

Money Wise

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Colin Bloodworth shares strategies to build up your savings and avoid setbacks

Financial Snakes and Ladders

If you reach a stage in life when your accumulated wealth generates income to such an extent that you will never need to work again or worry about money, you can safely say you have achieved financial independence.

Some people are born in this state, which I think must make life less challenging and even boring. Most of us spend our lives trying to achieve the goal. Reaching it isn't simple; there are many steps to climb and pitfalls along the way.

If you grew up before the age of cable television, video games and electronic gadgets, you may have played the board game Snakes and Ladders. The game consists of a number of squares, perhaps up to 100, and you progress by taking turns throwing a dice.

If you land on a square with a ladder, you move faster toward the top, but if you land on a snake's head, you fall back to the tip of the tail. The first to reach the final square wins.

The quest for financial independence is similar: You make advances toward our financial goals but frequently experience setbacks. However, with a little care and planning, you can minimize the setbacks. Let's first look at some of the "ladders" and "snakes" and then examine how to dispose of the snakes.

Wealth-building 'ladders'

If the objective of the "game" is reaching the top of the board, here are some steps that will help you along your way:

- Build up healthy cash reserves.
- Build up cash savings in more than one currency.
- Protect yourself and your family with life, critical illness and medical insurance.
- Invest in your education and training. Knowledge will help further your career and enhance your income.
- Invest in a property as a family home.
- Build up a portfolio of stocks, bonds and commodities. Mutual funds are a convenient vehicle for the average investor.
- Make regular contributions to savings and pension plans.
- Invest in a wide range of "alternative" investments.
- government guarantees, they can't all be recovered and there could be a long delay.
- Currency falls sharply.
- You lose your job.
- There's a medical emergency and you lack insurance.

- Your family's breadwinner becomes critically ill or dies, but the family has no insurance or inadequate insurance.
- An earthquake, fire or flood damages your family's home and it's not covered by insurance.
- The stock market crashes.
- The failure to maintain a long-term savings plan results in heavy charges.
- One or more of your "alternative" investments turns sour.
- You fall victim to a scam.

Financial 'snakes'

It's important to beware of the "snakes" that can ruin your plans.

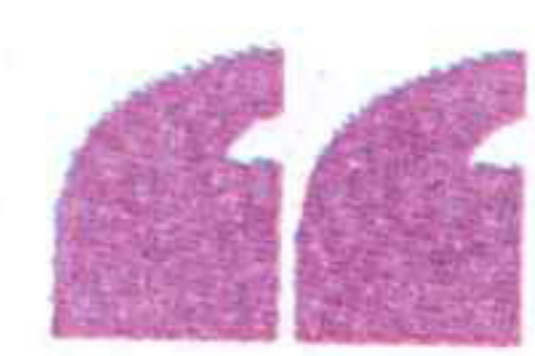
The road to financial independence is littered with obstacles that could make your best-laid plans go wrong. Here are a few examples:

