FIRST CAPITAL
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First Capital Personal Finance Newsletter

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2011 Personal Finance Resolutions

Happy New Year and hope that 2011 brings you much success and prosperity in all your endeavours, and don't forget to stay focussed and creative. A few years back I wrote a weekly column for local newspapers offering advice on personal finance, and one of my 2011 New Year resolutions is to start a Monthly Personal Finance Newsletter. A new year brings with it a sense of renewal and making new-year resolutions helps you to focus on making positive changes in various aspects of your life. The New Year also gives you a unique opportunity to implement strategies that will get your finances in order, build your wealth and secure your financial future. Your new year resolutions are your new goals you set to achieve that year. Setting goals gives you long-term vision and short-term motivation. It focuses your acquisition of knowledge, and helps you to organize your time and your resources so that you can make the very most of your life. By setting sharp, clearly defined goals, you can measure and take pride in the achievement of those goals, and you'll see forward progress in what might previously have seemed a long pointless grind. You will also raise your self confidence, as you recognize your own ability and competence in achieving the goals that you've set. In the area of personal finance, setting financial goals will enable you to regain control over your finances thereby allowing you to focus on the things you enjoy doing in life. In this first newsletter, given the season, and the suitability of the topic, I thought it might be time for a handful of resolutions dealing with personal finance. Some resolutions are things to start doing; others are things to stop doing.

Resolution 1: Stop Overspending & Start Saving for next Holiday Season

Are you one of the many Namibians who overspent and are now financially broke for overspending during the Christmas & New Year holidays? Yes it's easy to over spend when you want to impress friends and family with gifts or you might overspend because your family is too big and you are the only breadwinner. Those who were already over burdened with debts before the holiday season are now calling their bank managers for extended overdraft facilities, cash loans for new loans, and negotiating with their banks to increase their credit card limits. Ask yourself the following questions. Did you really have to buy the new car because the car dealer asked no deposit? Did you have to go on that holiday trip given your financial situation at the time? Did you impress the people you wanted to impress and do you think they enjoyed your company? How did you finance your spending? If you used your savings meant for other purpose, how long will it take you to replenish those savings? If you financed your holiday purchases by taking more debts, how do you plan to repay this debt and what impact will it have on your cash flow in 2011. January is the beginning of a new year and it supposes to be a month blessed with hope and excitement, but if you already have arguments over money issues with your wife, partner and overdue municipality bills and other accounts are piling up then for you and others January is the time when the chickens come home to roost. However, you can stop the debt cycle and prevent the financial problems in 2011, by making changes to your financial situation. Whether it was a gift for someone else or yourself that put you over the edge financially, now's the time to reign in your spending and start saving for next Christmas and stick to your decision:

1.1 Open a Christmas Club Account: Start putting money away now for the 2011 holiday season. If you set aside a certain amount each month and have it automatically transferred into your Christmas Club Account, you won't even know it's missing. Come December first, you'll have a tidy sum to spend for holiday presents. Don't keep these funds into a bank deposit, but invest the funds in some liquid unit trust offering better returns. If you leave this money in a bank account, you are likely to receive less than 4% returns compared to more than 8% you will receive in some unit trusts.

1.2 Negotiate your home loan repayment: Don't risk losing your house due to short-term debts you accumulated over the holidays. A lot of people don't realize, you can call up your bank and ask them to give you a break of three month and use your access bond or home equity to finance your three month home instalment. During that time use the available funds to clear up all your short-term debts accumulated over the Christmas season and make sure you never repeat the same mistake. You might be surprised how quick some banks will accept this, especially if you have been a good customer. No bank likes to lose business. If your bank refuses to accommodate you, shop around for another bank, you'll be amazed at the deals out there, another bank might not only accommodate your financial needs, but might even give you a lower interest rate on your home loan.

1.3 Cut out small and other expenses. You may be doing a great job tracking your large expenditures, but those small expenses multiply fast. Instead of buying daily newspapers, get copies from friends once they have finished reading, instead of buying lunches at work, bring leftovers from home, disconnect your DSTV if you are not utilizing all channels, stop your monthly gymnasium payments and start jogging, cut down on your food budget by buying from cheaper stores or targeting specials, use public transport such as taxis, buses, re-look at your insurance premiums and stop the ones you might find you no longer need e.g. car insurance premium on a old car without book value.

Resolution 2: Prepare a Comprehensive Personal or Family Balance Sheet

To have a clear understanding of how you can achieve your financial goals and dreams, the first step is to prepare a comprehensive personal or family balance sheet, one that encompasses the full range of all resources, assets, debts or liabilities as well as your portfolio of investments such as shares, bonds, property, offshore and cash investments. You must also include here the value of your retirement accounts, and all assets on which you have no property rights such as land you own in un-proclaimed areas and cattle. Preparing a personal or family balance sheet will help you have a clear picture of where you stand financially and help you to know your personal financial net worth, by establishing how much you owe other people (your total debts), and the value of your assets. If you have negative financial gap, that is if your debts or liabilities exceed your assets, do not panic as this helps you to know and to see where you can make adjustments to ensure that your net worth start increasing from 2011.

