funds, will you be comfortable with the responsibility? For many people, money is actually a problem and creates anxiety. Why? Because they worry about the daily news and which stocks to pick, attend seminars about buying options, property and bitcoin and other get-rich-quick ideas. Imagine not having to worry about all that and investing successfully without the stress and anxiety?

If you know how to invest successfully, you won't have to worry about your investments and can devote yourself to doing what you like.

There are many other reasons why it's important to be a smart investor, but these 10 demonstrate why you should create a plan and accept that you need to know more about investing and the truth behind it.

CHAPTER 2 SUMMARY

» Every one of us is an investor or will be, so we owe it to ourselves and our families to understand how to invest successfully.

» Learning about the fundamentals and principles of investing that put you the investor first, could make the difference between a lousy retirement and an amazing retirement.

» Sharing this knowledge with your children, grandchildren and family can help them avoid mistakes that many make, and save them thousands over their lifetime.