HOW TO

PLAN YOUR MONEY MATTERS

after school
and university

NICO SWART
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## DRIVE POOR BUT STAY WEALTHY (A CAR)

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The fact that only about 6% (six out of every 100 people) of the population are able to retire in a state of financial independence underlines the tremendous need for education on personal financial planning in South Africa. This problem starts at and after school when thousands of uninformed young people begin their adult lives with no grasp of how they should plan their finances. These young people also underestimate the importance of early financial planning and the adverse financial implications of a lack of planning. This book is an attempt to discuss the most important aspects of and factors in personal finances that can affect the young person’s financial future.

ALL SCHOLARS, especially those in Grades 11 and 12, ALL STUDENTS AND ALL YOUNG PEOPLE, especially young married couples, SHOULD HAVE A COPY OF THIS BOOK. PARENTS WOULD BE WELL ADVISED TO BUY THIS BOOK FOR THEIR CHILDREN.
• DO YOU WANT TO BE ONE OF THE 6% (SIX OUT OF EVERY 100) OF PEOPLE IN SOUTH AFRICA WHO ARE FINANCIALLY INDEPENDENT WHEN THEY RETIRE?

The long-term financial goal of personal financial planning is financial independence after retirement. What does financial independence mean? Financial independence means a retired person who is not dependent on family, the state or friends for an income. Moreover, such a person does not have to continue working after retirement in order to survive. A financially independent person’s own investments are sufficient to live on after retirement.

• WHAT HAPPENED TO THE OTHER 94% (94 OUT OF EVERY 100)?

They either failed to plan or they did not plan correctly because they did not learn how to plan their money matters early in life.
People are confused largely by the following factors:
- the changing economic and political climate
- affirmative action
- inflation
- the large variety of new financial institutions and financial products
- conflicting advice on personal finances
- reports in the media on personal financial matters
- the thousands of brokers at our disposal
- changing legislation
- individuals' different lifestyles, attitudes to risk, financial situations, needs and short-, medium- and long-term objectives

**DONT BE DISCOURAGED**

All that has happened is that changes that have occurred have meant that people's planning periods have been shortened from twenty years to three years at the most. Today you need knowledge and objective advice to be able to plan your financial future properly. Allow yourself to be guided by sound and proven financial principles.

Yes, by learning how to plan you can be one of the 6%.

**PEOPLE DON'T PLAN TO FAIL, THEY FAIL BECAUSE THEY DON'T PLAN.**

**Remember: YOU ARE A WINNER!**

**START PLANNING THE SIZE OF YOUR VICTORY NOW.**
2 ONLY A LIFETIME

When you are young a lifetime seems infinitely long. Granted, life may well be long but the question is what are you going to do with it? For many individuals who have already retired (94%) life was too short to generate enough funds and capital for retirement. A lack of systematic and especially early financial planning is usually the cause of this distressing and negative situation. Generally, the wrong investments or no investments at all are made because of a lack of knowledge and/or financial discipline (people make no provision for retirement because they live only for the moment) spanning a lifetime.

It is already too late for these people to implement their financial plans now. Most of them are too old and/or sick to continue working, earning an income and using it for living expenses and investments. These people are on borrowed time without the necessary means for survival at the end of a lifetime. Personal financial planning must start at the beginning of a young life (especially after school) if this scenario is to be avoided. Similarly, sustained planning must be done over a whole lifetime (see the human life cycle until retirement in figure 1 on page 6).

- WHAT DO YOU DO WITH YOUR TIME?

Whether you do something or nothing time passes just the same. Yet it is strange how many wealthy successful people have so much time and others, who can hardly survive, so little. The difference lies in the fact that
the former category PLAN and utilise their time objectively. This is also why we can say that someone's money or possessions are an indication of that person's vitality or energy.

If you allow the following things to waste your time you are not PLANNING: personal visits, incoming telephone calls, saying 'yes' to everything, deciding too slowly, self-imposed crises, no delegation – doing everything yourself. Planning comes down to DISCIPLINE in your life.

- **PLAN AND GET YOUR CAREER ON TRACK**

Planning forces you to think about your life (the only one you'll have). You become aware of your objectives and, as a result, the priorities to which you should be devoting your time, attention and activities. Discipline yourself to live with purpose. Remember, if you aim at nothing in life, you will surely get it.

