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INVESTMENT ADVISORY

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Enjoy the thrills by planning ahead

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You may never consider planning your finances up there with bungee jumping, zorbing or parascending as an adrenaline-pumping pastime; yet it can enable you to do the more thrilling things in life.

Three-way budget

However much money we have and whatever the cost of living, it's important to have some kind of financial plan in place. With that statement I may not exactly be discovering America, as the Spanish say; yet in my experience, it's something that people often overlook.

No matter how or where you record your budget, it's important that it takes three elements into consideration: saving for tomorrow, budgeting for today and allowing for some fun.

Saving for tomorrow is self-explanatory; though it should take priority above all. In fact, it's not a bad idea to consider putting money aside as a compulsory payment – like a tax bill. I call it the *Pay Yourself First principle.* That way there's no temptation to eat into your savings to get your hands on that new 5G, voice-activated, 3D, cappuccino-making mobile phone. It's vital to set clear objectives of how much you want in the savings pot by the end of a certain period. This enables you to stick to the plan even in the face of the greatest temptation.

In budgeting for today, we need to be sure that we're being realistic. Setting out a plan to live off THB 200 a day may look good for your savings but it's unrealistic. After all, one extra coffee could push you over-budget and once you've crossed the line, it's not so easy to keep track. To avoid that scenario, it's advisable to make provision for over-spending a little. I find it's better psychologically to have spent less than anticipated, rather than over-spending on a tighter, less realistic budget.

Whilst I'm talking about financial planning, it doesn't necessarily mean you have to implement a self-imposed austerity programme. Planning purely for the future could mean that we neglect the present – a pretty sobering thought. Of course, there must be room in the plan to live for today. Buying the above-mentioned phone, going sky-diving, going on a trip or doing something completely *ad hoc* is more pleasurable when you know it won't ruin your wallet. So why not allow for those moments in your budget?

Planning to have fun

I suppose it shows my age when I talk about budgeting for 'fun'. As a young man, that certainly wasn't a consideration! Nevertheless, I've learnt from listening to clients over the years that a good financial plan avoids all sorts of problems, especially with couples.

As we get older, the amount of money we can potentially save reduces. This can become an intensifying pressure point in a relationship. A poll conducted by Harris Interactive, showed that money fights are more prevalent among older couples than younger ones: 15% of couples between 18 and 34 said that finances triggered arguments; yet more than a third of couples aged 55 to 64 admitted to having "money fights."[1]

For that reason, it's a good idea to agree on a financial plan as soon as possible. It should include the three budgets mentioned above, as well as a strategy for retirement planning.

That strategy should include how much return the couple require and what level of risk they agree to take to aim for that goal. It's a common mistake to assume that risk only means volatility[2] and therefore choose to invest in *volatile* or *stable* markets accordingly. Risk incorporates many more factors and measuring a suitable level is easier to achieve with the advice of an independent financial advisor, who works on a fee rather than commissions. This second point is important because it removes any hint of bias an advisor may have based on the commission he/she has with a particular fund management company.

An advisor should suggest an appropriate allocation of assets – what percentage of a portfolio should be placed in shares, bonds and currency, for example, and within that, how to invest in such assets. In developed economics where capital markets are more homogeneous, net consistent indices can be more efficient than stock picking. Equally it can be important to understand the difference between relative returns, absolute returns, and total returns.

Reaching an agreement as to what to spend, what to save and where to invest money can be difficult. Experts suggest that the three key principles to this are: agreeing to disagree on certain aspects; maintaining a flexible approach to reach a compromise where possible; and to focus on the future, rather than dwelling on any past mistakes.[3]

I'm not able to advise on that but what is important is to stick to the basic plan, once it is in place. From that point, it can be modified as your circumstances and the performance of your portfolio change.

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[1] http://www.cnbc.com/2015/12/03/how-to-avoid-money-fights.html

[2] http://blogs.reuters.com/james-saft/2014/09/10/never-confuse-risk-and-volatility/

[3] *ibid*

Get the kids on board

In the name of further domestic harmony, if you have children it could well be worth teaching them about finance too. This could avoid arguments over how they want to spend your money. It also encourages them to save part of their future income so they can accumulate interest over the years. This kind of education isn't always taught at school and, in any case, may be easier to learn by following your example in day-to-day life. That means installing *Pay Yourself First*; setting out which expenses take priority; distinguishing between things they want and things they need; explaining that the idea behind saving is not just to buy something bigger; introduce them to charities; and, if they're older children, get them to put together a list of assets, liabilities and net worth.

Planning finances in such a way means we've done the groundwork and we can get on with life without having that nagging feeling that we're constantly putting something off until later.

For further information, please contact us by e-mail on info@mbmg-investment.com or call +66 2 665 2536.

Paul Gambles has completed CFA level 1 and is licensed by the SEC as both a Securities Fundamental Investment Analyst and an Investment Planner.