over the years, and if I was sitting across from you there is no way I'd advise you to borrow $100,000 to invest.

Why?

Because your partner just died, and you have a young child. This is not the year to be making major financial decisions. It's the year to hold on and grieve.

Yet I totally get that you're clutching for security when your life has been turned upside down.

However, this isn't the way to do it. The truth is that debt always makes life more complicated. It always makes life more stressful. And heaping on more stress right now is the last thing you need.

You have 20 years (or so) before you retire — so there's no need to panic.

Amazing things can happen when you work diligently towards a common-sense goal, but the first thing to focus on is getting yourself right.

*The Barefoot Investor: The Only Money Guide You'll Ever Need* (Wiley) RRP $29.95

**Go, Dina, go!**

**Linda says:** I just had to send a note to you. Thank you for your uplifting column last week . . . and for picking up the phone and calling Dina.

You're right, the whole Barefoot community is behind her.

**Barefoot responds:** (Dina wrote in to say that she's taking her first Barefoot steps after leaving an abusive relationship and years of poverty.) I've had a heap of emails like yours, Linda, and I'm forwarding them on to Dina to let her know that she's got an entire community cheering her on.

# Why car loans can't pass the tax test

Noel Whittaker

BUILDING long-term wealth is a bit like making a cake — you not only have to use the right ingredients, you have to combine them in the right ways.

These thoughts sprang to mind when I received an email from Michael.

He started off by telling me how *Making Money Made Simple* was the most useful money book he had ever read, and then went on to ask a question about whether it was best to pay cash for a car or take a personal loan.

He said he had the cash available to buy his next car, but when he went to the dealer they tried to talk him out of it on the grounds that, "Our clients almost never pay cash, even though they can, because they always prefer to do something else with their money".

Michael went on: "It went against my judgment after reading your book, but I decided to work out the numbers for myself. They will offer me a loan at 5 per cent a year, with a 40 per cent residual payment at the end of five years.

"Using a purchase price of $100,000 as an example, a $10,000 deposit would leave me $90,000 to finance, and a residual payment of $40,000 in five years.

"The loan repayments would be $1132 a month, which means the total amount to pay over five years, including the residual, would be $108,000.

"If I invested the $90,000 in a good share portfolio, and withdrew the earnings to pay the monthly repayments, all the portfolio need do was generate 5.5 per cent a year for me to break even."

It's great to see a young person with the financial savvy to run the numbers for themselves. But I want to add a few more ingredients into the mix.

It is a fundamental principle of building wealth that you maximise deductible debt while minimising non-deductible debt. If Michael went ahead with his proposed strategy, the entire debt of $90,000 would be non-deductible, because buying a car for yourself is a private expense. So, based on that principle alone, he would be far better off to pay cash for the car and borrow for the share portfolio.

The next issue is about investing in growth assets, such as shares.

They will undoubtedly produce good long-term returns, but the share market is volatile, and a fall of 10 to 15 per cent in your portfolio is not unusual.

This is why anybody purchasing property or shares should have a seven to 10-year time frame in mind.

And there is another factor — a car is a depreciating asset, and all it can do is get you from point A to point B.

Instead of buying a $100,000 new car, he could opt for a good, low-kilometre late model used car for no more than $25,000.

This would leave him with $75,000 cash, which he could use as a foundation for a house deposit if home ownership was his goal, or as seed money to borrow for share investments if that was his preferred option.

Let's assume he put down a deposit of $75,000 and borrowed $125,000 to invest in a share portfolio of $200,000.

The interest would be about $7500 a year fully tax-deductible, which should be easily within his capacity to pay. Best of all, he would have $200,000 of quality assets working for him, which in five years should be worth $300,000 if the portfolio produced 9 per cent income and growth combined. Surely that's a better base for building wealth than a five-year-old car.

**Noel Whittaker is the author of *Making Money Made Simple* and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.**

## ASK THE EXPERT

Send your questions to Noel Whittaker noelwhit@gmail.com or tweet @NoelWhittaker

**Q** Regarding the ability to make concessional super contributions up to $25,000 a year. In the year you retire, is the $25,000 still applicable or is it pro-rata? For example, $12,500 if you work six months of the financial year before retiring or $6250 if three months.

**A** The limit for concessional contributions is $25,000 a person a year. To be eligible to contribute this amount you have to be under 65, or else pass the work test which involves working 40 hours in 30 consecutive days in the year you make the contribution. There is no pro rata reduction in the cap if you don't work a full year.

# Maturity in the workplace a bonus, not a bind

WORKPLACE MATTERS

Gary Martin

IT is rarely blatant and often quite difficult to spot, but it is coming to a workplace near you. Welcome to the not so wonderful world of ageism, where employees — usually over the age of 50 — are passed over for jobs, promotions and training on the grounds of age.

Most experts on workplace-based ageism agree the foundation for age-related discrimination is linked to the perception that older workers are technophobic and resistant to change, have lower levels of energy, are unable to learn new skills quickly, and are generally less innovative and creative.

A second layer of negative perceptions relate to the health of older works, who employers sometimes view as lacking an adequate level of fitness and regard as physically slower and more prone to injury.

For most older workers, none of this is true.

In fact, many older workers demonstrate a range of highly favourable and attractive characteristics, including workplace loyalty, stability, reliability and maturity.

On top of this, many older workers have well-developed leadership skills, refined communication skills and often have strong networks, which can be an asset to the organisation.

But perhaps the greatest value older workers bring is experience, or, put another way, workplace wisdom.

Older workers have learnt how to get along with colleagues, how to solve problems without fuss, and are willing to call for support when needed.

There are many signs suggesting a workplace is ageist.

For example, in an ageist workplace there is often subtle pressure from management for older staff to stop working to make way for the younger generation.

But it does not stop there.

Ask yourself:

**IS** there a pattern of hiring only younger employees?

**DO** people frequently joke or tease an employee about their age?

**ARE** older employees encouraged to retire or accept voluntary redundancies?

**DOES** workplace flexibility favour younger employees with more a rigid approach applied to older employees?

**ARE** the more challenging assignments and tasks allocated to younger employees?

**DO** older workers tend to be isolated or excluded in workplace-related social activities?

If the answer to any of these question is yes, you could well be working in an ageist workplace.

Employers interested in reaping the many benefits associated with older employees should look for signs of ageism in the workplace and develop strategies to remove the barriers that older workers may face.

They can train managers to help eradicate biases and embrace age diversity, and they can ensure employment policies address issues related to discrimination on the basis of age. They can also ensure older workers have access to training so they continue to make meaningful contributions to the workplace.

Organisations play a fundamental role in creating fair and inclusive workplaces that both attract and retain the talent needed for ongoing success.

That includes embracing workers of all ages.

**Professor Gary Martin is chief executive at the Australian Institute of Management WA**