Example of report on financial advice for ms. daniela duff

Finance, Investment

Introduction

We live in a world of uncertainty today. Trust, honesty, goodwill, etc. are all qualities, which have ceased to be relevant to us any longer in their traditional definitions. The coming of the Internet has definitely helped the finance industry by speeding up communication, but at the same time, this speeding up has made us susceptible to many gimmicks and devices. We are lured by advertisements and end up spending fortunes in purchasing things, which we do not require or will not be productive in our cultures. This social nature of individuals is has been well expressed by P. T. Barnum had said, " Money is a terrible teacher but is a very good student". These are surely words of pure and prolific wisdom.

However, who has the time today to reflect upon wisdom today? Our lives are being so shaped by our master, money, that twenty-four hours a day feel short for us. What is the number one thing that strikes you when you open your daily newspaper in the morning in the finance pages? If you are from the UK, than perhaps a familiar word may be PPI or payment protection insurance. PPI today has emerged as the bane of many world famous banks such as STANCHART, Citi Bank, RBS etc. These banks (or their agents) sold PPI to clients without feeling the ethical need to tell them about it. Since this was percentage points above normal premiums, no one was bothered, and now these banks are paying through their noses as more and more tort cases are being filed in law courts.

Make hay while the sun signs, people say. So if the sun is shining in its entire splendor, can we just rush and start making hay? We cannot do that. We do not have the implements necessary for it or we just have not planned making hay. For doing anything, planning is really, very necessary. Similar is the case with financial planning. This is all the more so because, unlike the past, today financial instruments are of a variety of types. With these tools and proper planning, almost anything can be achieved.

The catch in financial planning is that it is always much easier to start at a younger age then at an older age. As per the risks involved, they range from high risk and more return to low risk and low return. It is now possible for a person to compile an investment portfolio for himself or herself, in such a way, that the investment cost is minimal for maximum returns on investment compared to the returns, which can be obtained by them after maturity of the financial schemes we had opted for. However, before carrying out any such thing, a person has to be aware of the types of schemes, which are available. it is difficult for anyone to gather such detailed knowledge, in these days of specialization, on any one subject because of the number of changes, which take place within short periods.

The occupations of Investment Banking and Investment Advisors have therefore cropped up and are very much in demand, today. Investment managers today draw salaries comparable to the top-level salaries in most industries.

Investments recommended to Ms. Duff

As explained, financial planning is a must today. Unlike all the people born with silver spoons, the majority of us pass through stages some where we are young , some when we at the middle and finally some when we are old. Our capability of earning money fluctuates with these periods. The organized person accordingly plans so that he gets maximum leverage possible both at the crests as well as the troughs.

In the scenario laid out before us, we have as follows:

- Daniela is 41 years old. She is single.

- Daniela is risk averse. She is fearful of the possibility that her initial capital too, may be lost.

- Daniela Duff works as a researcher in a multinational company and earns $26, 000 per annum.

- She has a savings account where she has her savings of $40000. The bank gives her an annual interest @ 1% (simple interest only).

- She has opted out of the Direct Contributions Pension scheme 1% so that she has more disposable money for shopping.

We have selected the above background for her story and the investment advice will to be given to Daniela for a period of fifteen years. As nothing is specified we assume that Daniela will be content with possession of a house, a vehicle, a comprehensive health insurance and enough cash flow to do whatever she wants to do, but could not do earlier.

Let us now see the famous “ Automatic Millionaire Investment Pyramid” (Bach, 2005). Bach here gives us four stages in a person’s life, which we can express as under

- Teens to Thirties (“ The Getting Started Years”): Taking very high risk, Aggressive, Planning may not be done too, Very aggressive, Can afford to take a great deal of risk.

- Thirties to fifties (The making money years): A little less aggressive, Plan all a person can, increase in income, increase in net worth, cash flow down, expenses down somewhat

(c) Fifties to the mid-sixties (The Pre-Retirement Years): Will take much less risk, more investment on assured returns like FD,

(d) Sixties to death (the Retirement Years): Keep whatever available. The bond and securities mature. Almost no steady cash flow presumed. It may be so that she takes up a temporary job as many part time people do. But we assume the worst, in case of an investment analysis.

