Three key steps to protect your finances in an ever-changing world

life sherpa®
money for life

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People have different attitudes towards change. Some look at it with excitement. They see it as an opportunity to grow or to keep things fresh and interesting. Others resist it out of fear of the unknown. Then there's those who want to prepare for it so they can protect what they care about.

University of Chicago's economist Richard Thaler and Harvard Law School's Professor Cass Sunstein believe that humans aren't quite as rational as economists think. In their best selling book "Nudge", they argue that we mostly adopt imperfect, but practical, approaches and are influenced in our decisions by our social interactions.

Technological advancement, societal shifts and issues, such as the pandemic or climate change, increase the challenge. With so much pressure and so many variables at play, we can't expect to always make the best or most rational decisions. And that's ok.

> In practice, what we need is to make the best decision *for ourselves, based on the current circumstances.*

To find out how to do just that and protect your finances in an ever-changing world, keep reading.

Life Sherpa's Three Key Steps

Change is inevitable, so we should always prepare for it.

"Change in itself is never painful, only the resistance to change is painful." — *The Buddha.*

At Life Sherpa, we believe there are three key steps to protect your finances:
Plan, Prepare and Protect.

STEP 1: Plan

Before starting any journey, it's important to know where you start and where you want to go. And don't worry if things change while on the road. This plan is flexible enough to allow for changes in direction, whilst staying true to who you really are.

Knowing your starting point means becoming aware of who you are and what your relationship with money is.

> Through this process, you'll discover your core values and money personality, and you'll get a clear picture on how you spend your money today.

That's how you can understand what's really important to you and what you should focus your attention and energy on.

With greater clarity, you can then easily pinpoint the final destination, i.e. your life goals. These goals are linked to your core values and most likely won't change as you go through the different stages of life. And that's good news, as you don't want to update your financial plan at every change of season, right?

Identify your values

We all have a set of values that define how we view the world and our place in it. Even if you can't quite name them, they are there to guide your actions and choices, especially the big ones

The process below will help if you've never reflected on your values, or if you've tried, but found the task too daunting. It will also be helpful to people who have an idea already, but are looking for confirmation.

I. PREPARE.
Set aside some time for this. Don't rush it. Get into a quiet space with no distractions. Turn your phone off and make sure no one interrupts you.

II. GET STARTED.
Start by listing the values that seem important to you. Don't obsess too much. Go with your gut and jot them down. There are no silly answers. Be frank and don't judge yourself or your answers.

If you need some inspiration, here are some questions and a list of common values that might help you get started (most of them come from The Centre for Ethical Leadership).

This list is just to get the ball rolling, so if your values aren't there, it's ok. Simply make a note of what resonates most with your true self.

Questions to get you started

THINK ABOUT SOME KEY LIFE MOMENTS:

- The best time of your life. Why do you consider it to be the best?
- Your childhood. What are your most vivid memories?
- Your funeral. What would you like people to say about you? What would you say about yourself if you could give a speech?

THINK ABOUT YOUR CURRENT LIFE:

- What gets you out of bed in the morning? Why do you go to work? Why do you want to make money? Keep going until you hit on something with deep intrinsic meaning.
- How do you fill your surrounding space? How do you spend your money, your time and your energy? What things in life pay you the fattest emotional paycheck?
- When are you most focused, energised, organised, and ready for anything?
- What do you think about more often? Which desires and concerns occupy your mind each day? What themes come up when you talk to others? These are clues into what you value.

ALTERNATIVELY, YOU MIGHT TRY THIS 3-QUESTIONS METHOD[1]:

- Imagine that you are financially secure and have enough money to take care of your needs, now and in the future. How would you live your life? Would you change anything?

  Let yourself go. Don't hold back on your dreams. Describe a life that is complete and richly yours.
- Now imagine that you visit your doctor, and he says you have only 5 years to live. You won't ever feel sick, but you will have no notice of the moment of your death. What will you do in the time you have remaining? Will you change your life and how will you do it? (Note that this question does not assume unlimited funds).
- Finally, imagine that your doctor shocks you with the news that you only have 24 hours to live. Notice what feelings arise as you confront your very real mortality. Ask yourself: What did I miss? What do I wish I had done more of?

