

Penguin Bitesize Guides to Better Money Management

Guide #3



Five Top Tips on How to Improve Your Financial Future

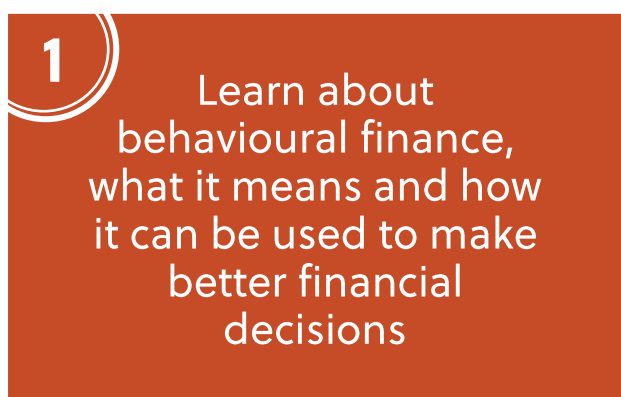


There is very little, virtually nothing, in the school curriculum about Money Management.

This leads to many people entering the workplace, starting families and progressing through their adult years with no grounding in finances.

The benefit of 'getting it right' and making smart decisions and plans is profound as it can leapfrog anyone to financial freedom, security, and independence.

This is a guide which takes the theme of better money management and focuses on some top tips which will help you improve your prospects.



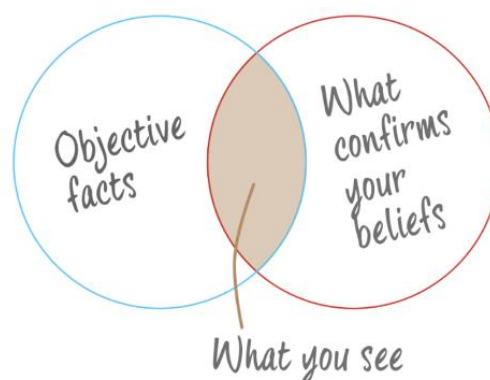
One of the most important developments in recent times has been the work done by a select group of economists to research and understand **behavioural factors in the financial world**.

The conclusion from this, is that all of us (there seem to be no exceptions) are influenced by behavioural traits and biases which dictate how we make our financial decisions.

Most people will have three or four significant biases, and these can have a negative impact on our finances.

For example, and probably the best-known, is confirmation bias.

This is where one backs up their pre-determined view (e.g., "property is a great investment") by leaning towards people, news, articles, research, and 'evidence' which supports their view. But ignores anything to the contrary.



In this respect confirmation bias is very damaging – as an individual susceptible to this will make decisions based on an imbalanced set of facts.

If everyone became aware of the various traits and biases (and there are many) that exist and could identify those that relate to themselves, the awareness would undoubtedly lead to much better decision making and outcomes.

Examples of Common Biases

• Overconfidence Bias	• Anchoring Bias
• Herd Mentality	• Confirmation Bias
• Loss Aversion	• Hindsight Bias

Penguin's advice:

Commit to learning more about behavioural traits and how you can work around them.

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Gain incredible value from regularly making small changes

Experts in forming habits have long encouraged the idea that the most effective way to develop a great new habit is to do so by taking a series of very small steps, which when taken sequentially end up making a big difference.

In a similar way, several of the most successful sports coaches in history have followed this approach, which has now become known as marginal gains.

Change a lot of very small things and they add up to making a big difference. This can be applied to how you approach your finances.



Saving an additional £10 per month every six months may not transform your wealth overnight, but if you keep upping what you save every six months for the next twenty years, then, boy, this will **end up** transforming your wealth.

You can apply this thinking and approach to everything moneywise. Review your expenditure and reduce at least one outgoing (by switching energy providers, for example), at least twice per year.

This works for your goals too; set yourself goals and then break them down into little action points, so you are constantly moving a step forward, however small a step that is, towards your goals.

Penguin's advice:

Instigate a policy of regularly reviewing your finances asking the question "what small changes can I make to move my position forward?"

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Don't be fazed by
taking calculated
risks

Research and reports about how those in the latter years of their life, **reflect** on their lives makes for powerful reading.

Most people say if they have regrets or if they could go back and change something it would be things like "to worry less", "take more risks" "I just wish I had decided to do X when I had the chance" and so on. The point is when people get towards the end, they really wish they could tell their younger selves to grasp every opportunity life presents.

