I like to think of compound interest like I do surfing. You put in a bit of effort paddling at the start, but when you catch a giant wave it carries you along without any effort. This means that instead of mucking around in the slushy waves later on in life, you get to lean back and enjoy the ride.

Your family and friends

I'm totally unqualified to offer this advice, but I'll give it anyway.

When you're a teenager you think your friends will be around forever, because they always have been. But unless you make a point of investing time in your friends, they'll slowly drop away.

What does this have to do with money? Nothing.

But it has everything to do with your long-term happiness. Wellbeing studies show that the happiest people are those with strong social bonds. Investing in your relationships, (especially your family) has the biggest payoff of all.

So there you have it.

Sit these three exams and you may not receive a certificate in the mail, or attend a fancy ceremony when you pass them.

Yet the payoff is real, because you won't be one of those people who aces their school exams and then snoozes through the exams that really matter — and wake up 30 years from now and realise they've received an 'F'.

Tread Your Own Path!

The Barefoot Investor for Families: The Only Kids' Money Guide You'll Ever Need
HarperCollins
RRP $29.95

Liquidity is key to sound asset choices

Noel Whittaker

WE are living in interesting times. Property and share markets are all over the place and investors are trying to figure out if they should retreat to the perceived safety of cash.

Now, cash is fine if you've got a two or three-year term in mind, but over the long haul you will get much better returns from property and shares.

Furthermore, the bulk of the returns from these two asset classes come by way of capital gain, which is not taxed until you cash them in and makes them more tax-effective than interest-bearing accounts.

Recent bad headlines have made many novice investors scared of shares, and some have asked if it's a good idea to simply buy an investment property — usually a unit.

That would be a terrible strategy. Consider the advantages shares have over property.

The first is liquidity. If you want to sell your shares all you have to do is call your broker and say "sell". The money will probably be in your bank account within the week.

Contrast this with selling a property. You phone three agents, receive a range of prices that may well be 20 per cent apart, then wait until you find a willing and able buyer.

You will probably find the property is worth 10 per cent less than you hoped and if you find a buyer quickly and the contract doesn't crash, you may have the money within three months.

And while you can always sell a small parcel of shares, if you've got a property you can't sell just the back bedroom.

This lack of liquidity can be devastating for retirees.

Say you have an investment property you bought for $400,000 years ago that's now worth $800,000. Even with the benefit of the 50 per cent capital gains discount, there will still be a taxable gain of $200,000 when you sell. Contrast this with a couple who have the bulk of their investments in shares, who might not pay capital gains tax at all because they can time the sales to stay in the zero tax bracket.

The easiest option for the novice to shares is to invest in quality managed funds, where the decisions are made by full-time professional fund managers. Alternatively, buy an index tracker fund. If the Australian market continues to do what it has done for the past 100 years, a reasonable expectation of return is 9 per cent a year long term.

Shares have more potential for capital gain because an increase in a share's price should track increases in the company's profits. As a growing company has the potential to increase its earnings by 20 per cent, 40 per cent, or even 100 per cent in a year, so has its share price.

Property can't do this.

Provided you don't get spooked when the market goes through one of its normal gyrations, shares are the simplest investment of all to manage. You won't be called out of bed in the middle of the night to attend a burglary, you won't have to go to court to evict tenants and your budget won't be shattered with bills for land tax, rates and repairs.

None of this is intended to denigrate the unique benefits of real estate. Money invested in shares can vanish overnight if the company goes down the gurgler, but a good block of land will last forever. This is why banks ask for a much lower deposit if you can offer property as security when you are seeking a loan.

And property gives you the opportunity to add value by rezoning or refurbishing.

In short, investors should aim to have both asset classes in their portfolio and make the effort to use the unique benefits of each.

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 How will Labor's negative gearing policy work. Will the interest on a loan to buy an investment property be deductible?

A What has been announced so far is that investors buying real estate will no longer be able to deduct any shortfall from wages and salary income, unless the purchased property is a new one. Instead, a shortfall will be quarantined and available to be added to the base cost of the property to reduce capital gains tax when the property is sold. Interest will be deductible against income from the property and existing arrangements will be grandfathered. An anomaly in the proposal appears to be that landlords with other properties will still be able to negative gear because the restriction will apply only to salary and wages income. Landlords with other properties will be able to offset losses on a recently purchased property against ones they own that are positively geared. Watch this space.

Flexible workplace isn't right for everyone

WORKPLACE MATTERS
Gary Martin

FLEXIBLE work arrangements have become popular in Australia over the past decade and are likely to become even more mainstream.

That's because employers may soon be forced to justify decisions to deny requests by employees for flexible work arrangements because of a new clause to be inserted into all modern awards by the Fair Work Commission.

Flexible work arrangements encompass many formats, including part-time hours, job sharing, working from home or telecommuting, or even working compressed hours — for example, working the equivalent of a full week but over four days.

Other variations include phased retirement, purchased leave and career breaks, and working as "a day extender", which might involve working predominantly in the office, but carrying out additional work at home during the evening.

But before you jump on the bandwagon, give some thought to whether flexible work arrangements are right for you.

If you are seeking to restore a sense of work-life balance then flexible work arrangements might work well.

Similarly, if you are time poor, working at home as a form of flexible working will save travel time and may allow you to reinvest the time into other activities.

And if you compress five working days into four, you will end up with a full extra day each week to spend with family and friends, or perhaps catch up on some part-time study.

The downside is that you will have four days of long working hours, so those choosing this option need to be able to manage stress and pace themselves.

However, if you are the type of person who lacks motivation to get on and do the job without supervision, several forms of flexible work arrangements might not work for you — including working at home or working outside regular hours when your workplace supervisor might not be present.

Other forms of flexible work arrangements do demand superior communication skills. In a job-share arrangement, for example, where two people share a role, critical to the success of this flexible working arrangement is how you communicate with your work partner to get the job done in a seamless manner.

And even those working part-time, a widely accepted flexible working arrangement in many organisations, become frustrated when they attempt to keep in touch with key co-workers who are not rostered on at the same time.

And here's the kicker.

Although flexible work arrangements are embedded within many organisations, there is still a perception among some in the workforce that those engaging in flexible work practices are not career oriented. This can result in some employees not being taken seriously and being passed over when promotional or training opportunities arise.

While flexible work arrangements work for many, they are not for everyone.

But that should not deter you from considering flexible work arrangements if you want to restore some balance to your life.

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