- **ALL OF US LACK FINANCIAL DISCIPLINE**

As statistics in South Africa show, 94% of individuals have never exercised financial discipline in their lives. Life probably seemed very long to them too – initially. Financial discipline means financial independence after
retirement. PLAN and cultivate FINANCIAL DISCIPLINE in your life and in your money matters.

- **MY PERSONAL FINANCIAL PLANNING CYCLE**

The figure reproduced on page 6 shows the human life cycle. From the figure we can see that we all devote a certain span of years to education. Following these are the working years and, finally, retirement. Everyone retires eventually, for the following reasons, among others:

- age
- illness
- unemployment
- accepting a package at a relatively advanced age (for example, 55 years and older)
- affirmative action
- not being fit for work
- voluntary retirement

Early, systematic personal financial planning, or the absence thereof, will determine each individual’s financial future. Some will starve to death (after retirement), others will just survive, some will be relatively comfortable and a few will retire very wealthy. Choose now how you and your family will retire one day – with or without money to meet your basic and other needs.

The time for establishing and developing the correct foundation for personal finances is during the education years. Planning and financial discipline should be learnt at this stage. Then, if someone has money at his or her disposal during his or her working years (a salary and other
benefits) he or she will know what to do with it – especially with a view to retirement. All one’s money should not be wasted during the working years on trifles or unnecessary or expensive holidays and cars. No, the necessary investments (even if you do belong to a pension or provident fund) must be made, especially with a view to capital growth. These investments should be kept until retirement – even after retirement, if more growth is required.

![Figure 1: Human life cycle to retirement](image)

A pension is never enough after retirement. People who rely on their pensions alone are worse off financially after retirement than before. A deficit in income arises which can be made good only by additional investments that have been made over a lifetime. Otherwise the individual will have to settle for a far lower standard of living after retirement. A pension will meet on average only 50% of your needs after retirement.

Therefore, the only way to eliminate this deficit in income after retirement is to make separate provision for it yourself.

Retirement and the possible income deficit at that stage should be clear from the graph. You know where you are in the life cycle (school, tertiary education, working years). Select your current position in the life cycle and call it point A. Now select a point B to indicate when you want to retire financially independent. Your planning can make it possible for you to reach point B. You know where you are now and where you want to go – just as if you were travelling by car. Now you plan the best financial route to get there.

This is precisely how simple financial goal achievement can be if we plan our financial future according to specific guidelines, purposefully and in good time. Look at the following blank cheque with your name on it. You fill in the life amount you would like to have. This is precisely the effect of planning. It allows you to move from your point A to your point B. PLANNING guarantees your cheque will pay out at point B.

---

**LIFE BANK**

To the reader: Your name

R Your amount

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MAKE YOUR DREAMS COME TRUE – PLAN NOW!
ARE YOU FINANCIALLY FIT?

What is financial fitness? You are financially fit if you not only know the answers to the following questions but have applied them in your life:

- Do you know your current financial position? (Do you know what your point A in the life cycle is?)
- Do you have a point B?
- Do you know how to get to your point B?
- Are you aware of all the factors that affect your personal financial planning?
- Do you know all the different personal financial planning areas?
- Do you know how to do personal financial planning?

For most young people the answer will be a resounding NO. Don’t let this worry you – read on to find out how to design your FINANCIAL EXERCISE PROGRAMME.

PLAN, BECOME FINANCIALLY FIT, BECOME A FINANCIAL WINNER.
PLANNING EARLY IN LIFE

MUST I REALLY START PLANNING THIS EARLY?