[1] This method was developed by George Kinder, the founder of the Kinder Institute of Life Planning and author of "The Seven Stages of Money Maturity". See www.lifeplanningforyou.com

Values List

INTEGRITY

Accountability
Candor
Commitment
Dependability
Dignity
Honesty
Honor
Responsibility
Sincerity
Transparency
Trust
Trustworthy
Truth

FEELINGS

Acceptance
Comfort
Compassion
Contentment
Empathy
Grace
Gratitude
Happiness
Hope
Inspiring
Irreverent
Joy
Kindness
Love
Optimism
Passion
Peace
Poise
Respect
Reverence
Satisfaction
Serenity
Thankful
Tranquility
Welcoming

SPIRITUALITY

Adaptability
Altruism
Balance
Charity
Communication
Community
Connection
Consciousness
Contribution
Cooperation
Courtesy
Devotion
Equality
Ethical
Fairness
Family
Fidelity
Friendship
Generosity
Giving
Goodness
Harmony
Humility
Loyalty
Maturity
Meaning
Selfless
Sensitivity
Service
Sharing
Spirit
Stewardship
Support
Sustainability
Teamwork
Tolerance
Unity

INTELLIGENCE

Brilliance
Clever
Common sense
Decisiveness
Foresight
Genius
Insightful
Knowledge
Learning
Logic
Openness
Realistic
Reason
Reflective
Smart
Thoughtful
Understanding
Vision
Wisdom

ACHIEVEMENT

Accomplishment
Capable
Challenge
Competence
Credibility
Determination
Development
Drive
Effectiveness
Empower
Endurance
Excellence
Famous
Greatness
Growth
Hard work
Improvement
Influence
Intensity
Leadership
Mastery

Motivation
Performance
Persistence
Potential
Power
Productivity
Professionalism
Prosperity
Recognition
Results-oriented
Risk Significance
Skill
Skillfulness
Status
Success
Talent
Victory
Wealth
Winning
Creativity
Creation

Curiosity
Discovery
Exploration
Expressive
Imagination
Innovation
Inquisitive
Intuitive
Openness
Originality
Uniqueness
Wonder
Enjoyment
Amusement
Enthusiasm
Experience
Fun
Playfulness
Recreation
Spontaneous
Surprise

PRESENCE

Alertness
Attentive
Awareness
Calm

Clear
Concentration
Focus
Silence

Simplicity
Solitude

FREEDOM

Independence

Individuality

Liberty

STRENGTH

Ambition
Assertiveness
Boldness
Confidence
Dedication
Discipline

Ferocious
Fortitude
Persistence
Power
Restraint
Rigor

Self-reliance
Temperance
Toughness
Vigor
Will

HEALTH

Energy

Vitality

COURAGE

Bravery	Fearless	Valor
Conviction		

ORDER

Accuracy	Decisive	Security
Careful	Economy	Stability
Certainty	Justice	Structure
Cleanliness	Lawful	Thorough
Consistency	Moderation	Timeliness
Control	Organization	

III. REFINE YOUR LIST
Now look for the recurring themes you can find amongst your values, then group, or eliminate them. For example, you may have identified Adventure and Excitement. Are these different to you? If so, keep them both. If they express the same core value for you, keep the one that best resonates, or find a word that expresses both.

Cull your list to leave only the ones that really resonate, until you get to five or six values. Rank them in order of importance and then you're done: you've got the list of your five core life values - great job!

Reward yourself with a cuppa and a break, and get ready to find out more about yourself with the next task.

Your money personality

Naturally, curiosity plays a role, but the main reason to find out your money personality is to get a deeper understanding of how you feel about money so you can improve how you manage it.

When it comes to attitudes towards money, there are said to be nine fundamental types of money personalities.

Do you know your money personality?

Are you a **High Roller** who thrives on stimulation and challenge when it comes to money? Maybe you're a **Hunter**, who enjoys the finer things in life, as you know you can't take money with you when you die!

Some people call you a control freak, but you know you are just in control of your finances. In this case you could be an **Achiever**. Otherwise you could be an **Entrepreneur**, an **Optimist**, or a **Safety Player**.

If you're good with money, you may think you are a **Perfectionist**, but you might actually be a **Money Master**. Do you know Money Masters are the ideal personality, but there's less than one in ten in the population?

To find out your money personality, take this five-minute quiz

Know how you spend your money

Another crucial step to understand where you're starting on your journey is looking at how you spend your money today.

