

Wealth benchmarks - a guide for financial professionals and individuals Dr Doug Turek © 2008

This is a *rich* numbers-based analysis of unique financial, demographic and behavioural information shared recently by thousands of millionaire Australians and those who aspire to be like them.

Written for various wealth industry professionals (advisers, accountants, bankers ...) and individuals interested in personal finance, this book mixes real data with an expert interpretation about how wealth is created, who are the wealthy and what are their wealth-building secrets, and how to measure and analyse wealth.

“Wealth benchmarks are signposts on the road to building and enjoying wealth. They help you gauge whether you or your clients are on track and may provide guidance if not”



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www.wealthbenchmarks.com.au

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What is wealth? How do you measure it?

Measure	Calculation	Comment
Net Worth (NW)	Assets – liabilities	Good for rich lists. Overstates financial security as it includes lifestyle assets like the home
Investment Wealth (IW)	Net Worth – lifestyle assets; <u>or</u> Investments - liabilities	Preferred \$ based measure of accumulated wealth that can go to work for you if you don't
Expense Cover*	IW / Core living expenses	Relative wealth measure, ~ no. of years your wealth can fund your desired standard of living
Expected NW (ENW)	$\frac{1}{4}$ (Age – 20) X Gross Income	Prediction of your wealth based on data from 1000's of other wealthy Australians
Wealth Efficiency	NW / ENW	A test whether you have been efficient or inefficient building wealth for your age and income (>100% may indicate greater efficiency)

**Wealth is abundance – draw into it to *Make Work Optional* or retirement more secure
It differs from Affluence which is about the flow of money in and *out* of your life.**

*Investment wealth expense cover, or better named *Make Work Optional* ratio

Evolution of wealth – some real data

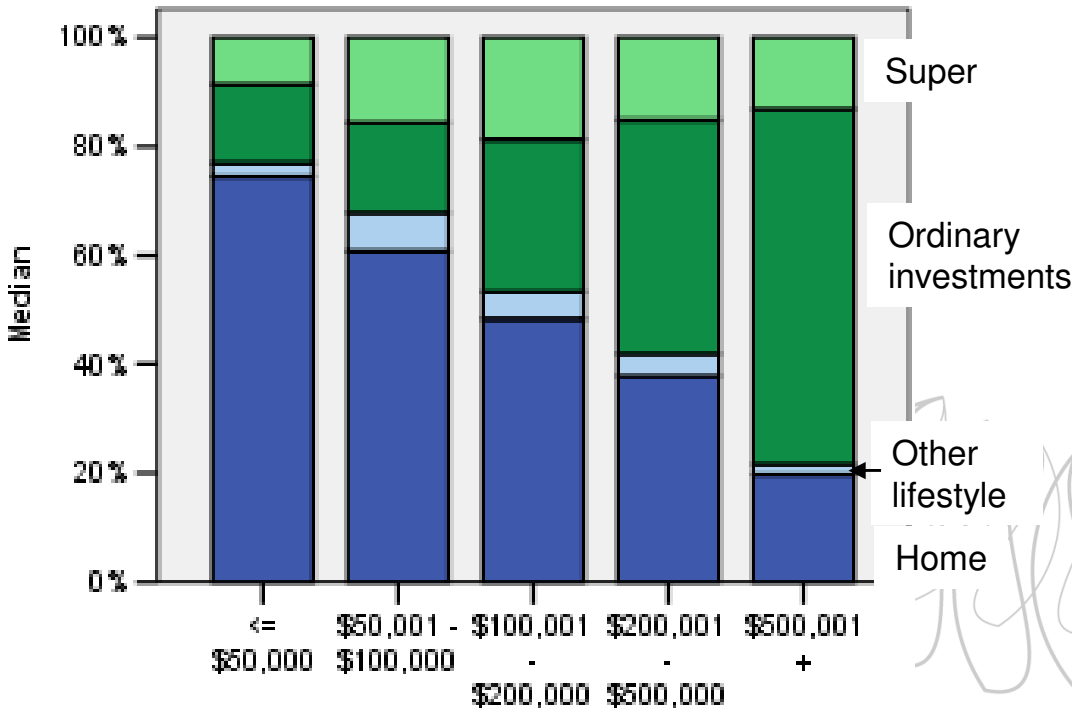
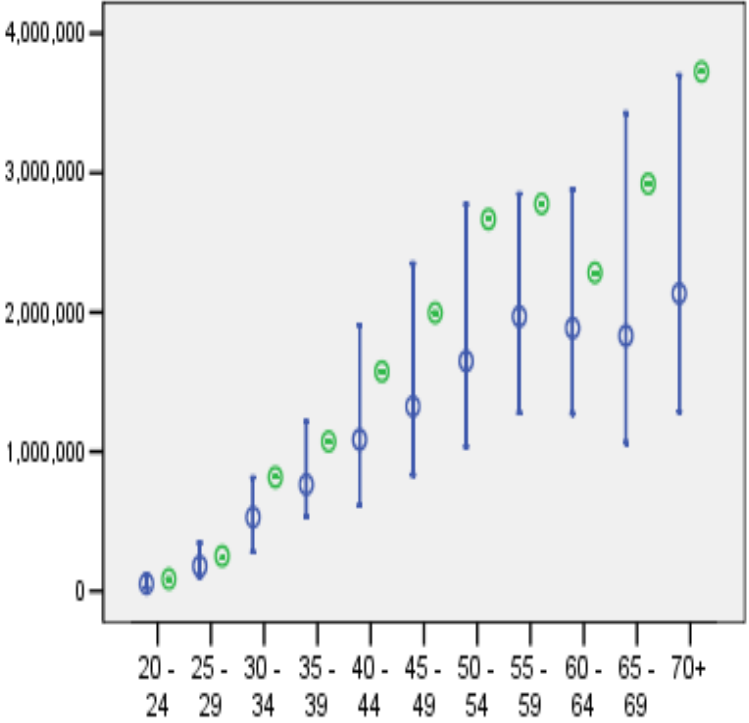
Individuals and families' Net Worth (\$) grow with age following a history of earning, saving and investing