- Your bank goes under. Although deposits are covered up to a limit by government guarantees, they can't all be recovered and there could be a long delay.
- Currency falls sharply.
- You lose your job.
- There's a medical emergency and you lack insurance.
- Your family's breadwinner becomes critically ill or dies, but the family has no insurance or inadequate insurance.
- An earthquake, fire or flood damages your family's home and it's not covered by insurance.
- The stock market crashes.
- The failure to maintain a long-term savings plan results in heavy charges.
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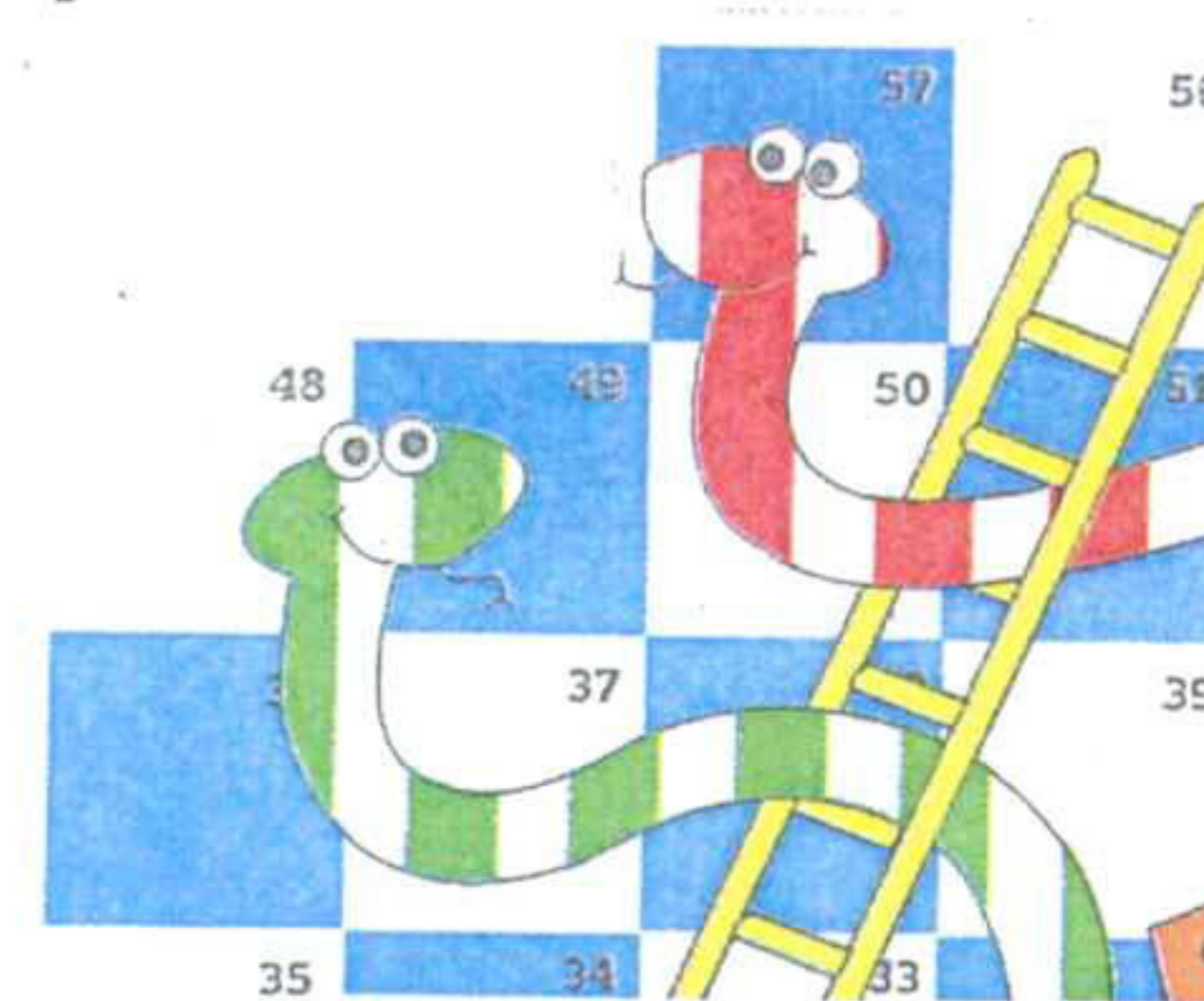
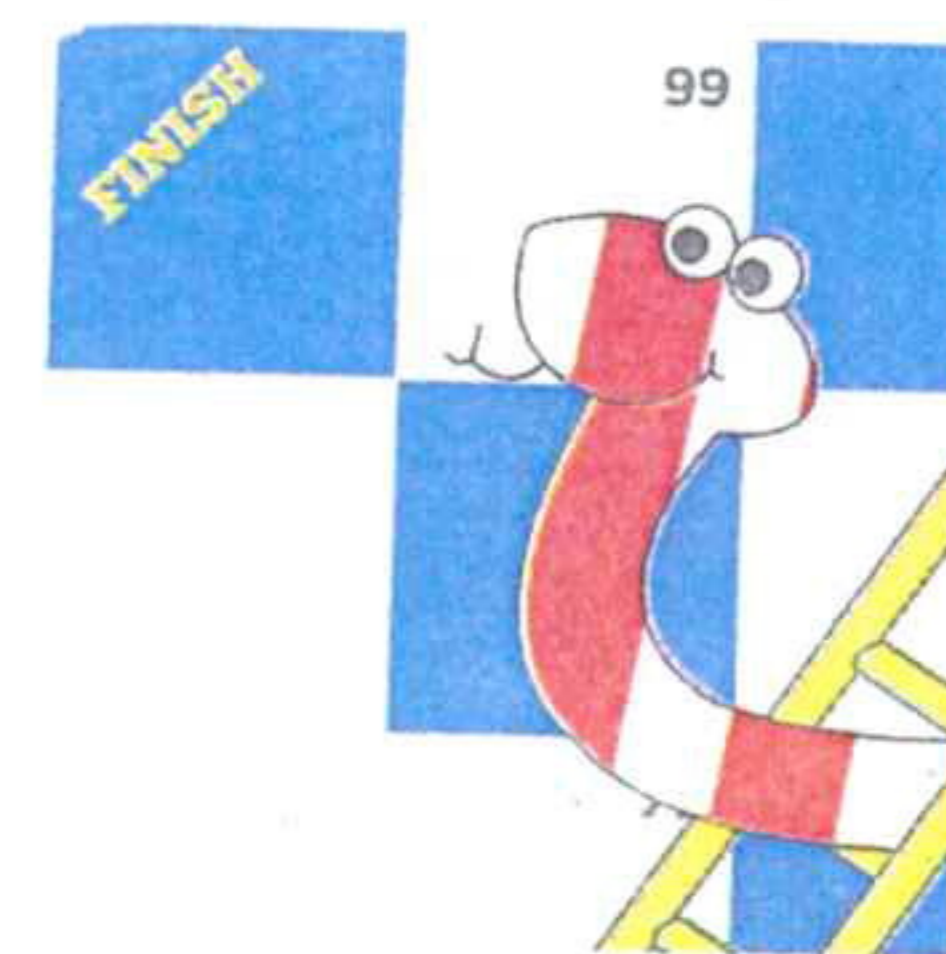
Some guidelines

