

YOUR MONEY IN 2012

TZANEEN: At the start of every year it makes sense to review what has happened with your finances in the last year and to make your plans for the year ahead. After a particularly difficult year like 2011, many of us might be tempted to ignore our finances in the hope that things will get better before we look at them again. In difficult times, it is often the mistakes that you avoid that will be your best investment in the years ahead.

2011 WAS A SHOCKER

Personally, 2011 was the most difficult investment year I have experienced since I started in the industry in 1996. The JSE was only down 0.6% for the year but the enormous volatility coupled with the low returns from other asset classes made it a horrible year. I think many investors are losing their capacity to deal with the massive uncertainty that we have experienced since 2008. I think we can call this investor fatigue and I am worried that 2012 is unlikely to be much better in this regard.

WE NEED POLITICIANS TO MAKE GOOD DECISIONS BEFORE THINGS IMPROVE

Unfortunately, most of the problems in 2011 revolved around economic problems that needed to be resolved by politicians before the world could move forward. If we recall, the US nearly hit the wall because of political grandstanding with the debt ceiling and Europe is still in a mess because politicians seem unable to take the necessary (and unpopular) steps to solve their problems. As we should all know by now, national politicians never do anything that might be unpopular until they have no other alternatives.

I am deeply sceptical about how much politicians actually understand about economics which makes me really concerned that we might have some very rocky times in 2012. I am equally sure that the foundations for recovery are being laid already. I only hope that our local politicians realise that an economy cannot survive when people get paid increasing social benefits without actually working for them. This type of pandering to voters will eventually come back to bite them – just ask the Greeks.

WHAT SHOULD YOU DO?

Try to focus on the things that you can control to ensure that your personal financial ship can navigate the rocky seas ahead. These are some of the things that you can control:

Debt

If you have debt, your monthly repayments should have dropped substantially over the last few years with the decline in interest rates. Unfortunately, interest rates won't stay low forever; they will go up again in the years ahead. If you owe money on your credit cards, personal loans or store cards, now is the time to pay them off. For people with a high debt burden, the current low interest rates are the equivalent of a stock market boom – you need to take advantage now.

Investments

If you have investments that are not doing well, try to understand why before you get rid of them. For example, many domestic stock market investments lost money in 2011. These investments can only increase if the broader market is rising. If your investment lost 3% or 5% in 2011, there is little point in selling now, it might recover strongly in the next few years. If you have a unit trust, you should compare it against its peers to get an idea of how it is really doing. If you have extra money

to invest, you need to plan how the extra money is going to be allocated and take steps to ensure that you stick to the plan. As an example, if you are going to invest in a global ETF, then sign a monthly debit order to ensure that you actually implement your plan. As we all know, good plans are worthless without implementation.

Tax

February is the end of the tax year, which means you don't have much time to get your tax affairs in order. If you have a car allowance, make sure you have done enough mileage to warrant the allowance. If you are short on mileage, it might be an idea to stop your car allowance for the last two months of the tax year. If you received a bonus at the end of the year, you can reduce your income tax by making an extra contribution to a retirement annuity but you must do it before the end of February.

Your will

Make sure your will is still applicable to your current situation. It won't take long to do this and you could be saving your loved ones a lot of heartache and difficulty if you take the time to do it now.

CONCLUSION

If 2012 is going to be another difficult year, then it is going to offer more opportunities for sensible people to profit from others who panic and sell quality assets at ridiculously low prices. Try to make sure that you are one of the sensible people and not one of the herd who might succumb to investor fatigue in 2012. If you have debt of any description, try to use this opportunity to pay down your debt as much as possible. We are in a massive "bull market" for people with debt so don't increase your debt now; rather pay off all your existing debts ASAP. When the debt market turns, you want to be in a position to use cash to buy good investments that others must sell because their debt repayments have become too much for them.