This is a great way to go from *thinking* of *knowing* to *really knowing* where your money goes. Almost everyone who sits down to do this task ends up discovering something new: it could be that a latte a day doesn't make much difference at the end of the year (it never does), or that they are spending less money than they thought on fitness, and more on take away food.

So how can you *really* know?

If you think we are about to suggest you track everything on a big spreadsheet or start cutting the things you love... Well, we're not. In the same way restrictive diets don't work for most people, traditional budgets generally fail.

In both cases it's because they're based on what you cut out. But a well-crafted budget is liberating. It has balance, aligns with your values and helps you reach your goals.
Most importantly, it allows you to live life on your terms.

> **An aligned budget helps you decide between what you crave right now and what you truly want, without relying on willpower.**

If you want to overcome your fear of budgeting and learn how to create a system that doesn't deprive you of the things you truly love, take a look at Life Sherpa's Budget Bliss. In eight transformative money lessons, this online course guides you through all the essential steps of budgeting and sets you up for future success.

Set your life goals

Now that you've got a clear picture of where you are, it's time to drop a pin on the map and start the journey towards the final destination!

Traditional financial planners might ask you what your money goal is. But money goals are often hard to grasp - what's important are the life goals behind them. A goal to save $1 million for retirement may be bound up in a desire for security. A goal to retire early and travel may be a reaction to a life burdened by too many responsibilities.

To get to your real goals, you need to dig deeper into your values, money personality, and spending habits. Here is how:

Convert values into goals.
Translate the values on your list into life goals. For example, dependability could turn into a fund to support elderly parents or sick siblings. Playfulness could take the form of a state-of-the-art music recording studio in the basement after retirement. Altruism might mean setting aside enough money or time to be of help to others throughout your life.

Make your goals measurable.
Making your goals tangible and specific will increase your chances of reaching them. So if your goal is to retire early, think about when you want to stop working and how much you need to support yourself for the rest of your life. Once you know it, you can start taking action (such as saving or investing) to achieve your objective. As we said before, don't worry if life takes you on a different route momentarily. If your goal is true to your values, your desire to achieve it will stay alive and you'll soon be back on track.

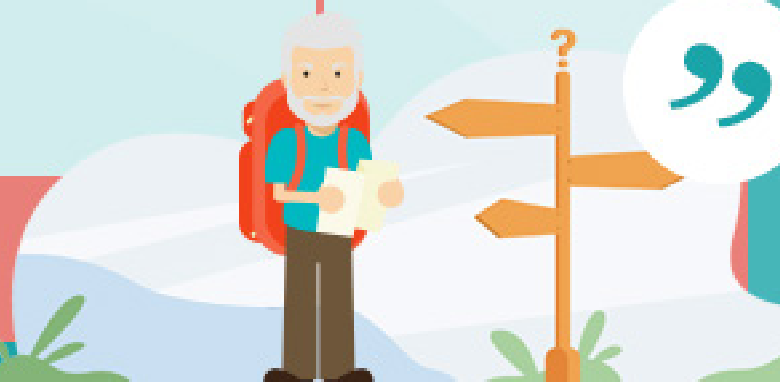
Go beyond money.
Think about what it'll take you to achieve that goal: the career choices, the savings and the investments are the most obvious things to consider. But you should also consider the opportunity cost, i.e. what you won't be able to do with the time or money used to reach this goal.

Give your goals the significance test.
Once your goal has taken shape and form (with numbers, timeframe, etc.) put it through the significance test to make sure it has an emotional hook. Ask yourself: 'If I achieve this goal, I will feel [insert emotion here] or will be able to do [insert life goal here]'. This is the way to make sure your goal stays connected to your values and gives you that emotional incentive that will drive your actions.

To make it easy, use the table below to list out your goals. Print it and stick it on the wall next to your workstation or, even better, set it as desktop backgrounds to keep your eyes on the prize.

VALUE	GOAL	ACHIEVED BY	OPPORTUNITY COST	EMOTION once achieved

take a moment to reconnect with the emotions in the last column...
those feelings are just what will get you going!



STEP 2: Prepare

The secret to preparing your finances in an ever-changing world is to have a plan that can respond to all possible scenarios.

But since it's impossible to predict what the future holds, the best thing you can do is to build an emergency stash that will make you resilient in the face of any storm.