Resolution 3: Restructure and Rebalance your Investment Holdings: It is important to realize that your personal and family balance sheet will shift significantly over time and that your investments will need to adapt as personal circumstances and market conditions change. A well-diversified portfolio is the cornerstone of a successful investment strategy. Core holdings in shares, bonds, and cash should be combined with asset classes such as properties, commodities and currencies for maximum benefit. Stock market performance over the past few years have shifted the value of your share holdings above or below the level you had originally intended. If your share holdings have changed meaningfully in value, consider rebalancing, either by selling some of your shares or bond investments or by purchasing more shares, bonds, properties or cash investments. It is important to understand how your portfolio is performing both with respect to your expectations and in comparison to appropriate benchmarks. Ongoing monitoring and periodic changes of your investments are needed as the prospects for your portfolio holdings change with time and market conditions.

Resolution 4: Diversify your Investments & ensure enough Insurance Protection:
Your investments in shares and other investments can be wiped out through some unforeseen calamity if you don't have the right financial security system in place. Make sure you hold all your assets and investments in a diversified portfolio whose performance are not correlated. Do you have enough insurance cover?. Insurance can help protect you, your assets and your loved ones from the costs of accidents, illness, disability, and death. As such, it is an important part of any sound financial plan. Whatever your particular situation may be, it's always best to go through a checklist of what insurance you have, and equally important, what kind of insurance you lack, and determine how to best fill in that gap to safeguard your family's financial future.

Resolution 5. Reduce or Deal with Debt
While it’s nearly impossible to go through life without some sort of debt, reducing and getting out of debt is another key step to taking control of your finances. Some of us got deep into the red as a result of overspending during Christmas season potentially due to using extra finance such as personal loans, credit cards to fund seasonal shopping. Making debt reduction a key goal can help people overcome the urge to overspend. Reducing personal expenses can free more money to reduce personal debt. Make a list of all personal debts and begin targeting the lowest debts first. Attacking the lower debts would give a greater sense of personal accomplishment and show more results for the effort. Having your debt under control gives you more freedom to do other things. It will take some sacrifice, but it is worth the effort. If you find yourself in this position don’t panic just yet, there are steps you can take to regain your financial health. The following are the steps you need to implement to deal with debts:

5.1 Create a budget: Create a spending plan and most importantly, stick to it. Get into the habit of balancing your income or salary, and paying your expenses will help keep you on track. A good budget will help you to plan and monitor your expenses so you can identify where your money goes and where to cut back if necessary. When planning your budget, start by making a list of all your outstanding debts, who they are owed to, and how much you need to budget each month to keep up with the payments. Always remember that if you fall behind with payments, your financial situation will deteriorate, as costs, penalties and interest charges mount up. As you list your monthly credit payments, use them as the starting point for your monthly outgoings. It is also worthwhile keeping the list of actual amounts owing at the start of the year, and then see if that figure can be reduced by the end of the year. That way you can monitor progress, just as a business would. You want to see your net assets going up, not down, at the end of your budget period.

5.2 Downsize : Reduce unnecessary spending. Review all your expenditures and cut out on the less important ones. Cut down on the amount you eat out or buying food that will get rotten in your fridge. Stop buying newspapers, magazines if you can access same information from free newsletters, radio or TV. Review your insurance premiums, as you might be paying for a car packed for the past two years or paying gym that you are not using. Consider selling your car and use public transport to work as you will not only save on monthly instalments, but you save on insurance and maintenance expenses.

5.3 Check your interest . Money in a call and savings account generally earns much less interest than credit cards or loans. So, if you have money in savings, withdraw it to pay for higher interest loans or credit cards. At the currently prevailing interest rate, you are probably receiving less than 5% on your savings in the bank, while you pay more than 15% on your credit cards and personal loans.

Resolution 6: Prepare a Retirement Plan

Depending on your age and your current investment holdings make sure you have enough savings for a comfortable retirement. Rather than just hoping you'll have enough for a comfortable retirement, take some time to calculate how much you'll need, and how much you'll need to save. Building a nest egg for your retirement is only one aspect of financial planning. For many people, what is more difficult is ensuring that those savings you have accumulated over the years, actually last as long as you live. Indeed, perhaps one of the greatest challenges to financial security is the transition from earning money and accumulating assets to spending down those hard-earned assets over what could end up being almost a third of your lifetime. You need to establish what your future liabilities and expenses could be, and establish a realistic accumulation goal and ensure that you're on course to reach it. If you don't know how much you are going to need to retire comfortably, how will you know how much to save?

Resolution 7. Improve Your Financial Education

Our formal education does not address what you need to know about personal finance and does not prepare us for the financial decisions we need to make when we enter the workforce. Most of us learn about personal finance through trial and error. Financial mistakes are often costly and can take years to erase. Make it one of your top new year resolution to improve your knowledge of money matters through reading personal finance articles, personal finance books, magazines, newspapers, attend seminars on money maters, seek professional advice and join investment clubs with a strong financial education component.

Be cautious about setting too many or unrealistic personal financial resolutions, you may be unable to accomplish any of them. With personal debt at record levels, banks are tightening their lending criteria, making it difficult for you to borrow and supplement your income levels and this calls for you tightening your belt. Your financial house is a complex structure that needs regular upkeep. By keeping it in order throughout the year, you'll be well on your way to reaching your financial goals. Good luck!

About the Author

Martin Mwinga works for **First Capital Namibia** , a specialised financial services company he founded in 2009. He is an author of a book **"Understanding Personal Finance in Namibia"** and has published more than 100 articles on personal finance, investments and economics. He believes that individuals can excel at managing their financial affairs and as such he strive to provide free educational content and tools to empower individual make informed financial decisions.

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