## Welcome to our August 2010 Newsletter!

This month we're going to consider the issue of - and before you say it, YES I KNOW...BORING, budgeting. There is an old saying that says: "*You cannot manage what you do not measure."*
However we're not going to discuss the specifics of putting a budget together. Rather, we are going to consider two key definitions that might just change your life.

## Budgeting is boring BUT . . . it can save your financial life...

Rather than using the "B' word, let's talk about ASSETS and LIABILITIES. This will help us focus on wealth-building.

What would you do with $10,000 if it were handed to you? When I asked this question at various workshops and seminars, it nearly always came down to this: *most folks would not have any of their money in 12 months time*. Most would pay off bills, credit cards or go out and spend it. Some (less than 20%) would put it in the bank to earn paltry bank interest (taxable!).

Less than 3% would turn the $10,000 into as much as $20,000 inside twelve months. If you can do that you would definitely be considered financially intelligent. In fact, if you can do that, there is probably no dream on the planet that you could not afford to buy one day. But the real secret of wealth creating - the code – lies somewhere else. The remaining 1% can turn that $10,000 into as much as $1,000,000 inside twelve months.

It is assets that wealth building focuses on. An asset is something that appreciates in value and makes me money while I sleep, without working. In other words, it is something that will put money into my pocket without the need to work for it? Liabilities of course in the literal sense are the opposite but we have something called leverage - which we will look at shortly - that comes into play. Debt can be put to work in a productive fashion, for example, for buying your home, for helping you buy a business, that is, when applied to buying appreciating assets. It can also be debilitating and destructive when applied to the aquisition of depreciating assets.

How does your attitude to buying things contribute to your wealth position? Consider the car as a case in point:

Is a car an asset? You might say that a car is an asset: it has a value and it has utility.

The point is to illustrate that using other people's money, borrowing money, etc., if it is done smartly and wisely, can increase potential returns - however, it can also produce a negative return if done incorrectly. Most will say, *"I am not going to do that, it is too risky to invest in the market",* but how many people will go out and borrow $15,000 or more for a car? A car is a classical poor investment. As soon as we drive it out of the showroom door we lose up to 20%.  Within 5 to 10 years what is our $15,000 car worth? Could be down to $5,000 or less, therefore we have lost a considerable amount of money.

Unless you earn a living from a car (taxi, delivery, etc) a car is not an asset.  It fails the asset test because it depreciates in value.  Moreover, the money that goes into a car is money that could go into wealth building. Consider this premise in greater detail.  (I make no apology for bringing in some math here for the mathematically charged: if you want wealth in your life, you need to get financially literate and not be confused by such calculations).  Here we examine the cost of owning a car and the cost of NOT using that money by illustrating what would happen if that money was put to work

Does this car, every time you drive into a service station, put money into your pocket?  Obviously not, it takes money out of your pocket.  Cars cost money and they lose value.  They are a guaranteed loss, but how many Australians have at least one or two cars?

It is a complete waste of money for most people, yet the same Australians could go and borrow $15,000 to invest.  Even if it was invested in the worst companies available on the market, they would still not perform as badly as a car over the next 5 to 10 years.  We have got to look at our mindset.  What is risky here?  The biggest risk you will take with money is not investing and not saving, that is the greatest risk.   You will never score with the shots you don’t take.

Imagine if you focussed on these definitions of the terms 'Asset' and 'Liability' AND took them seriously.  You would never purchase anything that was not going to increase in value - imaging the difference that would make to your financial well-being!

Until next time, great investing!

Warm regards
**Garry Macdonald**