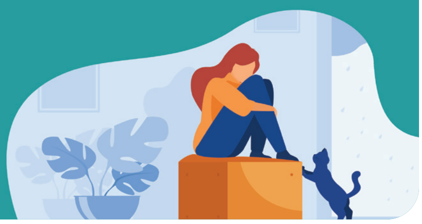
Build an Emergency Stash

Not-so-fun fact: did you know that almost a quarter of Australians don't have access to $3,000 for an emergency?

Emergencies are not always dramatic or extraordinary, they are the events that require you to have money available right away. They are situations you couldn't have predicted:

Unexpected medical bills for you or your family (not your annual dental checkup)

Death or illness of your parents or other family members, requiring a short notice trip or financial support for those affected



A major breakdown or accident involving your car, important appliances (such as stove or heating system) and your home (not just regular service)

Fines or legal expenses (not the cost of the conveyancer on your house purchase or if you habitually get parking tickets)

Loss of income due to unemployment or because you have been injured

Relationship or marital breakdown

For these and any other surprises, you need an emergency stash.

> **Building an emergency stash is the most important thing you can do to protect yourself, even if you have debts.**

So how much should you put aside?

As with most things in personal finance, there are no one-size-fits-all answers. It's a fine balance between having enough when you need it and not tying up too much cash that you could use to meet other goals, such as paying off debt, buying your home or investing.

An emergency stash holding three months' expenses is a useful benchmark. So work out how much you actually spend each month and multiply this amount by three.

This benchmark is a great start and will usually be sufficient for most people. But, as always, the right amount will depend on your particular circumstances.

An emergency stash is an invaluable safety net if you're starting to put your finances in order. But there are other things you can do to prepare for what's coming, especially if you have debt or have invested.

Fix or Reduce Debt

Whether it's mortgages, credit cards, personal or car loans, some form of debt burdens most Australians. In times of uncertainty, this can create stress and impact people's ability to face unexpected changes in their financial situations.

Fortunately, there are ways around it.

If you are amongst the 52% of Australian home owners[2] who have a mortgage, you want to avoid nasty surprises that might arise from interest rate increases.

> **Fixed rates mortgages are a great way to keep control of your monthly repayments**

A fixed rate gives certainty about your monthly payments for a set period (usually one to five years). If interest rates rise, your rate won't, so your monthly payments stay the same.

The bad news is that they won't go down if interest rates decrease. When interest rates reached 3% after the GFC, most people thought they couldn't go any further down, but they actually did!

[2] Australian Bureau of Statistics - Homes Owned with a Mortgage in Australia

The other thing to consider is that fixed-rate loans tend to be less flexible. Once again, it's about choosing the right structure for your circumstances. To find out more about it read our blog: How to find shelter from interest rate increases.

Interest rates can also affect debt from credit cards, personal loans, or car loans.

In this article, you can find ten strategies to reduce and eliminate debt, including prioritising and consolidating debt, and agreeing on a payment plan with your creditors.

Reduce your risk

To reduce risk, consider all areas of your life. If you know that some of your lifestyle choices might eventually result in large medical bills, it could be time to make some changes.

When it comes to investing, reassess the assets in your portfolio based on their level of risk.

Something helpful to keep in your toolbox is the risk/reward ratio, which helps identify the potential reward an investor can earn for every dollar they risk on an investment. Many investors use the risk/reward ratio to compare the expected returns of an investment with the amount of risk they must undertake to earn these returns.

Consider the following example: an investment with a risk-reward ratio of 1:7 suggests that an investor is willing to risk $1 for the prospect of earning $7.

Most times, market strategists find the ideal risk/reward ratio for their investments to be approximately 1:3, or three units of expected return for every one unit of additional risk.

> If markets are expected to enter turbulent times and your portfolio has a high level of exposure, a good idea would be to revise your investment strategy to get your risk/reward ratio as close as possible to 1:3

STEP 3: Protect

Spoiler alert: we are going to talk about insurance. But don't run away yet!

As boring as insurance may sound, it has the benefit of offering protection and peace of mind, both of which have become precious in a world riddled with uncertainty.

Preparing for the unexpected is about building a solid foundation for your finances and eliminating fragility

When thinking about risk, it's important to look at how likely the event is to occur and what its impact on your life would be.

