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## MONEY WISE

### FINANCIAL INDEPENDENCE – A GAME OF SNAKES AND LADDERS

*If you have reached a stage in life when your accumulated wealth generates income to the extent 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 is not simple; there are many steps to climb and many pitfalls along the way. If you were a child before the age of cartoon TV, video games and electronic gadgets you may well have played the game of Snakes and Ladders. The game consists of a number of squares, perhaps up to 100 and you progress by taking turns to throw a dice. If you land on a square with a ladder you move faster towards 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 very similar; we make advances towards our financial goals but frequently have setbacks. However, with a little care and planning we can minimize the setbacks. Let's look at some of the 'ladders' and 'snakes' and then how to dispose of the snakes.

#### ***Wealth-building 'ladders'***

If you take the objective of the 'game' as reaching the top of the board, below are the various steps that will help you on your way:

- Build up healthy cash reserves
- Build up cash savings in more than one currency
- Protect yourself and family with life, critical illness and medical insurance
- Invest in your own education and training. Increased 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 offer a convenient vehicle for the average investor
- Make regular contributions to savings and pension plans
- Invest in a wide range of 'alternative' investments

***But beware of the 'snakes' that can ruin your plans***

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

- Your bank goes under. Although deposits are covered up to a limit by government guarantees not all may be recovered and there could be a long delay in recovery
- Currency falls sharply
- Loss of job
- Medical emergency and no insurance
- Critical illness or death of the family breadwinner – and no or inadequate insurance
- Earthquake, fire or flood damages family home – not covered by insurance
- Stock market crash
- Failure to maintain long term savings plan resulting in heavy charges
- One or more of the 'alternative' investments turn sour
- Falling victim to scams

***So how can we dispose of the 'snakes'?***

Clearly from the above there are many pitfalls along the road to financial independence. But with due care, most of them can be avoided or their impact minimized. Let's see how:

- Always maintain ample cash reserves to meet short term needs and emergencies.
- Local banks have learnt their lessons from the Asian financial crisis of 1997 and international banks from the 2008 meltdown but the global banking system is still fragile and subject to shocks like the recent scandals. If you have a large amount of cash it will do no harm to spread it around several banks, even if this means lower interest rates.
- It is a good idea to hold cash and investments in currencies other than your 'home' one. The US Dollar is often a currency of choice as it is still the world's dominant currency. Make sure you hold any currency in which you have future commitments, such as higher education.
- Clearly it is essential to fully insure yourself and your assets.
- Stock markets do crash from time to time. As long as you are in for the long term they are likely to come back. Don't fall into the trap of buying high and selling low. Be patient and never panic!
- Long term savings plans form an important feature of wealth building. But be sure you are able to make the commitment before embarking on one. Suspension of contributions or worse, an early surrender, can prove very costly.
- There are now many highly profitable opportunities in the field of alternative investments. But make sure you fully understand them. To fully benefit, your cash may have to be tied up for a number of years.
- Don't enter into 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.

***So keep climbing the ladders and know how to deal with the snakes. You then stand a good chance of winning the game and achieving financial independence in real life!***

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