

## Personal finance



# Financial Planning – discipline will be key in 2011

by Jason Holmes, Lumen Financial Planning,

even out at 2.8 per cent in 2011 which is higher than their forecast for earnings growth of 2.2 per cent. This difference alone will mean that incomes will have to stretch further.

And as budgets get stretched, there seems to be very few tantalising offers in the world of investment to encourage you to make the sacrifice and save for the future. Cash rates are ridiculously low at present and after the tax is paid, many accounts are falling well short of the cost of living increases. Property is still floundering and shares have been hovering in a narrow band for much of this year.

So it is easy to be discouraged and for your discipline to wilt as pressure comes on from increased cost of living expenses, business running costs and lack of attractive options. It can make people cautious and nervous and so money allocated for future goals is cut back or stopped before other cost savings are made. Or you change the project you were saving for and then you lose your enthusiasm and the saving stops.

People can also get impatient and move an investment to try something else when they needed to have the discipline of holding onto it for longer in order to see the real benefits.

Many people get caught up in this and make decisions now that will affect the rest of their lives, so just as in making any big decisions, you should spend time thinking about the following;

Why were you doing it in the first place? Re-visualise your goal, what was it? What does it look like? Being clear and enthusiastic about what you want to achieve will give you the motivation to make cost reductions elsewhere first if at all possible.

What are the consequences of the change you are thinking about? Cash ISAs are not paying great interest rates at present and you may be tempted not to use this year's allowance or move the money invested to something else. Yet the interest rates can only get better and the income from them is tax free – very handy in retirement.

Or you may be tempted to move money from cash fully into shares and try to obtain a better return but are you prepared for the volatility of investing more in shares? Will you get a good night's sleep if you do this?

Talk it all through with someone you trust. Discuss the issues you are faced with and the decisions you are thinking of making. It should be someone who will be honest with you and point out other things you could change and what the implications of this might be.

Consult a professional. There may be actions that you can take that you are not yet aware of that could save you money or could earn you more money. Explore your options. Your accountant or independent financial adviser should be able to assist.

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**N**o matter what goal you set you need discipline to see it through; to keep attending the gym after the January enthusiasm wears off or to eat in moderation to lose weight even when offered second helpings of that scrumptious dessert. Discipline helps keep you on track to achieving your goals.

But discipline is not painless and in 2011, financially, the discipline to save money is not going to get any easier for any of us. Whatever financial goals you have set yourself for the future (retirement, expansion, children's education) there is a measure of sacrifice needed. You need determination to give up the pleasure of spending now so you can have the pleasure of achieving your goal in the future. In 2011 your resolve to make these sacrifices will be tested even further.

For starters there is much uncertainty about the economy and how quickly it will grow, about spending cuts and what they really mean for businesses and the public and ultimately how all of this will affect you, your job, your business and your life. Some businesses are asking for employees to take pay cuts and there is little expectation of any inflationary pay rises this year.

The cost of living is going up as prices increase and there will be more to follow. The VAT increase to 20 per cent and the fuel duty increase are just two examples of these rising costs. The Consumer Price Index (CPI), which does not include housing costs, increased to 3.3 per cent in November, well above its two per cent target.

The Office for Budget Responsibility has forecasted that CPI will