

Personal Finance Strategies

By Philip Braude

Cost of Living

The ancient Chinese had three curses of increasing severity:

- May you live in interesting times
- May you come to the attention of those in authority
- May you find what you are looking for.

The second of these curses is alluded to in the Fiddler on the Roof. The Rabbi is asked if there is a blessing for the Czar, and replies “May God protect the Czar, and keep him ... far away from us”.

Anyone reading the news over the past months can well understand the first curse. It’s getting far too “interesting” for my comfort. As regards financial issues, many people are stressing over the ever rising cost of living. We all know that many expenses have risen sharply over the past year, such as petrol, which is 15% more expensive than a year ago. This rise would have a knock on effect on everything which has an element of transport to it, such as food, bus fares, and airtravel.

In addition, the shekel has strengthened against other currencies (9% against the US\$ and 7% against the pound). This is bad news for people with income in foreign currencies, spending shekels, but good news for people earning in shekels. However, the benefit of a lower forex rate might not always be passed on to the consumer in the form of lower prices, so this is not always beneficially advantageous.

In Israel, many expenses are denominated in foreign currency, and payable in shekel. This practice is being discouraged by the authorities, but is still prevalent. This risk can be minimized by matching income with expense, or visa versa.

- Matching expense to income : I am often asked what in currency a mortgage should be taken. The answer is simple : Match the currency of your income. That way there is no room for currency fluctuations.
- Matching income to expense : If you have expenses in a particular currency (say rent in US\$’), then try and match income in the same currency. This is easily achievable in planning your investment strategies, as often investment options are available in different currency choices.

When purchasing property under construction, be aware that often the payment amount agreed is linked to the building index (which is normally higher than the CPI). In addition, it is often ratcheted, which means that it goes up with the index, but not down as the index falls. This could often add on many thousands of shekels to the final amounts paid. One can avoid this cost by paying amounts stipulated in the contract earlier than due date. I would however, caution to do this in consultation with your property lawyer, to ensure your other rights are not prejudiced.

An area of concern, is when a person reaches retirement age. The cost of elder care is often far greater than a younger person’s cost of living. To cater for these expenses, it is imperative that one has saved and invested appropriately during one’s working years. In this regard, it is important to have developed a long term investment strategy, which includes exposure to investments generating higher returns over the investment cycle. A common conception is to avoid “risk”, and keep money “safe”. The erosion effects of inflation eat away at the “safe”

money, causing a greater risk of the retirement goal not being met. When one takes a long term view, the short term volatility is compensated for.

It is important to understand that if one invests in asset backed investments (such as property), then one can expect that in due course the value of the investment would take into account both foreign currency movements, and the effects of inflation. This is why such assets are called “an inflation hedge”.

Lastly, one can invest in asset classes which match the increase in cost of living. This is easily explained in the case of petrol. As the cost of oil rises, so does the cost of petrol at the pump. This has a knock on effect on the price of just about everything else. An investment exposed to oil would also rise, and generate returns, which could fund the increased costs of living.

Although it is impossible to effect the macro economic forces around us, with careful analysis and planning, we can compensate for the effects on a day-to-day micro level.

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