In fact, personal financial success depends entirely on planning early enough. The sooner you start the better. By the same token, the longer you do it the better. Think back to point A and point B in your life cycle. You may have indicated point B at the age of 50 years, but this does not mean you will be cashing in all your investments at 50. Keep investments you do not need to live on for as long as possible. This will mean that your capital growth (the increase in the value of your investment) will be high and more rapid because you are earning interest on interest without having to pay any tax on it. Let's look at a practical example: you invest R100 per month for periods of 20, 25, 30 and 40 years at 15% interest per annum. Now let's look at what the future investment values would be over the different terms:
<table>
<thead>
<tr>
<th>Term</th>
<th>Amount</th>
<th>Interest rate</th>
<th>Future value</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 years</td>
<td>R100</td>
<td>15%</td>
<td>R149 723,95</td>
</tr>
<tr>
<td>25 years</td>
<td>R100</td>
<td>15%</td>
<td>R324 352,96</td>
</tr>
<tr>
<td>30 years</td>
<td>R100</td>
<td>15%</td>
<td>R692 327,96</td>
</tr>
<tr>
<td>40 years</td>
<td>R100</td>
<td>15%</td>
<td>R3 101 605,47</td>
</tr>
</tbody>
</table>

Let's express the same example in slightly different terms: four people invest R100 per month at 15% per annum till the age of 60 years. They begin at 20, 30, 35 and 40 years of age, respectively.

<table>
<thead>
<tr>
<th>Age</th>
<th>Amount</th>
<th>Interest rate</th>
<th>Future value</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 years</td>
<td>R100</td>
<td>15%</td>
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<td>30 years</td>
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<td>35 years</td>
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<td>40 years</td>
<td>R100</td>
<td>15%</td>
<td>R149 723,95</td>
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In other words, the person who starts investing at 20 years of age gets more than R3 million from a single investment. If you wait until you are 40 years old before you start investing you will have to be satisfied with about R150 000 at the age of 60.

Imagine the long-term return if you also invested in unit trusts for an equally long period (and you earned capital growth at more than 25%). This is how you protect yourself against inflation.

START PLANNING AND INVESTING IMMEDIATELY.

WHAT IS INFLATION?

Inflation is the decreasing buying power of money. This means that today
R1 will be able to buy more than that same R1 in ten years' time. To calculate the effect of inflation on the buying power of money you use a factor of 72. Say the inflation rate is 12% per annum. Divide 72 by 12 and you get 6. This means that inflation halves the buying power of money every six years.

For example, in six years' time R100 will only be able to buy what R50 can buy in today's money values.

**HOW SHOULD I PLAN?**

Remember your points A and B. Where are you and where do you want to go? Planning is about the way you are going to get to point B. First you must know your current financial position or situation. Now set yourself short-, medium- and long-term goals. For example, you may want to have R1 000,00 in a savings account in six months' time (short term). You may also want to use the returns on unit trusts (that you don't have yet) as a deposit on a second-hand car (medium term). In five to 20 years' time you want to use an endowment policy for a certain purpose (long term).

Now you must draw up a budget for yourself in order to determine if you will have the money every month for these three kinds of investments. If you do and your budget works, implement your plans: open a savings account, start buying unit trusts and take out a policy.

If your budget does not work, set more realistic short-, medium- and long-term goals. For example, confine yourself to buying only unit trusts for the present.

Revise your plans on a continuous basis and remember this is a planning process that goes on all your life if you want to be a financial winner.
Guard against constantly changing your investments (unnecessarily) – this costs a great deal of money. The planning process or the steps in planning are outlined in what follows.

Determine your current financial position (your point A). Determine your short-, medium- and long-term goals (your point B). Draw up a budget and see if you will be able to achieve your goals and if you will have enough money to set aside. Implement your plans if your budget allows (take out a policy, invest in unit trusts). Change your objectives if your budget cannot accommodate them. Revise your plans on a continuous basis.

- HOW DO I DRAW UP A BUDGET?

<table>
<thead>
<tr>
<th>Example</th>
<th>Jan</th>
<th>Feb</th>
<th>March</th>
<th>...</th>
<th>Dec</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Income</td>
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<td></td>
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<td></td>
<td></td>
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<td>(a)</td>
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<td></td>
<td></td>
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<td>(b)</td>
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<td>(c)</td>
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<tr>
<td>1 Total income</td>
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<td>Expenses</td>
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<td>(a)</td>
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<td>(c)</td>
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<tr>
<td>2 Total expenses</td>
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<tr>
<td>3 Surplus (+) or deficit (−)</td>
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<tr>
<td>(1−2)</td>
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<tr>
<td>4 Cumulative surplus or deficit</td>
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A surplus occurs when your income exceeds your expenditure. A deficit means that your expenses exceed your income. The surplus or deficit should be as close as possible to nil. Large deviations (− or +) point either to poor planning (unrealistically high or low estimates of income and/or expenses) or to serious financial problems (too much debt, perhaps).

