

Tips for New Expatriate Investors

There are many things in life over which we have no control and a few where we have; choice being one of them. Having made the decision to live and work overseas you will most likely find yourself better off financially. It is therefore important you make the right choices about your finances. To help you do that the following areas should be considered.



Expatriate



Retirement



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Investment



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Expatriation

You may have to consider different ways of planning your financial objectives as an expatriate. Some benefits that are available in your home country may no longer apply leaving you or your overseas employer to make up the difference.

There is a plethora of investment products available and choosing the right ones are very important. Almost all asset classes outside of cash involve investing for the medium to long term. There are many advantages in investing “offshore”, not least from a tax point of view, but only if in the right structure. The wrong choice can quickly lose you any tax advantage.

Are you a non-resident for tax purposes now or not? For how long are you likely to be an expatriate? These are just a couple of questions out of many that need answering before the right investment can be recommended to you.



Repatriation

Even before investing as an expatriate the time when you come to repatriate has to be considered. Some of us never go home, but for those who do it is important that financial affairs are in order to avoid any unpleasant surprises when you get home, especially from the taxman. And on that front things change quickly these days in many countries.



Offshore Banking

All expatriates, without exception, should consider opening a bank account in an offshore jurisdiction. Why?

- Generally deposit rates are higher
- No tax deductions on interest at source
- Security and Confidentiality. (Depending on where you are an expatriate, a local bank account can be “frozen” if you are involved in certain incidents, a traffic accident for example if someone is injured).

No longer reserved for the rich with something to hide, offshore banks are now main stream, with many providing debit cards, online banking etc enabling day to day management of your finances.

Sometimes even using your existing bank providing they have an offshore facility, can be beneficial. Following recent events involving banks and the worldwide financial crisis it is vital to conduct research before firstly choosing a bank and secondly, the jurisdiction.



Protection

Imagine you didn't have to work because you had a machine in your house that on a set day every month issued all the money you required to run your home, take holidays, buy a car, etc. For how much would you insure that machine against fire or theft? At least enough to make sure you still received the same amount of money each month?

The reality is that this cash machine is you. If you died then the money you made each month would also stop dead. Not to insure against this loss would be unwise, to say the least.

There are many types of life assurance available; cover for a set period, or cover that never expires. There is life cover you can have whilst you are an expatriate that may not be applicable if or when you return home.

Protection is not only for when you die. What if you were still alive and in need of daily care? Or if you had a heart attack and needed to slow down? Is your medical insurance enough for you and your family?

It is certainly worth finding out how much it costs to insure yourself less the "machine" in your home stops working.

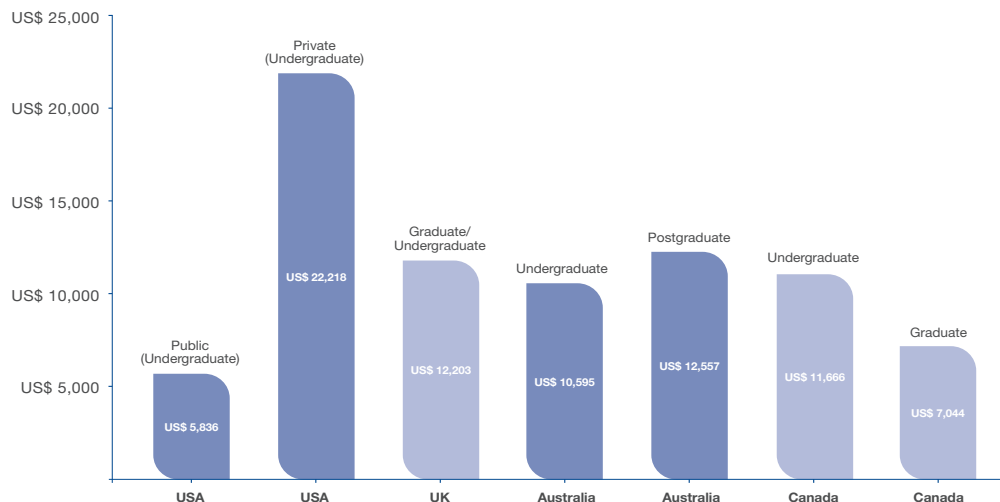
The difference between insurance and assurance? Insurance is probable, assurance is certain. It's not a case of 'if' but 'when' will your assurance be required?



