FOUNDATIONS FOR FINANCIAL WELLBEING

5 Growing Your Money For The Future

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Growing Your Money For The Future

The way we manage our money in our everyday lives is critical to our overall financial wellbeing. But one thing that's all too often overlooked is the importance of planning for the future. The money you earn today needs to go, in some part, towards your financial future, both in the short term and the long term.

Starting to contribute to your financial future from a young age can make it much easier to achieve financial security later in life, and ensure you're prepared for whatever life throws at you. None of us want to work forever, so saving for retirement can allow you the freedom to do things you enjoy when you're no longer earning. Even before we retire, there may be times in life when we're not earning, or when we need to call upon extra money — for example, taking time off to raise a family, go traveling, or time out of work due to illness or redundancy.

When it comes to setting money aside for the future, we have two options: save it, or invest it. The latter is a common option for putting money aside for your long-term future because you have more time on your side for your money to ride investment cycles and grow at an overall faster rate than in a savings account. On average, investment returns are said to be between 7-9% per annum, whereas savings accounts can be below 1%.

What is investing?

Investing refers to the act of buying something that produces an income, and/or that you plan to sell for a higher price than you paid for it. Largely, investing for your future is centered around investing in the stock market, which means investing in companies and funds that are publicly listed. When you invest, you're buying a tiny part of the company or fund you've chosen. Imagine the business is a pie, and you're buying a really small slice.

Aside from investing in the stock market, you can also invest in property that you might rent out or that may grow in value over time. Unlike the stock market, you need a much larger chunk of money to invest in property.

What do I invest in?

There are a number of different ways investments can grow your money for the future. Some options include:

ETFs

ETFs are exchange-traded funds, which are essentially baskets of different shares from multiple companies, packaged up and designed to track an index's performance — for example, the New Zealand Stock Exchange (NZX). That means the shares in that ETF are working together to generate a return that's on par with the index's performance itself.

Managed funds

Managed funds are similar in that they too are a collection of multiple shares, but instead of tracking an index, they tend to be actively managed by a fund manager, in line with a predetermined investment strategy.

Single companies

Single companies are the companies we interact with every day. Air New Zealand, Apple, Amazon, Afterpay. You can buy shares in any publicly listed company directly — but unlike ETFs or managed funds, your return on that investment relies solely on that one company.

How does investing make me money?

Investing makes you money in two ways:

- Capital growth: When the value of an investment increases over time, this is called capital growth. You can make money by selling that investment, like shares in a business, or a property, for more than you bought it for. The profit you make is called a capital gain.
- Dividends or rental payments: When companies make a profit, sometimes that profit is distributed among shareholders in the form of dividends. This means you can make money without selling your investment. If you own property, you may rent out those properties to tenants, and the income generated from their rental payments can make you money while you still own the asset too.

Understanding your risk tolerance

The key thing to remember with investing is that your investments are not guaranteed to grow in value. Unlike cash in your bank account, your investment values can drop, and even reach zero. Because of this, investors need to understand their risk tolerance, and make investment decisions accordingly.

A high risk tolerance means you're much less worried about losing money, and may wish to take risks on investments in order to make a greater return.

A lower risk tolerance means you're more worried about losing your money, and therefore would rather make more conservative investment decisions that bring smaller growth over time, rather than aiming for bigger returns.

All investments carry risk. But we can spread that risk by diversifying the things we invest in, so that we don't have all our eggs in one basket. That can mean investing across different industries, companies or funds, so that if one investment value drops, it can be offset by other investments we also own. ETFs and managed funds can help you diversify your investments, particularly as a beginner.

When should I start investing?

Good question — but there's really no 'should' in investing. When and how you invest needs to be determined by your own personal circumstances, financial capacity, goals and risk tolerance.

The most important thing to consider is whether your financial situation is stable enough to take on the risks of investing. As a general rule of thumb, try to have an emergency fund saved up and consumer debts paid off before you start investing. This is because money held in investments will fluctuate in value. Some days it could be worth substantially less, some days substantially more. If you hold money you might need to use in investments and find yourself needing to access that money during a dip in the market, you could lose money and find yourself in financial difficulty.

There's an age-old saying that time in the market always trumps timing the market. The longer you are invested, the more time your investments have to recover from slumps and average a return over the long term.

Deciding to invest means being comfortable with the fact you'll likely need to leave your money invested for several years or decades in order to manage risk and navigate the fluctuations in the share market.

Where do I invest?

As investing has grown more and more popular in recent years, it's also become more accessible than ever. You previously needed to have a good chunk of money to invest and some knowledge around stock brokers to be able to buy shares. Now, you can do it from your smartphone.

