

Eoghan Gavigan

A million reasons to define the true nature of wealth



Would-be investors have a difficult decision to make when considering their options. If they are going to increase their wealth, they will need, at a minimum, to beat inflation and whatever they are paying in charges. This sets a floor for their return objective. After this the field is wide open in terms of what return to aim for.

So how do you select an investment? Do you choose the one that promises the highest return, or do you choose the investment first? Maybe you like the sound of bitcoin, German property, or shares in attention-grabbing companies such as GameStop or Tesla. This might mean taking a level

of risk over which you have no visibility to make a return that has no relevance to your situation. Yet many people do exactly this.

I hate it when clients tell me that they want to accumulate wealth. This does not tell me anything that helps me to help them. I need more information such as how do they define wealth.

When I was young, we used to talk about being a millionaire, but a million euros then and a million euros now are very different things. The objective cannot be the accumulation of a stated euro amount – there has to be more to it than this.

The three variables involved are risk, return and time. Risk is difficult to grasp and can be perceived

differently. I have heard people after a good outcome express a view that there was no risk involved, and it is a comment that demonstrates a total misunderstanding of the nature of risk.

What about return? How much is enough? We know that risk and return are linked. We know that you do not want to take more risk than necessary. If you can determine how much is enough, maybe this will help you to limit your risk.

The third variable is time. Broadly speaking, most of us have the same amount of time on this earth. If your objective is to accumulate more money than your neighbour, you have to start with more money or you have to take more risk. In any

case, an objective to accumulate more than your neighbour would be pointless, because it has to be about you.

Financial planning is concerned with determining the cost of your objectives and structuring your finances so that you accumulate enough to achieve them. If you can quantify the cost of your objectives – housing, education, retirement – and determine the level of risk you are willing and able to take, you can work back to the required investment and determine if you have enough.

If you do not have enough, you can make an informed decision to reduce the cost of your objectives, prioritise more critical objectives, or

take more risk. If you want to go a step further and accumulate more than enough, that is your prerogative, but know that approaching it this way may result in a poor outcome. Even if you succeed, what will you have jeopardised, and to what end?

There are three types of clients. The first are those who do not have enough. Think of a couple, possibly in their thirties or forties. They have time but they do not have enough money. They do not have a plan to fund their objectives. If nothing changes, they are going to have to work for as long as they are able. Their financial situation is going to dictate a lot of the choices they make.

The second type are

clients who have too much. They have money but they do not have time. Think of a well-off retired couple in their seventies. They have enough money to maintain their lifestyle for several decades but they have an average life expectancy of only ten to twelve more years. They could have done more with their lives. They could have worked less.

The third type are those who have enough, but here's the rub: most of them do not realise that they have enough. They have to be told, while they are still young enough, that they can have a better work-life balance. They could switch to a three-day week, retire at the age of 55 or, if peace of mind is their overriding objective,

they could reduce risk in their portfolios.

So how much do you need to accumulate to say that you are wealthy? Based on my definition of a millionaire when I was 12, you would need more than €2 million today to have the same spending power as €1 million in 1985 because of the effects of inflation. Of course, wealth is not a precise monetary amount or a number dictated by someone else. When you set your financial objectives, you define what wealth is – and if you achieve it, then you are wealthy.

It's wealth with a purpose.

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