Education

People now travel all over the world to further their education. The most popular destinations are the USA, Canada, Australia and the UK. Saving early and planning effectively can secure a child's future. How much can an overseas education cost?

Average annual costs for education fees



Source: CollegeBoard, the British Council, Study in Australia and the University of Ottawa, Canada. Annual fees may vary according to the institution chosen. All figures are in US Dollars.

In addition to these fees don't forget your child's living expenses, computer, books, etc. Even if you plan to return to your home country for your child's education, university fees continue to dominate and are rising on average at 3% per year worldwide.

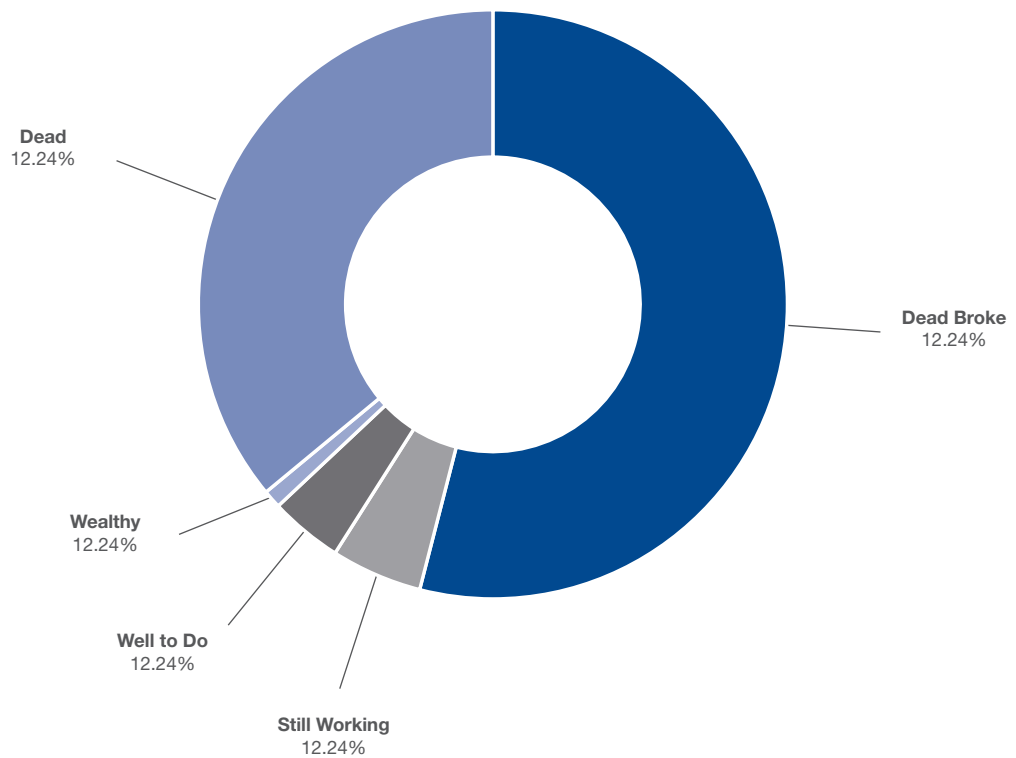


Retirement

As a rule of thumb everyone should be saving at least 15% of their income throughout their working life in order to ensure an adequate income in retirement. You can also calculate how much you should save by estimating how much you can comfortably live on in retirement. Much depends on where you plan to live but let's say you can live on \$2,000 a month in today's money. If we assume you can generate 4% interest from a capital sum you would therefore need to accumulate \$600,000 before you retire. And this figure will need to be adjusted annually to take into account inflation! Of course you can manage with a smaller amount by dipping into capital to achieve the monthly \$2,000 but as inflation bites there is the danger that the capital will run out at a time when your health and long term care needs are the greatest.

How can you reach such a target?

