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Right bond can be nice earner

BUYING a 'bond' essentially makes us a lender to either a country or a business.

When you buy a sovereign bond you give your money to a country that uses it to borrow.

And, in return, they pay you interest.

When a person lends money to a business or company it is called a corporate bond.

There are companies out there that research both sovereign and corporate bonds and provide ratings.

The biggest firms are Standard & Poors, Moody's and Fitch.

These are the same ratings agencies that often give cash-strapped Ireland a 'downgrade'.

This means they're telling the investment world our

national debt is of a lower quality than it was previously, to the degree that our nation is not considered to be up to scratch or 'investment grade'.

The world of bonds is often referred to in passing as fixed income because you get a fixed interest rate.

Each bond gets issued for different terms — in the same way you might take out a loan for five, 10 or 20 years.

After the loan period is over you get your capital back unless the borrower defaults.

There are funds available from life insurance companies, Exchange Traded Funds, and you can also buy individual bonds.

Buying bonds is a vital part of a creating good personal balance sheet, overlook them at your peril.



Decision... investments

YOU'VE done the sums and totted up the savings, which means all that remains is to decide what to do with the extra cash you've uncovered.

Over the past three weeks I've shown you how to take a snapshot of your financial situation and use that to find ways to fork out less.

Without too much effort an average saving of €2,000 is possible simply by re-jigging some of your spending patterns and renegotiating big bills, so where to from here?

Before jumping into any new deals or plans it may help to bear in mind the ranking of priorities used by financial advisors.

- 1 Protection
- 2 Investment
- 3 Savings
- 4 Retirement planning
- 5 Mortgages

Protecting against financial loss is the most important thing to help weather the storm of unexpected, life events.

That's why making sure you pay as little as possible for life, health and other vital insurance has been a key part of our money-saving plan.

REWARD

Investment is usually done with a specific goal in mind, taking a small risk with your money in return for a (we hope) significant reward.

Saving is often done via deposits for a certain event in the future — for example a house down-payment, an education fund or buying a car.

Investment goals and savings goals can sometimes cross, but ideally you'll want to keep them separate, as if you invest steadily over time it can lead to real wealth.

The general rule I advise people to follow in the area of investment and savings is that the percentage of your savings held in a fixed income (bonds) or high-yield deposit accounts should match your age.

A good rule of thumb is to use your age as a percentage for how much you should have in safe assets like bonds or good deposit products.

So a 40 year old would have 40 per cent in fairly safe things like these, a 20 year old would have only 20pc — with the other 80pc of their savings better suited to stocks.

Putting money into commodities (such as oil, gold and silver) is often a good protection against any possible future financial loss due to inflation.

Having a small amount of money in these is similar to a form of investment insurance, but generally we wouldn't advise having more than 10pc of your money in them.

Investing in stocks or securities should make up the rest.

So, in general, your investments will be made up of stocks or shares, commodities, and fixed income prod-

Get your finances in order

WEEK 3

Invest wisely... money will soon stack up



Wad to do next

BOOST YOUR SAVINGS

ucts bonds/deposits. Other assets such as property are also an option but you should investigate what you are getting into before doing anything.

Looking into these options is worthwhile because, at some stage in the future, you'll stop working and need cash to live off. For many of us retirement will have to wait until we are 68, or maybe even 70.

And while these types of investments might seem daunting, there are plenty of professionals out there to help — from general financial advisors to accountants and tax specialists.

A few considerations to think about before employing an advisor are:

- Does this person have a professional qualification and professional indemnity insurance?
- Do they come with any

recommendation or referral (somebody who can vouch for them)?

Are they regulated by the Central Bank? Do you feel comfortable with them as an advisor?

Are they actually offering advice or simply trying to sell you something?

ACTION

Any plan that stands a chance of success should have an outline and the bones of that will be the actions you take in order to be more wealthy.

Some risk is necessary, even though the last decade was a bit of a washout for many investors.

But the fact remains that, throughout modern financial history, there are not many people that save their way to real wealth and the risk that goes with making cash is just a part of life.

Q&A

Bank interest cash is missing

Q! BOUGHT a bond from my local bank but don't get any interest payment on it. Is the bank keeping that money?

A I doubt it because it sounds like what you have probably bought is an insurance bond and not a bank bond.

Lots of things are called a 'bond' without being secured and an insurance bond is an example of this.

Basically life insurance companies

create an investment product and call it a bond, which they sell to investors.

They then use investors' cash, which is called a fund, to buy stocks, shares and properties.

In turn, the value of this fund can go up and down.

In contrast when we buy a bank bond, we're effectively lending to the bank and investors are paid interest and their original investment, making it a safer product.

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