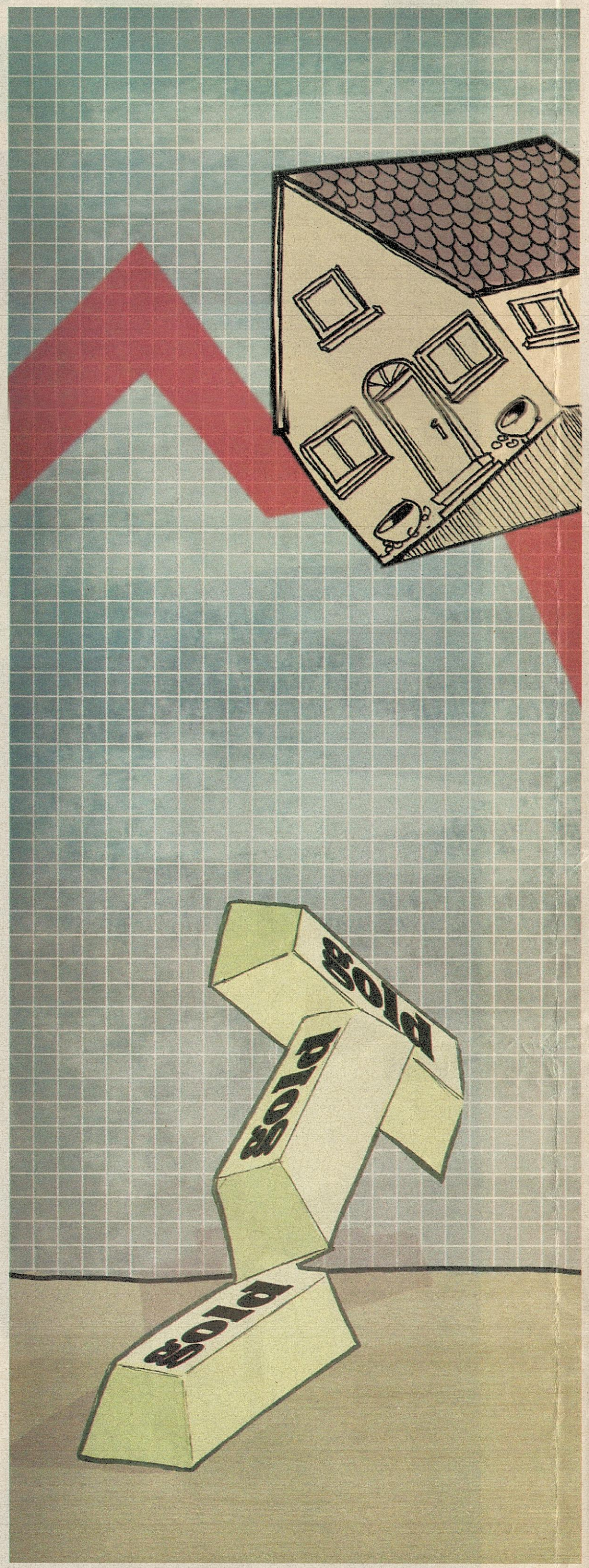
24|7 MONEY

RING IN A FINANCIAL NEW YEAR

It's time to air out that investment portfolio and look forward to new money-making opportunities ■ Here are some expert financial resolutions for 2009



DUBAI **Veathika Jain**

The beginning of a new year always generates a lot of enthusiasm, promises and resolutions. It is both the best time to make a new start and get out of any mess you have created over the previous 12 months.

The financial crisis has hit everyone except the truly smart, but you can solve your money problems by resolving to spend less, keep to your budget and identify the right financial instruments to invest in.

Above all, you need the right mindset to make 2009 a good financial year. "Start by highlighting the difference in interest rates between your credit cards, overdrafts and loans," says Dubai-based life coach Dave Crane. "Pay off the highest rates – credit cards – first and then work your way down.

"Get savvy by consulting a financial advisor and learn the difference between owning assets and investing in good and bad liabilities. Buying a new car and redecorating the house are bad ideas at this time."

A few financial resolutions combined with planning your spending can definitely improve your financial health, according to Nigel Watson, Sales Director at investment advisory firm Nexus. "The New Year will be a great opportunity to review your finances and set a foundation on which to build for the future," he says.

"Consider your short and long-term goals in light of any changing circumstances, such as an increase in your pay, a bonus received or a cut in income. Decide whether you can increase your savings to help achieve future goals or provide protection if there is a possibility that you could lose your job in these difficult times. And have an early meeting with a financial adviser for a money health check."

And keep a tight leash on spending – most obviously, this will help boost your bank balance. Darren Ashley, Managing Director of Candour Consultancy, says people tend to overlook some basic points that could help lay a solid financial foundation for the future.

"Many people have a huge proportion of their savings sitting in a current account and are missing out on the best interest rates," he says. "If three months' salary is left in a current account as an emergency fund the remainder can be split between seven-day, 30-day and 90-day notice accounts. This will result in substantially higher interest being earned without affecting liquidity too much – the seven-day account can quickly top up the emergency fund, the 30-day account can top up the seven-day one and so forth."