PLAN REALISTICALLY AND KEEP TO YOUR BUDGET – AFTER ALL, FINANCIAL DISCIPLINE IS YOUR WATCHWORD!
Hurrah! No compulsory military service! Training and study are more important today than ever despite affirmative action, and the new South Africa offers many opportunities for young people. If you consider that the South African Defence Force kept so many people out of society for ten to fifteen years of their lives with compulsory military service and military camps, the absence of any such obligations today is a tremendous advantage.

**WHAT WILL MY STUDIES COST ME?**

Those who wish to further their studies must weigh up the cost of doing so carefully against the financial benefits (salary package) of an occupation (provided, that is, they will be able to get a job on completing their studies) or working for themselves. Study costs include the following factors:

- distance to be travelled to and from the university or technikon
- number of classes to be attended
- subjects to be registered for
- the costs of transport (car or train)
- the availability or not of a bursary
- the course in question
- the number of family members studying at the same time
- the accessibility of lecturers and a library

Remember holiday or part-time jobs or a second job as options for meeting these expenses.

**SHOULD I STUDY PART TIME OR FULL TIME?**

Your parents’ financial position will determine the answer to this question. Someone who studies full time and must pay study expenses himself or herself will struggle to do so if there is no part-time work available. Part-time studies (while you work, for example through Unisa or Technikon SA) eliminate this problem. However, it is more difficult to study part time and it requires far more self-discipline.

**HOW MUCH WILL I EARN ONE DAY?**

Your qualifications, skin colour, the profession and industry you will be joining and the city, neighbourhood or town you are in will all determine how much you will earn.

**HOW WILL I BE AFFECTED BY AFFIRMATIVE ACTION?**

Depending on your skin colour, affirmative action will have a direct positive or negative effect on you. Affirmative action will affect you
indirectly where, for example, your mother or father or family lose their jobs and you can no longer rely on them for money.

**HOW DO I CHOOSE A CAREER?**

Most people change careers a number of times. The choice of a career is actually a process rather than a single event. Since your choice of job determines your standard of living and your life, it is an important choice.

**KNOW YOURSELF**

You must know who you are and what you like. Never confuse a career with a hobby, unless you want to fashion your own business around your hobby. Do you know if you like working with people, on your own or in a team, if you like taking risks or prefer stability, if you like initiating work yourself, if you are motivated by money or by recognition of other kinds, if you like travelling long distances or working in one place, or whether or not you want to further your studies.

**KNOW WHAT CAREERS ARE OUT THERE**

Get information on careers you may be interested in. Find out what industries (groups of businesses or occupations) are experiencing marked
growth and where many new business opportunities are likely to occur on a sustained basis. Look especially at what the work entails, the workplace, the remuneration package, the requirements for the job, quality of life and job satisfaction.

• HELP, I AM UNEMPLOYED

BE POSITIVE AND NEVER GIVE UP! Even if you feel a failure, inferior and frustrated, you simply cannot afford to give up. Talk to friends and family and watch the newspapers and advertisements for job opportunities. Accept any kind of ethical work, even if it is just temporary. Decide that no work is beneath you. Whatever you manage to find, be it washing cars or windows or garden work, do it very well so you can use it as a reference for other work. Register with the Department of Labour and always keep a curriculum vitae (CV) to hand.

Don’t give up, you just can’t!

• ALWAYS HAVE AN UPDATED CV HANDY

A curriculum vitae (CV) is a document mapping out your life up to the present. Your school, employment, sporting and other achievements are recorded in it. Always keep this short document up to date so you can submit it to a prospective employer at short notice. You market yourself in your CV – draw it up with this in mind. Make sure that your CV

• is neatly typed on high quality paper
• is short and to the point
• is objective about your life
• gives some personal particulars (name, surname, date of birth, marital status, sex, nationality, language proficiency, state of health)
• contains information about your educational qualifications (highest standard attained, awards at school, tertiary education, positions of leadership, extramural activities and sport)
• describes your current employment (period employed, position held, tasks, responsibility, merit awards, salary, benefits, reasons for leaving)
• outlines your job history (as above)
• gives general information about your hobbies and other interests
• gives names, addresses and positions held by referees, whom you should inform in advance of the fact that you wish to use them in this capacity

YOUR FIRST INTERVIEW

For you the purpose of this interview is to sell yourself, your services and your abilities to an employer. Therefore, create the most favourable impression you can without lying, exaggerating or impugning other people. Avoid a poorly completed application form or CV or any disagreement during the interview. Be punctual and neat and don't be the one to end the interview. Answer only the questions that are asked. Feel free to ask questions about the employer, but be sure to find out a little more about the employer before
you go – this always impresses. Make sure you answer questions put to you fully and unambiguously.