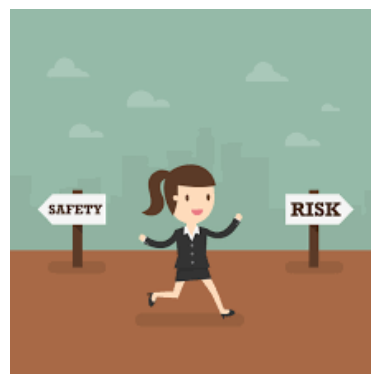
In terms of taking more risk, this is not a suggestion to do anything stupid or reckless, but it is a call to think hard about taking *calculated risks*.

To move jobs, to start a business, to save and invest. All involve risk of some sort. The problem is that we can be *too* cautious, focusing too much on the downside of doing something.

Just someone saying to you “that’s a risky move” can sound negative, even if a risky move is simply one way of describing what you have decided you want to do.

“Live your one life well” hints at an approach which always looks to the upside *and* the downside of any move or decision and frames this in such a way that ambitious goals should be pursued. But always within the context of a well-constructed plan.

Basically, don’t let the fact that something entails risk put an automatic break on your ambition.



Penguin’s advice:

Always look at your goals and be ambitious and unfazed by perceived risks which may put you off or hold you back

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Protect the cash machine that is you

In so many areas of your life and, especially with your finances and planning, you can take on risk because you can insure against the worst downside effects.

If you decide to start your own business, then one of the biggest challenges will be paying yourself if you are taken sick. You no longer have an employer to do this for you. So, that’s a risk of doing your own thing. But you can insure against this happening through critical illness plans or income protection plans.

If you have a mortgage and a family and you are the main earner, then you have incurred risk for your loved ones if you die. You can insure your future income and *ensure* the mortgage is paid off in full, through life assurance.

You can mitigate the risks through insurance in so many areas.

If you decide to invest for growth, you can “insure” against potential losses through the power of diversification. You can protect your finances from the ravages of inflation by investing into asset areas which tend to do well when inflation spikes, this is a form of “insurance”.

Just about every step you take towards your goals and within your financial planning, there will be forms of insurance, either actual insurance (life assurance, health insurance, house insurance etc.) or ‘proxy’ insurances - *measures* you can pursue and this acts to protect against unfavourable or unexpected, negative, scenarios.

Penguin’s advice:

Look at the risks you and your family face and then insure against these risks.

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Have a goals-based plan, but also focus on the process

It’s fascinating to read about people who succeed in different walks of life and note how regularly these people have done so, based on a relentless pursuit of their goals.

From Bruce Lee to Matthew McConaughey, Oprah Winfrey to Lady Gaga, and business leaders like Richard Branson, you will find serial goal setters.

But then there are lots of examples of people who set goals and don’t succeed, so what’s the truth?

Goals + Plan + Process

It seems to be that goals must be backed not just by a strong plan, but also by a system or a process.

Take, for example, a 35-year-old who has a goal to be financially capable of retiring at age 55. Simply having the goal won't make it happen.

So, a plan is formed. Maybe to save 20% of every penny earned and make those savings grow at the highest possible rate for the level of risk the individual can tolerate.

The plan is shown, through cash flow projections, to work.

But then the plan also won't make it happen unless there is a *reliable process to deliver* on both the goal and the plan.

The goal identifies the mark, the plan outlines how to reach the goal, it is the process, and *only* the process which determines the outcome.

This is the key, if you just have a goal or even a goal and a plan, but no defined, proven, reliable or calculated process, then the goal will, in all likelihood, be missed.



In the financial arena, the process is how you save, how you invest, how you take decisions, how you review, who you work with and – basically – how everything is managed.

Penguin's advice:

Focus on finding the best process and the best people to work with and you will radically alter your prospects and the chances of hitting your financial goals

About Penguin Wealth

We are a Cardiff-based Financial Planning firm formed in 2010 by a group of Financial Planners who share the same vision and love for what we do. Our processes, support team and the accreditation we have achieved all reflect our principles and prove that we are best placed to help you live the life you deserve with peace of mind.

Our Mission Statement

Helping People Live their Best Lives, by Making Smarter Financial Decisions.

Core Values

- At Penguin we Commit to our Words, Actions and Results
- Clients' Needs 1st – Always
- Communication is key
- Have Penguin Positivity

Providing the highest standard of advice is at the heart of what we do, and we are always extremely excited to see what we can help you to achieve in the future!

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