



latest word

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Reality Check!!

“Sooner or later, reality bites”

I was talking to a friend who recounted a conversation he had with a German colleague. The German asked my Irish friend, *what was his savings target per month?* My friend responded, *what's a savings target? I save whatever I don't spend, whatever is left over.* I'd imagine many of us could have the exact same response and it probably explains something about the situation Ireland finds itself in today.

Sooner or later, the consequences of our decisions or indecision arrive at our doorstep. Whether we did or we didn't act, will determine our reality.

Where we are today is a consequence of our past thinking and actions. Where we will be tomorrow is dependent on what we think and do right now.

This isn't always negative. We work, we study, we walk, we save..... Our action, or inaction, determines our results.

Take selling for example. People often look at a great salesperson and attribute their success to a natural personality for the role, or a fortunate time or product, and not so much that they have done more to achieve the better result. They can rationalise why others perform and they don't. *Rationalise or Rational Lies?* People justify, they excuse and bluntly put, lie to themselves. It helps the situation. People feel better once they've justified and explained the situation but it delays reality. The problem with reality is that there is no getting away from it, in the long run. There is only one truth, not many versions of the truth.

We're all familiar with the phrase *up a creek without a paddle* and indeed some of you may have more colourful descriptions of that creek. 😊 Inevitably, people delay reality, they put off *facing the consequences*. Have you ever thought about what that phrase literally means?

So when it comes to reality, sooner rather than later is always a good idea. The problem for many people is longer term realities, such as what you are going to live on when you're older, or even the long term health consequences of poor health decisions, seem so unreal. Plus there are so many years, things will have changed, and I'll get it sorted some day, just not today. Things can change of course, but the person with the mentality that says *someday* and puts off action, doesn't tend to have a significant change in results. One day drifts into another until reality bites. *I put it off, I didn't act and boy oh boy isn't this creek smelly.*

I have heard planning described as *bringing the future into the present so you can do something about it*. Failure to review, failure to accept reality, failure to plan for contingencies can lead to serious consequences, and in the case of health, fatal consequences. Look I know life is for living, and there's more to life than planning and this serious, maybe boring stuff, but you have got to be smarter than that.



Look, it might work out fine, you may be able to catch up or reverse the consequences of earlier neglect but it may not, and doing something about it now, as soon as possible, begins the 'grown up' stuff. You've considered the future, you looked at what you're doing today and how small changes, done consistently can change your future reality. Never

underestimate how the power of small steps, taken consistently can change everything, dramatically.

When it comes to money, your greatest friend is time but most of us *fumble* it all away. *Good manners prevented me from using a much more dramatic verb!!* If you act early enough, the compounding effect of time on your money would blow your mind. Unfortunately, most of don't truly appreciate the value of time until it's almost gone.

Maybe you have left it late, but, if there is one thing you could take away newsletter, is teach your kids the value of compound interest. I'm so serious about this. Teach them some German and start putting aside a certain percentage of every single piece of income they get, starting now. This is often know as 'paying yourself first'. If you do that you will have gone a long way to securing their financial future. I'll say it again, I'm so serious about this.



When you owe, you're a slave, when you own, you're free. Think about it, how many people are doing jobs they don't want to do, just to pay down debt. Ok so what am I saying? I'm saying you need to take reality checks as often as your health checks (in fact your health check is a reality check). Where are you going, where are you now, what if nothing changes, what can I do to change things? What am I going to live on when I'm older? What if I get sick tomorrow? What steps can I take to change the outcome? What is the actual or estimated amount of real money will you need age 65 to provide even a modest income and standard of living in your older years? i.e *What's your number?*

Ok, ok, ok, so you get it!! And you would love to act now BUT *you don't have the money*. That may be true but reality still beckons, so you can hope that the politicians will solve your problem or you can take responsibility yourself. In fact the politicians are one profession that really have their future sorted!! But *that's a whole other conversation....*

It's pretty simple, it's all about a few simple factors;

- ◆ What you earn.
- ◆ What you spend.
- ◆ What's left over.
- ◆ What you do with the difference.
- ◆ How much time is on your side.

There is nothing more than that. I'm not saying it's easy, I'm saying it's reality!!

What is the long term cost of the depreciation on a new car? Answer, it would make your eyes water.

Let's say you buy a new car, instead of the same car, that is one or two years old, and the difference is €10,000. You are age 30 and will retire at 65. Assuming you could earn an annual average return of 5% on that €10,000 difference, well that's estimated to cost your pension fund about €55,000, and that's before considering any tax benefit from a pension scheme or the cost of borrowing the €10,000, which could increase that number significantly!!

Every expenditure, (from take away pizza's to Sky TV subscriptions), has a long term cost. You have more choices than you realise, but it's easier not to know and not to make them. Well, it's easier now, it won't be so easy later when reality bites.

I've said enough. This isn't about getting scared (well maybe a little). This is about getting Smart and acting smart.

"When it comes to the future, there are three kinds of people: those who let it happen, those who make it happen, and those who wonder what happened."

Which one of the three do you want to be?

Talk to us, we know about this stuff and we're here to help you.

Please recommend your friends and colleagues for a free **Reality Check** with Framework Financial.



Last word

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Feedback on our newsletters is always welcome and gratefully received. joe@fwf.ie.

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