- **START YOUR OWN BUSINESS**

There are thousands of business opportunities in the new South Africa. School leavers and young people should take advantage of these opportunities. Besides, the best time to start your own business is when you stand to lose the least (perhaps an old car at the most). Your father and mother, who have long become accustomed to the stability and security of, say, the Public Service, would not easily accept the risks involved in a privately owned business.

Someone who starts his or her own business or buys an existing business is called an entrepreneur.

If you want to become an entrepreneur you first have to be able to recognise a business opportunity. Many scholars run their own businesses today, and this will transform them into millionaires within five years of leaving school. Others start speculating with shares while at school and will not have to work after the age of 30, unless they want to. Yes – from sausage rolls to millionaire – there are countless opportunities out there.

Think of a service that isn’t being provided or a product that doesn’t exist yet but that would make people’s lives easier if they had it. Do something better, cheaper or quicker. Yes, there are too many opportunities (ideas that could work as future businesses) to mention. The following are some examples:

- Develop a new game that can promote relaxation and health.
- Provide a service by renting empty rooms in houses to people.
- House-sit on a large scale (40 to 50) during the holidays.
- Look for work for other people.
- Teach people's children certain skills at home.
- Market health products.
- Start network marketing – a concept that is taking the world by storm and leaving thousands of healthy and wealthy people in its wake.
- Do maintenance work on houses.
- Transport small items quickly between cities.
- Help people to plan their holidays.
- Take people on tours (Game Reserve, Garden Route, Kalahari).
- Teach people life skills.
- Make something to sell at flea markets.
- Sell something at flea markets.
- Start a nursery school.
- Polish cars.

Certain ideas will seem to be beyond your reach because of, for instance, insufficient knowledge, money, skills and finance. Sit down and plan until they are within your capabilities or choose another idea you know you can manage now.

You should work from an idea to a business opportunity and then devise your business plan.

- **WHAT FORM OF BUSINESS SHOULD I CHOOSE?**

Once you have registered your business for tax purposes you must register
the name of your business. You must run the business in the form of a one-
man concern, a partnership, a close corporation or a company.

If you are alone in the business you must run it as a one-man concern or a
close corporation. If there are two or three of you you can form a
partnership or a close corporation. I recommend a close corporation as a
business form for young people.

- A one-man concern: The business has only one owner who has the sole
  share in all profits, risks and losses. The sole owner can never separate
  his income from that of the one-man concern and this option entails few
tax benefits.

- A partnership: Two to twenty people can form a partnership. Like a one-
  man concern, a partnership does not exist separately from the partners
  when it comes to liability for the debts of the partnership.

- A close corporation: One to ten people can form a close corporation (CC).
  Members of the CC have limited liability (they are liable to some extent)
  for the debt of the CC, in other words members' personal assets are
  protected. This is certainly the most suitable form of business for young
  people starting out. There are many tax benefits.

- A private company: One to fifty people can form a company of this
  nature. Like a CC a company is a juristic person which exists
  independently from its members. It is far more complex to establish
  than a CC and is subject to many more legal requirements. Except when
  it comes to estate planning, the CC is the most suitable form of business
to choose.