- Daniela earns a salary of $26, 000 per year, which is low. We assume that Daniela’s peers have a salary package of $ 40, 000-$60, 000. The first thing that Daniela has to do is to hunt for a better paying job. She has her own car but lives in a rented apartment.
- Daniela is wasting her money keeping it a bank, which gives her a meager 1% interest. Her money is fact depreciating due to inflation. She does not know anything about variation of value with time. Under a defined contribution plan, an amount of 8% to 12% of basic salary is to be deducted from Daniela’s basic salary and kept separately. The employer is also supposed to deposit the same amount per month. However, Daniela’s employer now need not do the same as Daniela herself had shied away from the defined contribution pension benefits plan.

Daniela by refusing to opt for a DC pension scheme has made a mistake. She has nothing vide which she can be assured of her financial contentment when she retires and ages. Let us assume that

The Plan of action: Assets and Properties/Investments

‘ An enormous amount of analysis by the world's best investment professionals shows that the real key to wealth creation is asset allocation and a disciplined, long-term approach to savings and investment.” (Danieli; 2006).

But here not everything will be preferred by Daniela as she is averse to taking risk. Hence we will not enter the uncertain world of equity, futures and options for her. Let us hypothetically conclude that Daniela has been successful in getting a fair paying job. She has already missed her first years of moneymaking. How much can she save now? Let us assume that in the next 15 years, Daniela as she is hardworking and sincere, should get promoted with perks finally reaching a salary double that of now.

Daniels savings should not be less than $20, 000. 00 as she is single (we have assumed that she landed the new job). Every year for 10 years Daniela should separate $3000 as a sweeping recurring deposit. The balance $12, 000 she should invest in real estate which is booming now, Her car will not be an asset as it is a depreciating cost. This money she will use to make a RD for 2 years at a valued bank. From the same, she will take a loan from her bankers, depending upon the best offer, of course. Real estate prices are booming now and this will be a good strategy on her part. We will assume that Daniela has been insured for medical care so she should not spend money on that. However, she should invest in a Life Insurance Policy immediately as the more her age is, the higher will be the premium. In Daniel’s case, the Life Insurance Policy that she takes is more important to her for IT deductions.

The difference in cost of a permanent policy with the range of 08-85 years.

We have earlier used the term ‘ enough money’ and you must also have said or heard “ enough money to live in peace after retirement”. However, there is some ambiguity here. Now, how much money is enough money? Of course, it is as per Daniela’s living standards. Since Daniela has no one to bequeath her estate to, having huge Life Insurance liabilities, makes no sense. As per Daniela’s standards, her money should be so that even without working she can stay at a slightly higher social level than the one she is in now. Due to the effects of inflation, with due diligence and security, there is a chance that she may slip one floor low. Hence, it makes sense to ensure that Daniela stays at minimum her own living standards. If the situation is bad in the future all over the world, Daniela may miss the floor she is aiming for. In that case, if she aims high, she will at least be in the same floor. Honestly, what is the fun in saving and scouring all her life to ultimately live in a standard lower to what she was living at? It is a tragedy

II. Investments have already been given under Assets and Securities

Sometimes for investing debts are necessary. The problem is that if you have plastic with you and you find that the payments have soared and to top it all of, you have got negative credit ratings which will harm your relation with your banks. In the future, you may find debts necessary but then, you will be able to avail of them at an higher APR.

Pensions

Daniela has much to learn about investing. What will happen in her own age? Pensions are meant for that. There are two kinds of pensions, Defined

Contribution and Defined Benefit. In the first, both the employer and the employee have to deposit a sum of money (8-12%) of her gross every month. In the Defined benefit, the benefit that an employee is entitled to is shown. She should not do the same mistake this time.

That is what I have advised Daniela, to do. As she remained skeptical about it, figures talked. Daniela was told about the time value of money and the magic of compound interest.

The Magic of Compound Interest

Source: Your Money and your life

Conclusion 1 # Her $50, 000 at the end of 15 years at 12% interest will become $ 273, 650 which is more than five times the initial deposit amount of $50, 000. With a part of this money, Daniela can pay the balance mortgage of her house. She will have her pension with interest. She should buy government securities with her salary ups and bonus she will get.

$ 25000 for 10 years at 8% interest is feasible. This will give her a return of 2. 16 times the original i. e.$ 71, 250. This is only her basic wealth. All this legal wealth would not have been Daniela's had she not come to us. Please refer to Annexure 1 for the mathematical calculations

That is why it is so important for everyone to know about personal finance. Ms. Daniela Duff did not plan from an early age, but better late than never, I guess.

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