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Q 1: With another financial year over I have been organising my finances to do my taxes and realise how much money my husband and I have earned this year. However, we don't seem to be getting ahead. What can we do to start capitalising on the good income we earn?

B.W., Harrison

A 1: The end of a financial year and the end of the calendar year are common check points for your financial situation, and you, like many others, feel they should be doing better. With so many components of any financial situation including income, expenses, mortgages, superannuation, etc. a very effective place to start gaining financial control is to do a budget and really look at how much you spend in a year.

Understanding what your lifestyle actually costs can be powerful for 2 reasons – 1) you can critically examine whether you really need to spend as much as you do, and if not, look at setting a limit for the year that covers what you would prefer to spend, and 2) it gives you a basis for comparison to understand whether you are on track to maintaining that level of spending into the future.

To make sure that you capitalise on your situation you can seek the services of a good Certified Financial Planner who can run financial projections for you. Here, they can help you understand whether you are on track to having a comfortable retirement, and to give you reassurance that the level of spending you are doing now can be comfortably sustained into the future. If it cannot be sustained, then this may be the impetus you need to find ways to cut your lifestyle spending.

Assuming that your spending level is not at a level compromising a comfortable retirement, then the financial planner can show you how you can improve on your overall financial situation. After setting a spending limit, say $60,000 pa, then this is effectively your job to stick to this limit. The financial planner can then build a financial plan for you showing the expected financial outcome as you take on increasing levels of risk such as:

- Investing superannuation funds (that are generally a long term investment when you consider drawing down during retirement) to target a greater long term return increasing from cash based investments up to long term High Growth funds with lots of shares and property exposure.
- Investing existing savings and future cashflow surpluses (after paying off a mortgage) to target a greater long term returns, increasing from cash based investments up to long term High Growth.
- Contributing more funds into superannuation, whether as salary sacrifice or using existing savings or future cashflow surpluses.

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- Using gearing strategies where you borrow money to purchase shares, High Growth managed funds or an investment property.

You should then be in a position to choose a financial strategy that you feel works for you, having explored the expected benefits of the different strategies and importantly, understanding the different levels of investment risk involved.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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