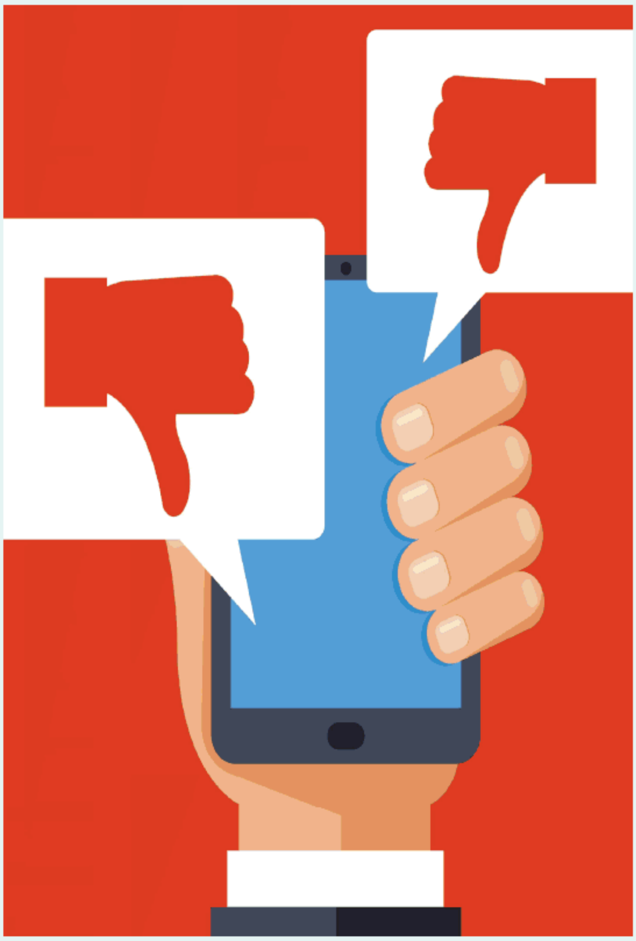

have for my kids — having the Barefoot Investor as their dad — is they'll be so focused on money that they'll become tightarses. I don't want to raise stingy, money-hungry kids. There's a fine line between "eight-year-old Johnny's such a good saver, he won't spend a cent!" and "28-year-old John is such a tightarse, no wonder he doesn't have a girlfriend").

So Joanne, I'd encourage your kids to splurge some of their money. Yes, they'll make some mistakes, as we all do. That's how we learn, right?

19-year-old girl wins the lottery

Zoe says: I am 19 and was given your book last

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

Christmas. I am not the greatest saver — I like to splurge a little too often. Yet a year after reading the book I have over $16,000 in savings, $4000 of which is in shares. Recently I did my tax return, and the accountant was asking how a 19-year-old girl seems to have it so together. I explained that she could buy your book for $29.95 (or less at Big W), and while she was doing my tax return I drew your "serviette strategy" on the back of an invoice sheet. She looked at me in amazement, even though I was basically regurgitating everything you had explained.

It was an awesome feeling. So I wanted to say thank you — you have given me a $29.95 lottery ticket that has earned me thousands!

Barefoot answers: I'm punching the air as I'm reading this. Most people leave school believing they have no idea about money, and then they prove it to themselves. Not you!

I guarantee your accountant was thinking, "why wasn't I this sorted out when I was 19?"

Well done, you got this!

Investment must stand on its merits

Noel Whittaker

Borrowing for investment is back in the news. Shadow treasurer Chris Bowen's office has confirmed that Labor's proposed changes to negative gearing will apply to all assets, including shares and managed funds — with the exception of new residential property.

It's a highly controversial policy. Aussie Home Loans founder John Symond claimed that Labor's negative gearing "hand grenade" could tip Australia into recession.

From a purely philosophical point of view, I think the proposed changes are bad policy. Restricting the ability to deduct losses on investment borrowing to a single type of investment — new residential property — will add unnecessary complications to an already complicated tax system and give us more "grandfathering" to worry about. And it will undoubtedly lure some unsophisticated investors into financial strife.

Today let's stick to the basics and think about borrowing for investment in general, and negative gearing in particular. To start, let's make one thing clear: negative gearing is not much of a tax-saver.

Think about a person earning between $90,000 and $180,000 a year. If they borrowed $500,000 at 5 per cent to buy a residential property for $550,000 with a net yield of 4 per cent, the cash shortfall would be $3000 a year (ignoring depreciation allowances, which depend on the property purchased and are clawed back on sale anyway). The tax refund would be just $1170 a year, including the Medicare levy. You would need to be a serious odds-on punter to borrow $500,000 just to save $1170 in tax.