Get more information on close corporations by writing to:
Further information is obtainable from
- the Small Business Development Corporation
- deposit-taking financial institutions (banks)
- universities and technikons
- the Small Business Advice Bureau
- the Chamber of Commerce
- magazines such as Your Own Business, Black Enterprise and Entrepreneur/Enterprise

FIRST DEVISE A BUSINESS PLAN

A business plan is a breakdown of all your business’s activities and affairs. A business plan is the what, how, when and why the entrepreneur wants to do what the business has been set up to do. The benefits of a business plan for the entrepreneur include the following:
- It forces the entrepreneur to examine the business objectively.
- Research is done into many facets of the prospective business.
- Business plans are not only written down, they are expressed in financial terms.
- The plan can be submitted to the suppliers of funds (banks, businesspeople) to acquire funding for financing business activities.
- The entrepreneur is forced to evaluate his or her managerial abilities and resources (assets, staff).
- Risks, opportunities, threats and strong and weak points are identified.
A business plan can feature the following, among other things:

- A cover bearing the name of the undertaking, the owner’s particulars and the business’s logo, and a table of contents indicating the structure of the business plan.
- An explanation of why the type of business in question was chosen. Give the feasibility study (a study done beforehand to determine the undertaking’s chances of success) and the business goals.
- A description of the undertaking with reference to the product/service, the market (those who will use the product/service) and location.
- A marketing plan (selling plan) for the business’s product service.
- A financial plan (expenditure, income, capital requirements, income and balance sheet, break-even point, own funds) indicating the financial activities and administration.
- A staff plan (number of employees, post requirements).
- A summary of why the undertaking and the application for funds (financing) should succeed, with the necessary facts and substantiation.

• I WANT TO BUY A BUSINESS

Be careful, an existing business entails many pitfalls for the novice or layperson. Generally, a low price seems like a good buy, but this can very quickly become a very expensive mistake. By the same token, a high price is no guarantee that the business will be a profitable one. Don’t accept the seller’s reasons for selling at face value. A seller (owner) is often under tremendous pressure to sell, hasn’t enough managerial know-how or virtually no business experience.

If the most recent financial statements (consisting of income and balance sheet) are available, engage an accountant to check them for you. Failing
this, financial statements should first be drawn up. (Consult N J Swart, *Personal Financial Management*, Cape Town: Juta for more information.)

- NOW YOU NEED BUSINESS INSURANCE

Once you have started a business in the form of a partnership, close corporation or company, you must find out more about

- purchase and sales agreements
- business insurance
- insurance for key individuals
To know exactly how school leavers and young people should plan when the financial future is so uncertain is no simple matter, primarily because choices and decisions made in the present can only be proved right in five, ten or twenty years.

**WHAT ARE THE CHALLENGES YOU FACE?**

Today’s young person faces a dual challenge. On the one hand, he or she must survive in the short term, in other words secure a job and earn an income. On the other hand, he or she must attain the long-term objective of financial planning, namely to be able to retire financially independent. From the job and the income investments must be made with a view to long-term capital growth and meeting this greater challenge.

**THE PROBLEM WITH MANY PEOPLE IS THAT THEY ...**

- don’t know what they should plan
- don’t know anything about personal finance
- were not taught these life skills at school (with a view to the future)
- want an unduly high standard of living after school
want everything of the best immediately
- don’t realise how their decisions at and after school affect their financial futures
- want to start off with an excessively expensive car
- rent an expensive property instead of buying their own affordable property as soon as possible
- don’t have a book like this one to point them in the right direction

THE SOLUTION?

The solution is to be found in SYSTEMATIC, SUSTAINED PERSONAL FINANCIAL PLANNING, or FINANCIAL DISCIPLINE.

CRITICAL GUIDELINES FOR YOUR FINANCIAL FUTURE

- Learn about personal finances.
- Start planning systematically for the short, medium and long term.
- Buy your own home as soon as possible.
- Drive an older model car for as long as possible.
- Keep your standard of living low at first.
- Incur expenditure according to priorities.
- Plan according to your own budget.
- Invest from your very first salary.
- Aim at financial independence after retirement and NOT AFTER SCHOOL.
- Live with your parents for as long as possible.
- Make a valid will (see chapter 8).
- Take care to avoid an unplanned baby.
- Plan your own children’s financial future, even if they are still at school.
- Become aware of all the factors that could affect personal financial decisions.
- Start your own business for a future South Africa as soon as possible (however, be careful of trade unions if your business is labour intensive).
- Draw up your antenuptial contract (ANC) as a purely financial agreement (see chapter 10).
- Adopt a ‘waste not, want not’ strategy. You will not need a great deal of money if you do not waste it.
- Incur debt judiciously.