The answer may be no way if you have left it too late. But if you have another 20 years to retirement and can rely on a steady income then by putting \$1,000 a month into a regular investment plan generating an average return of 7.5% per annum you should meet the target (but remember it is a moving target so savings should also move up with inflation). If the target is beyond reach you can at least comfort yourself by knowing that you are in the majority. Studies in the UK have shown that even in a country where pension contributions are mandatory only a minority will have saved enough to maintain their standard of living in retirement. But it does not mean you should give up. Early action will at least provide some damage limitation!





Investment

There are only 6 basic asset classes, and whatever form of investment you make will fall under one of these categories. As follows:

Cash

Cash is a means of store and exchange of value. Considered a safe investment because if it is in the bank then you can't lose it, and you get some guaranteed increase in value", or do you? Inflation, which is the rising price of goods and services over time, reduces the purchasing power of your money over the long term. Cash has its place in any portfolio, but if you want to outrun inflation over the long term you have to also invest in other asset classes.

Bonds

Are government or corporate debt, for example, a government can raise money by taxing people, but this would be very unpopular, or by raising money through the bond market. This market is linked to cash and inflation rates.

Equities

Stocks and shares, these represent ownership in company value and/or corporate profit/losses.

Property

Real estate, a favourite of many investors, more on this in the next section.

Commodities

Oil, tin, copper, coffee, cocoa, etc. a great way of making money because they regularly provide the opportunity to buy low, sell high. However, it is a very volatile area and the best commodity brokers in the world tend to suggest that you should only put 10% of your total wealth into commodities, and that this 10% you should be prepared to lose.

Collectibles

Portraits, paintings, wine collections, vintage cars etc, anything you can buy at a price and sell with a mark up. But planning your retirement/children's education on the strength of a stamp collection would be a bit of a risk.

Short Term Vs Medium / Long Term

- Short-term needs – Cash and /or liquidity (Cash is the only asset class that will not lose purchasing power in the short-term).
- Medium to long-term growth, invest in a combination of all other asset classes.

When investing diversification is of key importance, you should have an asset allocation weighting in line with your views on risk, the time frame you are considering and your base currency (deemed as the currency you will most likely spend the money in).

Remember, probably the single most important tip on investing is "if the deal looks too good to be true, it is too good to be true". A structured portfolio professionally managed with the assets classes rebalanced over time will produce the best results in the medium to long term.



Property

One of the great things about property is it is a real, tangible asset. You can touch it, feel it, and for the most part you can live in it and still make money.

So why use property as an investment?

Well, here are some of the facts.

- 50% of the Times Rich list built their fortunes through property
- There is potential for large returns on a relatively stable investment. (Based on average property prices across the UK - A property worth just £4000 thirty years ago would be worth around £225,000 today)
- Offers great diversity in a portfolio and is uncorrelated to bonds/equities.
- Tangible investment, but if for investment it should be treated unemotionally.
- People will always need somewhere to live, so there will always be a market.

When investing in property we always recommend the following:

- Do thorough research
- Understand the legal & tax implications
- Explore new markets, there are many opportunities worldwide.
- Don't be emotional, if it is for investment you have to view it this way also.
- Don't be afraid to sell
- Don't be restricted to one market, as with other investments, it is better to have diversify.

There are many other considerations such as;

Location – is it a booming market? Or is there a distressed opportunity? Market forces - will demand grow or decline, who are the likely purchasers, young professionals if in a city, or someone looking for a holiday home? What mortgage facilities are there? Are the interest rates likely to go up/down?

Does the price cover everything? – eg, furnishings, car parking? What is economic situation in country you want to buy? Is it stable?

Through our extensive network of property experts, we can assist you in answering the above and more, and locate the property of your choice whether to live in or for investment.



Trusts

Anyone looking at long term investments and the implications of investments for the future benefit of families should be looking at the advantages and benefits of setting up and using trusts.

Assets placed in trusts have better protection for family members in the event of their being transferred because of a death in the family. Assets that benefit from trusts are not only cash but also properties. There are a number of reduced tax liabilities available as a result of establishing a family trust.

Contact Us

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Contact us via email on client.services@imperium-capital.biz or via phone on **+62 21 2557 4588** and ask for “Imperium Capital E-Book” information.

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