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If you're in business and are seeking to control your costs more effectively, Crane says it is a good time to call in outside consultants who can determine the best-performing profit centres. "If you have had to tighten your belt you should re-evaluate your target market and business model. Which industry is thriving right now? Do you have a product or service that complements the needs of that market? If so, how can you create a new portfolio and get some business," advises Crane.

"Shrewd employers are using the meltdown to let go of surplus staff and reduce overspending. This is also a good time to motivate your existing team and clients," he says, advising that small businessmen use Pareto's 80/20 principle, which says 80 per cent of sales come from 20 per cent of customers. "That will determine your new direction in 2009," he says.

Gold has a relatively fixed supply and so will retain its value as price levels soar SUPPLIED

First, you can buy gold stocks, the shares of large gold producers. Conveniently the recent stock market crash has taken these share prices down to low levels marking an attractive entry point for investors.

Buying gold stocks levers the gold price because as the gold price rises it has an even larger impact on the profits of gold producers. Clearly any rise in the gold price above the cost of production flows straight through to the bottom line.

Secondly, the junior gold stocks or gold exploration stocks offer a riskier investment class – as smaller companies with less certain assets and management – but a proportionately higher return.

Gold exploration companies own the claims to land on which future gold mines might be located, and in a gold boom the value of these assets rises exponentially.

Legendary investment adviser Dr Marc Faber recommends gold explorers in his latest newsletter, pointing out that these stocks have become "incredibly cheap" because of the stock market crash. In the late 1970s investors who bought the right gold juniors at the right time made one hundred times their original investment.

Thirdly, instead of buying gold you could buy silver. These two precious metals are close cousins and it is not for nothing that silver is often referred to as "poor man's gold".

For in previous gold price booms silver has always tended to outperform gold in terms of its price rise.

People who cannot afford gold tend to buy silver and it is a fact of life that the available stock of silver is much smaller than gold, and so the price rises are more dramatic as demand lifts off. Silver price movements can be very volatile as investors have seen in 2008 but the reward for patience is higher returns than gold.

Chartists note that silver price movements tend to lag gold in the early months of a major price advance and then suddenly sprint ahead, bringing down the important gold-to-silver price ratio.

The gold-to-silver price ratio stands at around 66 today compared with its long-run average of 15. This leaves considerable room for a closing of the gap between the gold and silver price, and that will come on top of an increase in the gold price. Owning silver therefore gives a strong leverage over the gold price.

Forth, the sophisticated investor can look to gear-up on the silver price by buying stock in the major silver producers. This is how investors such as Warren Buffett, Bill Gates and George Soros have played a rising silver market in the past. The same argument applies as with the gold producers, as profits will be geared to the rising price of the underlying metal.

And here is a fifth and final option for smarter investors in precious metals: you could buy shares in the smaller silver producers, or silver explorers, whose share price advances in a bull market will eventually be bigger than the larger integrated producers. Again in a real bull market the value of the assets of smaller companies will leap, and these shares are presently very cheap after the stock market crash.

However, one big warning to smarter investors who want to leverage the gold price in 2009: leverage, even without debt, will act in reverse if the gold price falls. So a diversified portfolio of precious metal assets is preferable to limit downside risk.

Also you should note that this article has not even considered ways of levering the gold price by borrowing cash for investment. Gold is not for market timers whose leverage depends on precisely timing options, and silver is even more volatile.

The trick is to keep the price movements working for you by holding the right type of investment instrument and not borrowing up to the eyeballs or using options to try to lever a small price change that might not happen exactly when you want it.

Think of precious metal exploration stocks as an option that never expires, or at least one that does so very slowly, but do not buy precious metal options unless you happen to be in the jewelry trade.

However, the sophisticated investor is paying more and more attention to precious metals and trying to exact the best performance from this asset class is something that is taxing the best brains in the business right now. It maybe that one or two top manages come up with some better ideas than those presented in this article, but these are all the approaches that have worked in past precious metal booms.

GOLD RUSH ON WALL STREET

As the worst recession in at least a generation spreads, so does the clamour for gold bars and coins, assets less likely to go up in smoke like so many derivatives and asset-backed securities. "I've never seen a case where demand was so high and supply was so short," said Chicago coin dealer Harlan Berk, who has been in the business 44 years.

Spikes in demand for gold coins this year appear to run parallel with the mounting woes on Wall Street.

The US Mint was unable to get enough gold blanks from suppliers to match demand, spokesman Michael White said. In September, when a bailout for the nation's biggest banks failed, sales of the American Buffalo coin were suspended until November because of shortages.

Yet even before the full extent of the crisis was known, as far back as last spring, investors had begun to load up on gold and other precious metals, said Beth Deisher, editor of Coin World trade magazine – just three months into the US recession.

Berk advises to plan ahead when arranging purchases, as much as two to three months. It's frustrating, but "you learn to live with it," he said.