Variation expands over time, separating out higher and lower income earners and more/less wealth efficient

Post-retirement, wealth continues to grow, stabilise or is consumed depending on % drawn-down.

Higher income earners' assets (%) are dominated by investments (here per annual gross household income)

Constraints contributing to super and (past) inability to leverage those assets means many higher income earners can't take full advantage of super



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 Note comparisons should be made in age & income bands together

Some “secrets” to wealth

Give it time

- Time to save and for investments to grow is needed – be patient !
- Critical fifteen year investment wealth building period from age 40-55

Higher income helps but don't spend it all

- Higher incomer earners are often ... dual income couples, “executives, directors, owners or specialists”, self-employed, managerial and professional class, those who have spent some time overseas, work in a capital city ...
- Not all translate higher income into *Making Work Optional*

Manage work & wealth (career)

- Wealth of “Executives, directors, owners or specialists” > managers > “do'ers”
- Self-employed are about 2x wealthier than employed (a career path not right for all)

Address risk

- Some fund insurances to protect their wealth or it's “trajectory” – some forget to !
- Invest in your marriage - avoid financial and marital separation
 - Average life time loss of 20% of Net Worth on average

Spend wisely – wealthy are smart spenders, not big spenders, nor frugal

Invest for the long term – either into shares, property or both and for a few in business building

- eg. those aged 50+ who invested in shares for ~ ½ their lifetime accumulated ~ 2x more investments than those who had no investment focus in same age group

While these aren't necessarily secrets this work has validated many anecdotes and uniquely quantified the financial “prize”

Wealth indicators to analyse and compare

“Top 10” wealth indicators

Investments ratio (proportion your assets are investments)

Super investments ratio (proportion of your investments that are in super)

Wealth (Net Worth \$, Investment Wealth \$, Expense cover or *Make Work Optional* ratio)

Ordinary gearing ratio (total debt to non-super assets)

Debt to income ratio (total debt to income)

Total expenses (\$), living expenses (\$) (*ex-debt servicing and any rent*), savings rate (\$,%)

Comfort level with your finances

**Book provides more background on using these dashboard-like indicators.
Online tool provides comparisons with others in peer or aspirational groups.**

About Professional Wealth and these summaries

About Professional Wealth

We are an independently owned, personal wealth advisory and money management business serving clients in Sydney and Melbourne

We focus on professionals and those who value professional service

We strive to set a new level of professionalism, by

- providing unbiased high quality advice
- being free to recommend a broad range of investment and insurance solutions
- being remunerated only by our clients, refusing all commissions and rebates
- making education an important part of our offer

About our Executive Summaries

We regularly review interesting writing on wealth topics that we think our clients will find useful

Our summaries are of the authors' views and we encourage you to read their work to learn more

These should not be considered personal advice as your needs and circumstances will vary

Please contact us or your personal advisor to explore further how you can *Make Work Optional™*

If you have received this from a friend and would like to receive future summaries directly, please send us your email address

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