So, the purpose of borrowing for investment is not to save tax, but to put the power of leverage to work for you. But leverage is a two-way street: it magnifies whatever is happening, positive or negative.

If the above property increases in value by 10 per cent, the investor has made a profit, at least on paper, of $55,000 — more than doubling their original stake of $50,000. Conversely, if the property falls by 10 per cent, the investor has lost their equity and more.

Obviously, the critical issue in choosing residential property for investment is not any tax breaks you may have at the outset. The key is to find a property that is under-priced and has the potential to increase in value over the long haul. For this, the vital thing is location, and the likelihood of increased demand in that area.

Successful property investors buy well, and add value by their own efforts and/or by growth in the area.

This is why astute real estate buyers look for the worst house in the best street. The best street will have location, and the worst house should be capable of having value added to it by refurbishment, and in some cases even by rezoning.

They also look for a vendor who is motivated for a quick sale due to factors such as a job transfer, relationship breakup or financial strife. As one seasoned investor told me: "The day you make the money is the day you sign the contract."

It would be almost impossible to find these factors in a new property, which is why I believe Labor's proposed changes to negative gearing will entice inexperienced "investors" into new properties to which they can't add value. It will be a bonanza for property spruikers, who are still unregulated.

The worst feature of all this talk about negative gearing is that it moves the focus of the investor from the potential of the asset to the investment strategy that will give the greatest tax breaks. Never forget the principle that any investment must stand on its merits: tax benefits, if any, are simply the cream on the cake.

Noel Whittaker is the author of *Making Money Made Simple* and numerous 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 I refer to Labor's plan to abolish the refund of franking credits. I earn about $18,000 a year from share dividends with $7000 worth of imputation credits. I have no other income and can't access any government benefits. Are there any other options apart from selling all the stocks to put into my superannuation to prevent the loss of the imputation benefits? Can I transfer these shares to my partner so he can use the imputation credits against his income?

A You could transfer your shares to your partner but there could be capital gains tax on the transaction. In any event, if the shares remain in your name the dividends will be essentially tax free. If you transfer them to your partner the grossed-up dividends will be taxable and the franking credits will only partly eliminate the tax. It would make sense to keep them in your name.

Avoid pitfalls of company Christmas party

WORKPLACE MATTERS
Gary Martin

Tis the season to be jolly, right? But you simply can't stomach the thought of going to your company's Christmas party.

It's not that you are anti-Christmas, it's just that every year you hear the post-party stories of how some of your colleagues, often fuelled by alcohol, engaged in behaviours they live to regret.

The fact is you simply don't wish to become embroiled in any incident that might limit your career opportunities.

But here's the rub.

For many employees the annual company Christmas party presents an opportunity to forget about budgets, deadlines and other responsibilities as the working year draws to a close — so perhaps you should consider attending to show your support of your colleagues.

The decision is obviously yours. But if do you end up attending, there are a number of simple steps you can take that might just help to boost your career prospects — rather than killing them off.

Consider, for example, that your attendance will most likely enable you to mingle with others whom you rarely get to mix with, including more senior people who you might not have access to on a day-to-day basis — so take the opportunity to build your internal networks.

But don't fall into the trap of treating this like a night out with friends.

While you might not be in the office, but rather in a bar or a restaurant, workplace etiquette needs to apply. Avoid flirting with others, making inappropriate comments or telling crude jokes which might offend. The message is simple: think carefully about what you say, and to whom.

And though you may be encouraged to down multiple shots at the bar like some of your co-workers, try to resist that temptation. Substitute alcoholic drinks with water or other alternatives.

At the end of the day, you want to be remembered after the Christmas party for all the right reasons — and not a infamous best-on-ground performance fuelled by alcohol that sparked inappropriate or offensive behaviour.

Think also about avoiding taking pictures at the event which you then post to your social media feed. Embarrassing pictures of your colleagues aligned with your flippant comments may well come back to bite you.

And plan your exit strategy from the function.

If you are attending simply to "make an appearance" as a sign of support, arrange your departure — by booking a lift at a prearranged time — to avoid being stranded at the function.

And if your function includes something like a Kris Kringle, where you need to purchase a small gift for a particular colleague, avoid anything "out of the box" that might be seen to cast that co-worker in a negative or embarrassing light, or have sexual overtones.

Finally, a work Christmas party should be fun. Just take care that it becomes a joyous end to the year, and not an uncomfortable start to the new year.

Merry Christmas and a Happy New Year! Workplace Matters will return in 2019.

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