



# Smart money moves

# for under... 30's

**T**here are many things about being a young adult that make it the best time of your life, from bungee-jumping over waterfalls to travelling the world over for music festivals - the bucket list of possibilities is endless. However as you mature and get older you might begin to make more serious commitments like getting married, starting a family or purchasing your first home. The financial decisions you make in your 20's will have a material impact on your financial future

**I MAKE MYSELF RICH BY MAKING MY WANTS FEW.**

-HENRY DAVID THOREAU

### 1. Start an emergency fund

The main reason people end up in debt is due to emergencies. This could be unexpected medical expenses, helping out a family member or having to pay excess on a car accident. An emergency fund helps you get through those emergencies without having to take out a loan or use your credit card.

You also need to build up a financial buffer should you lose your job. Last year Liberty's statistics showed that the single biggest reason for loss of income claims by under 35's was due to retrenchment.

**Action: Work on an immediate emergency fund of R10 000 and build it up over time, using bonuses and other windfalls, to at least three months' monthly expenses.**

### 2. Harness the power of compounding interest

The younger you start saving, the harder your money works for you. If your money is invested earning 10% per annum, it will double every seven years.

If you save R250 a month between the ages of 24 and 30 and stop your contributions but leave the money to grow, you will have accumulated more at age 65 than someone who saves the same monthly amount from age 35 to 65. This is because an investment with a 10% return will double every seven years. So the R18 000 you have invested by the age of 30 will grow to R815 000 by age 65.

The R90 000 you would have invested between the ages of 35 to 65 would not have the same opportunity to grow and would only be worth R570 000.

**Action: Make sure you start saving into your company retirement fund or a retirement annuity from your first paycheck.**

### 3. Protect your biggest asset

When you are young and healthy with no financial dependants, life insurance seems like an unnecessary expense. What you may not realise, however, is that your biggest asset at this age is your future income. If for example you are earning R20 000 per month at the age of

25 and never received a pay increase above inflation, by the age of 55 you would have earned R7.2 million in today's value. That is a pretty big asset and you need to have a plan should anything happen to you to prevent you from earning an income.

**Action: Speak to your adviser about disability and critical illness cover**

### 4. Avoid revolving credit

From your first paycheck credit providers will offer you around R3000 of credit for every R1000 you earn. It is a great temptation to tap into this credit but it could destroy you financially, especially if you opt for revolving credit like a credit card or overdraft. Revolving credit is a credit line that is always available and never needs to be paid off in full. As soon as you make one payment, that credit becomes available again. Many people end up in a situation where their paycheck is simply going each month to settle their overdraft and each month they are living off their credit lines. They are basically one paycheck from bankruptcy.

**Action: If you take out a credit card always pay it off in full each month and avoid overdraft facilities. Learn to live within your means.**

Source: <http://yourlife.liberty.co.za/newsletter/2015-06/article-2>



## SPRING CLEAN YOUR INVESTMENTS



*Decide on the asset allocation you should have, then look at what you have right now: mediocre unit funds, shares bought on tips, money left sitting in a low-yielding account? Stop procrastinating. Rather than cancelling policies and incurring further fees and penalties, look at the choices you have, for example to change portfolios, in the existing structures to accommodate your needs. Clear out the rubbish, and make the money work for you.*

Do not hesitate to contact us if you require any additional information or any clarity on your current portfolio :

Tel: 012-345 6480 \* Fax: 086 513 0769 \* GERAL : 082 326 5517 \* E-mail: [geral@cubeadvice.co.za](mailto:geral@cubeadvice.co.za)

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