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waking up to financial goals

with John Mlikota

Whether it's a family wedding, retirement, or simply gathering enough for an extra special purchase, the past three years have taught us all a thing or two about the importance of saving, rather than flexing the plastic today and worrying tomorrow.

A recent survey in the United Kingdom of 2000 18 to 65-year-olds identified the average person still doesn't experience a financial wake-up call until the age of 34. And for too many of us, it's only at that point that we look back and regret saving less and spending more. More than 40 per cent of respondents had little or nothing in place for their later years, and would rather they'd put some money aside.

The increasing squeeze on household incomes from rising living costs is making it even harder for families to focus on putting cash away today to secure their own financial future. Like it or not, many debt-laden developed economies are suffering from piecemeal government policy responses.

Central banks need to spring into action and encourage businesses to take some of the money they have been hoarding and start spending. The problem has never been a lack of cash for many companies, but rather a lack of confidence. The recent slowdown in US growth and volatility in the financial market has discouraged corporate spending.

If the financial markets are truly governed by greed and fear, then the latter is very much in control at the moment. Volatility has returned to the market with a vengeance, as measured by the VIX, or fear index, which has hit levels not seen since the immediate aftermath of the Lehman collapse in 2008.

Against this backdrop, the stock market must look like a very scary place. If you are already invested in the market, you don't actually crystallise the losses until you sell your shares. If you are invested in strong, stable companies then the reasons you invested are still valid. So there is an argument for sitting tight. Long term, the markets will bounce back. Patience and nerves of steel are required in the current environment, as well as little or no debt, diversification and higher levels of cash.

Of course, if you have some money to invest, the market dips are often the perfect time to pick up a bargain. However, it is crucial to know what to buy and what to avoid. Remember the old saying, "if in doubt, stay out". Our market indicators have us staying out.

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