HIGHLY LIKELY WITH LOW-IMPACT RISKS

Some risks are highly likely to happen but have a fairly low impact when they occur, such as your car service costing a bit more than you expected, or your child losing their glasses on the bus. These types of events occur regularly. The impact is usually annoying, but fairly easy to manage. For these expenses, you should simply build some fat into your budget and keep your fixed expenses to 50% of your income.

LESS LIKELY RISKS

Other risks are less likely to occur, but the impact might be a little more serious. You're involved in a car accident, someone breaks into your house or you suffer from long-term illness - that's when you need your emergency stash. You can be pretty sure something in this category will happen every few years, and it could put a big dent in your budget, or force you to hit your credit cards or borrow from friends or family if you aren't prepared.

LOW LIKELIHOOD, HIGH-IMPACT RISKS

This is a category that needs a different approach. These events are so serious that it is not practical to save a big enough buffer to manage them. That's where insurance comes in. Think about your car. If your car isn't worth very much compared to your income, it may not be a big deal if it gets stolen or seriously damaged. Sure, it would be annoying, as you would be without your car for a while and would have to spend money to replace it. It would be possible to manage this risk using your emergency stash. But what about the damage you might do to someone else's car or property in a crash? What if you injured or killed someone and got sued? These would be massive costs you simply couldn't afford to deal with alone. This is why the government forces us to have compulsory third party insurance (CTP, or Green Slip).

Now think about an illness or injury that would prevent you from working. Your employer's sick leave would cover a few weeks, while your emergency stash could cover a few months. But what about a few years or forever?

The human brain is not well suited to assessing rare risks. We find it difficult to distinguish between a risk with a probability of one in a hundred from one with a probability of one in a thousand or one in a million. This is probably why we are happy to buy scratchies or lotto tickets.

Regardless of likelihood, the impact of the more serious risks could be catastrophic for most people. And in most cases, the younger you are, the bigger the impact.

This might seem a little counter-intuitive, but it is true. Usually, the younger you are, the longer you have left to live. So if you had an accident or illness that prevented you from working, you have a greater number of years you need to be covered for. Similarly, if you were to die, your partner will need to survive for much longer without you.

While some risks are less likely to occur to younger people - you are less likely to get ill or die - others, like accidents, peak in the early adult years.

If you have no dependents or debts, you probably don't have to worry too much about the risk of dying, as it will have little financial impact on you (dying is cheap, staying alive costs money!). But you need to be concerned about the impact of an accident or illness on your life if it leaves you without an income.

The secret is to buy just enough insurance. If you need help to understand how much is enough, have a chat with one of our sherpas.

Conclusion

Well done for getting this far! It means you understand that protecting your finances from emergencies and big changes in life is key to maintaining your peace of mind.

We know it takes time to implement the three key steps laid out in this ebook, but once you Plan, Prepare and Protect you'll be able to face life with more confidence. You'll find greater focus and energy that you can direct to what's really important to you.

Because we know that money is never an end, but a means to something else: time with your loved ones, health, adventure, personal development... you name it!

About Life Sherpa

LifeSherpa was built on the premise that you don't need to be rich or own a jaw-dropping portfolio of assets to be financially independent and happy.

Life Sherpa gives you the tools you need to get out of strife and get ahead in life - whatever stage you're in.

Think about it as your one-stop-shop for financial advice and support. Through our online platform, you can access licenced qualified financial advisers, online courses and a range of handy resources and tools. From taking a short money course through to settling a home loan, we equip you with the knowledge and support to take charge of your finances and find your way to Mount Happiness.

Life Sherpa was founded by Vince Scully, a qualified accountant, financial planner and mortgage broker with more than 35 years of experience. Throughout his career, Vince saw how smart financial planning can transform people's lives – and always believed this service should be available to all.

Finally the future of personal finance is here with a do-it-yourself subscription-based platform that's not owned by a bank, insurance company, super fund or investment manager. That's how Vince and his team of Life Sherpas (all highly-experienced, accredited finance professionals) help countless Australians achieve their goals every day.

JOIN FOR FREE

Sign up to Life Sherpa and you'll get immediate access to our tools and resources including your money personality questionnaire, some handy budgeting tips and much more. Plus, you'll have access to your own Life Sherpa for 30 days. No lock in contracts, no hidden fees.

LET'S DO IT