Choosing an investment platform

Choosing a platform comes down to personal preference and investing goals. The main things to consider are:

- User interface
- Fees and how they relate to your investment approach
- Ownership of shares
- Access to share markets (e.g. NZ, AU, US)

Sharesies

New Zealand investing app Sharsies allows you to invest in ETFs, managed funds and single companies with as little as 1 cent. With no minimum investment, you can get started instantly. You can invest as a one-off transaction, or regularly through an auto-invest transfer, and pay 0.5% per transaction for investments up to $3,000, and 0.1% above that.

Brokerages

Outside of app-based investment platforms, many banks and financial institutions also have their own share trading account options — like ASB Securities.

Kernel

Kernel is a managed index fund platform that allows you to invest in 11 funds with specific investment profiles in both NZ and globally. They have a range of investment options, including self-directed, auto-investing and fully advised. The minimum investment is $1 per fund, with no membership fee for portfolios under $1000 and only $3 per month after that. Management fees vary for each fund.

Hatch

Hatch allows Kiwis to invest in US stocks and funds, and it's owned by the NZ Post, The NZ Super Fund and the ACC. With no minimum investment, you can buy shares in the biggest companies in the world like Netflix, Tesla and Sony, and keep track of your investments on your phone, while paying a $3USD flat fee on every order up to 300 shares.

What about Kiwisaver?

Good question! In New Zealand, Kiwisaver is a voluntary retirement savings program available to residents, regardless of their employment status. With Kiwisaver, you can contribute regularly to a fund that’s set aside for your retirement, to supplement your superannuation income when you retire — we’ll talk more about that later.

Choosing your fund type

Kiwisaver funds carry different levels of risk:

- Defensive
- Conservative
- Balanced
- Growth
- Aggressive

These different categories represent the varying levels of risk associated with the investments the funds hold. More defensive funds have lower risk and require less minimum time in the market for optimal results, while aggressive funds carry higher risks, will fluctuate more in value, and are recommended to be invested in for a minimum of 13 years for optimal results.

How to choose a fund type

Choosing which fund type is right for you will depend on two things — your personal risk tolerance in general, and the number of years until you plan to start spending your Kiwisaver money.

Generally, you can access your Kiwisaver when you reach retirement age, at 65. But, in some circumstances you can access your money early, in cases of serious illness, or towards buying your first home.

So, if you're in your early twenties and don't plan on using your Kiwisaver towards your first home, you may decide to choose a fund type that's geared towards growth or aggressive investments. If you're in your fifties, a more defensive or conservative fund might be a better option to reduce your risk in the short term before you start accessing the money.

Check fund fees and past performance

Aside from your fund type, you will also need to check the fees and performances of different Kiwisaver providers. You pay a fee to your Kiwisaver provider to manage your fund for you, but more fees doesn't always mean more benefits — and you can actually wind up with substantially less in the long term if you overpay on fees.

Compare your fund provider to others available, and check the fees and past performance of each to decide which is going to be the most beneficial to you. You can also do your research into what different funds are invested in, how ethical they are, and how well they align with your personal values.

Remember that the past performance of a fund doesn't guarantee the future performance, but can give you an idea of how the fund has performed in comparison to others in recent years.

Make the most of government incentives

The Kiwisaver government contribution is an extra payment into your Kiwisaver when you make the minimum contributions each year.

Currently the minimum contribution is $1042.86. Contribute this each year and the government will contribute $521.43 into your fund for you.

New Zealand Superannuation

In addition to your Kiwisaver, New Zealand citizens and residents may be entitled to superannuation, which is a government payment towards your living expenses in retirement.

You can apply for the superannuation payment when you reach age 65. The amount you can receive depends on your tax code and your living arrangements, and whether you’re a single or a couple, but it can be up to $1013.28 per fortnight.

Planning for retirement

Planning how much you'll need for retirement can be complicated, because nobody really knows quite what life will be like when we do eventually retire. That said, it pays — quite literally — to start planning early.

Think about what type of lifestyle you'd like to have when you retire, whether you already own a home or whether you will need to consider rent payments, and how your Kiwisaver contributions, superannuation and personal investments can help you live a comfortable retirement.

Reverse engineering how much you need to contribute to your retirement can help you make smart decisions in the present, that set you up well for the future. Remember, the longer your money has to compound and grow over time, the better chance you have of financial stability later in life — and that can come from your Kiwisaver, your superannuation, and your own investments outside of retirement schemes.

Tracking your retirement savings with PocketSmith

PocketSmith allows you to keep track of your investments and retirement savings in one handy dashboard. By connecting all your accounts and using scenario planning and forecasting tools, you can get a clear picture on how your contributions are setting you up for the future, and explore the impact of stashing a little extra from time to time to give your future a boost.

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