



MONEY MATTERS... BUT NOT THAT MUCH! TO SERVE & PROTECT



“Annual income £30,000, annual expenditure £29,000, result happiness. Annual income £32,000, annual expenditure £33,000, result misery”, updated from Dickens’ Mr. Micawber - an astute and eternal observation.

In order to stay on the right side of that equation in tough times, we need to understand the fundamentals of what income is in order to make sure we have enough of it and think about how to control the expenditures that we make.

For the benefit of those that think otherwise, income doesn’t grow on trees nor does it come from thin air – it can only be generated by assets. Assets can be either human or physical property (everything from resources in the ground to finished goods).

Human capital produces income through a mix of intellectual and labour ability. The usefulness of these abilities is limited by mental and physical health, as is the usefulness of physical property which would be useless without the human touch.

Physical property can produce income by being drilled, dug or developed and then sold or rented out (human capital is cheap and easy to maintain and the nearest to a perpetual source of income - compared to say, oil reserves which suffer from depletion when used or an expensive car that costs a fortune to service).

Whilst assets can change in value through Appreciation or Depreciation, they change in their income producing abilities only through Enhancement or Deterioration - this important distinction is well understood just after investors get burned by blown up market bubbles, but forgotten again just before the next bubble inflates.

To prevent deterioration of an asset, it needs to be maintained - for humans, that means things like nutritious diet, regular exercise, mental curiosity, love, hope, freedom, faith and charity. Work on these factors beyond a maintenance level should lead to enhancements in the asset (e.g. the training involved for professional studies or sports), and its income generating ability. Whether times are good or bad, don’t cut back on this essential maintenance - misery, not happiness will follow that path.

If you’re employed, create a shield from the dreaded P45 by making yourself indispensable at work – understand who your

customers are, focus your efforts on making them happy, be a good employee and colleague, and don’t forget to continue training to enhance yourself as an asset.

If you have your own business, take similar steps - also be smart about controlling expenses, think seriously about cutting out costs that don’t lead to happier customers but think twice about cutting maintenance costs on essential assets.

To survive and thrive, cost cutting is not usually enough - grow your income through a mix of happy existing customers (free), networking with complementary businesses and with anybody else (cheap) and some marketing & advertising (dearest), i.e. use all assets at your disposal.

What happens though when assets are lost through damage, disease or even death? If you’ve understood your needs, risks and taken out appropriate protection then hopefully in a financial sense, the answer will be ‘Nothing much’. Yes, insurance costs money, but it should be considered as maintenance cost to replace assets & income, not as an afterthought!

We need income to spend on basic life needs - housing, food, clothing, taxes, transport, energy, water and on insurance that replaces either the asset itself or the income that arises from the asset. These are essentials, is a Sky subscription more of a ‘need’ than a premium for a policy that gives you peace of mind?

Taking out an extended warranty on a vacuum cleaner or comprehensive motor insurance for a cheap car (by law, you need Third Party only) are examples of expensive, non-essential insurances. So why do so many people who readily pay for these, then not protect their families in case they fall ill or die? Or if they are business people, they do not protect against losses from theft, fire, legal claims etc.

Hope that makes as much sense to you as it does to me. **Happiness or misery, which is it to be?**

Sanjeev Shah CFA, Cert PFS, CeMAP, BSc (Hons)
Director, Axim Mortgages Ltd
Tel: 020 8861 3322 • Email: ss@axim.org.uk
© Copyright of Sanjeev Shah, July 2008