How can you avoid the "snakes"? With due care, most can be avoided or their impact can be minimized. Let's see how:

- Always maintain ample cash reserves to meet short-term needs and in case of emergencies.
- If you have a large amount of cash, it won't hurt to spread it around at several banks, even if that means lower interest rates. Local banks have learned lessons from the Asian financial crisis of 1997-98 and international banks have learned from the 2008 meltdown, but the global banking system is still fragile and subject to shocks like the recent scandals.
- Hold cash and investments in currencies other than your "home" currency. The US dollar is often



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chosen because it remains the world's dominant currency. Make sure you hold any currency in which you have future commitments, such as for higher education.

- It's essential to fully insure yourself and your assets.
- Stock markets do crash from time to time. As long as you're in it for the long term, however, they will likely come back. Don't fall into the trap of buying high and selling low. Be patient and never panic.
- Long-term savings plans are an important feature of building wealth, but ensure you can make the commitment before embarking on one. The suspension of contributions or worse, an early surrender, can prove very costly.
- There are many highly profitable opportunities in the field of alternative investments, but make sure you understand them properly. To fully benefit, your cash may have to be tied up for years.
- Don't enter risky ventures. If the "experts" at JPMorgan Chase can lose \$5.8 billion on trading mistakes, so can you.
- Beware of financial scams, including those on the Internet.
- Seek independent advice if you are unsure of any financial product.

If you can climb the ladders and deal with the snakes, you stand a good chance of winning the game and achieving financial independence in real life.

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