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We are in the second half of 2021 and thought to cover a few financial basics and remind ourselves that superior results are rooted in ordinary principles. **The formula for how to do well with money is simple.** However, the behaviours we battle (while implementing a simple formula) are hard. As straight-forward as they might seem, they remain universal investment and planning truths. As Charlie Munger loves to say: "*If it is trite, it is right!*".

## Your key ingredients

Be patient: This is a struggle for most investors. We want and expect results immediately. Unfortunately, the movement of financial markets remain out of our control. Charlie Munger also said: "*The big money is not in the buying and selling, but in the waiting*".

Don't overspend your income: Do we live within our means? Aren't our expectations too much? Unfortunately, our modern lifestyle dictates certain perceived wants, but are they really necessary? When do we have too much debt?

Allow for compounding: Over time, compound interest will contribute far more to your investments than you ever could. Most of us would probably be surprised when we study a compound interest table. The results don't seem intuitive. If you calculate 8+8+8+8+8+8+8+8+8, you can do it in a few seconds (72). If calculate 8x8x8x8x8x8x8x8x8, your mind will explode (134,217,728). It is a well-known fact that Warren Buffett accumulated the bulk of his fortune after the age of 60 (roughly $70 billion of his approximate $100 billion net worth). A lesser-known fact is that he started selling bubble gum door-to-door at age 6 and started investing at age 10. By the age of 30 Mr Buffett already accumulated about $10 million (adjusted for inflation). If he had followed a more "normal" life exploring his passions during his twenties and retired at 60 to play golf (and assuming he had the same stellar investment return during a 30-year career), his wealth would be about $12 million – that is 99% less than he actually has! Compounding over decades is a good reason to re-evaluate our financial habits.

Remain persistent: Month in and month out, keep making those investment contributions **regardless of the recent market performance and media distractions**. People devote tremendous amounts of time and effort to get the highest investment returns (Bitcoin, Ethereum etc.). Intuitively it seems a practical way to get rich. However, sound investing is not always about the best returns. Often the highest returns tend to be one-off hits that you cannot repeat often enough. Earning reasonable returns consistently for the longest period of time is far more important. Compounding does a phenomenal job when investors are persistent!

Act passive: There are two components here: 1) Investors should not act too often. Doing nothing is a choice and sometimes the right one too. **Good investments should suffer from benign neglect**. 2) Invest the bulk in less expensive index funds. Thereby the 'know-nothing investor' could actually outperform most investment professionals. Passive index funds have proven to be an excellent alternative to expensive active management of investment portfolios where high fees and performance formulas detract from the investment returns over the long haul.

## A financial plan and implementation

A detailed financial plan provides you with a roadmap to make practical financial decisions in all aspects of your life. A financial plan gives you the best possible chance of success in achieving your life goals and long-term financial peace of mind. Here are 10 important reasons for having and following a financial plan:

1. Setting goals: A financial plan allows you to identify needs and desires, and prepare for the future. Goals can include for example a new car, fulfilling travel ideals, family needs, education abroad, or any other future cash flow event.
2. Emergencies and unexpected events: Most of us need emergency savings to provide for any unforeseen or unavoidable event. The rule of thumb is that one should have at least 3 months' worth of income for a "rainy day" so that the primary objectives are not affected. Providing security to your family is an important aspect and as the old saying goes "prevention is better than cure".
3. Scaling down, or stop working: Retirement planning could arguably be the most important component since many individuals don't know how much they will need during the later years of their life. The **primary objective would be to maintain your life-style**. Such a plan and calculation provide visibility of where you are heading, what you can afford and how long your savings will last.
4. Tax efficiency: A major part of formulating a financial plan involves structuring investments and incomes in a manner that mitigates taxes as far as possible. Small tax savings can make a substantial difference to the sustainability of your investments over the long-term. A qualified financial planner can help guide and structure your portfolio in an optimal way.
5. Inflation and future purchasing power: Inflation destroys your buying power over time. An inflation rate of 6% reduces the purchasing power by 50% over 12 years. A portfolio with too much cash cannot beat inflation on the interest earned after taxation. Detailed calculations will prepare you better for the future.
6. Planning for an eventuality: How do you protect your income, family, dependents, and financial well-being from an unforeseen event? A financial plan also helps identify the level of investment risk that is required to provide for a certain lifestyle to be sustainable.
7. An estate assessment: This helps individuals understand the various tax implications upon death and how quickly their dependent(s) or beneficiaries will have access to their funds. Is there a will? Is it valid? Who is the executor? If not structured correctly, an estate could easily take more than 24 months to finalise. This could potentially leave dependents in a precarious and cash strapped situation. A well-crafted plan will help structure your local and foreign estates optimally for your heirs.
8. Liquidity: Liquidity means having access to enough cash. Liquidity ensures that there are sufficient funds available to supplement your goals and unforeseen costs such as an tax liability that can be paid for without having to sell a fixed asset or good investment.
9. A long-term investment strategy: It's imperative to compile a strategy that matches your risk profile and supports your goals. A strategy should incorporate the right balance of equity, bonds, property, cash and offshore investments to ensure the desired outcome.
10. To partner with a qualified and registered Financial Planner: Appoint a qualified and experienced person to construct and monitor a comprehensive personalised financial plan. This will ensure that a process is in place with a regular review, a support team, and is registered with the local FSCA (*Financial Services Conduct Authority*) that regulates financial services provided.