**Right reasons for incurring debt**

- You are getting a real bargain – the same thing will be double the price the next day.
- The price of the item is rising so rapidly that it is not possible to save up for one.
- The current asset’s repair and maintenance costs are too high – it would therefore be cheaper to replace it.

**Wrong reasons for incurring debt**

- Being convinced by a sales person or representative that you must buy something that you do not really need.
- Buying unnecessary expensive items simply in order to compete with other people or businesses.
- Buying that cannot be accommodated by your budget.
- Buying just to be in fashion.

**Be aware of the disadvantages of credit/debt**

- It is more expensive than cash because you pay interest.
- People are wrongly encouraged to buy what they don't need or cannot afford.
- Interest makes credit purchases very expensive and credit purchases require security.
- The availability of credit often results in impulse buying. This is often accompanied by additional expenses such as life and disability insurance.

Remember the difference between desires (what you would really like to have) and needs (what you really need).

**Know how to handle a debt crisis.** You may have to

- sell unused household articles, such as a bicycle or a refrigerator
- allow the service contract for the television to lapse or terminate the M-Net contract
- use one car to get to work
- sell the second car
- go to work by bus
- stop eating out
- buy fewer luxury food items
- discharge the domestic worker
- do the gardening yourself
- wash the car and clean the house yourself
- rent out outside rooms
- stop using the telephone, except when strictly necessary
- halve insurance premiums temporarily (keep the life and disability cover)
- drastically curtail social activities and sport
- sell your more expensive house or flat at a good price and buy a more reasonable home (without a swimming pool) closer to your business, the children's schools, etc

Know your domestic risks and make financial provision for certain contingencies, for example insure your car, house contents and home, if you own one, against theft, fire and political unrest, and insure your business share if you are your own boss.
For a school leaver or newly-wed couple a car is no investment. In fact, it is not even an investment in middle age. For at least the first fifteen years after you have left school you should invest as little money as possible in a car. Many young people, and older people, spend too much money on various vehicles throughout their lives. This is a drain on retirement money.

Why do so many young people have such expensive cars?

This is no mystery – a flashy new car makes you look good, especially in an affluent neighbourhood. People often buy four-wheel-drive vehicles as second vehicles to further impress and improve their competitive edge. Many people think you are what you drive – but nothing could be further from the truth.

Rather invest your money as soon as possible in property (a home) and pay off your bond as quickly as possible. The man down the road may be buying one beautiful car after another, but ten or fifteen years from now you will be buying ONE PROPERTY AFTER ANOTHER in just as quick succession. For twenty or thirty years what you drive will be less
impressive, but your millions of rands’ worth of property and other investments will make up for it. After many years your properties will start to look after you and allow you to buy expensive vehicles BECAUSE YOU CAN AFFORD THEM AND YOUR FINANCIAL FUTURE IS ALREADY ASSURED.

**HOW TO FINANCE YOUR CAR**

If you are one of the lucky ones you will be able to secure a personal loan from your parents, subject to their conditions. If this is not possible, approach a bank or building society for an overdraft facility. Perhaps your parents have a policy or some other security to cede (hand over) to the bank on your behalf until your car is paid off.

A more expensive method is to use a hire purchase agreement. According to this method you, the buyer, pay a 10% deposit after which you pay off the car over a period of up to 54 months. A hire purchase agreement is financed either directly (by the bank) or indirectly through the seller of the vehicle (the seller, in turn, enters into an agreement with the bank). With a direct transaction the agreement is concluded at the bank’s premises. With an indirect transaction the agreement is concluded at the seller’s premises. He or she then refers it to the bank by telephone, telex/fax or personally for assessment.

The buyer takes immediate possession of the car but the seller retains the right of ownership until the last instalment has been paid. The car therefore remains the seller’s security should the buyer fail to meet his or her obligations. Always include credit life insurance in your hire purchase agreement so that the car debt will be paid in full in the event of your
death. Remember that a seller may never sell you a car ‘as is’ with such an agreement.

You can also borrow money (with the necessary consent, of course) against your parents’ mortgage bond, provided the monthly instalments are repaid at the current interest rate (that is to say with interest).

However, the last word on this subject is always:

DRIVE POOR BUT STAY WEALTHY!