From the Jerusalem office:

A Point to Ponder

Beginning Investment Issues.

Reprinted by:
ISRENET
ISRAEL RESOURCE NETWORK
www.FinancialResource.Net, www.FRNIsrael.com
Box 31066, Jerusalem Israel
Phone: +972 2 622 3065
Info@IsReNet.com

> From: "Susan H. S."
> To: ClientAdmin@isrenet.com
>
>
> One quick "rule of thumb" question: What is the minimum, the absolute
> floor - before one is ready to invest? What if one has less than NIS
> 100,000 available - is it best to keep such a relatively small sum in
> a totally safe savings account - especially if one is at or near
> retirement - or can all or part of that be safely invested?

Excellent question, one we wish most everyone would raise, but we rarely have been asked. As a result I will give you a detailed answer so we can also share this with others.

A) Your first goal should be to have an Emergency Fund, money you can get to quickly in case you are unable to work; or can't get to assets abroad or from family funds (like what happened in 2008-9, when banks stopped transferring assets for several months). Most people associate Emergency Funds with having money in a local savings account.

B) Investment funds (Mutual funds, ETFs, CEF's, Unit Trusts, Investment Trusts, Kranot Neemanut, Teudat Sal, or whatever they are called locally) have very low minima to get started. Mutual Fund type products will typically have minima of $5,000 or less, stock exchange traded investment funds have as a minimum the cost of a single share (although the costs to buy one share could be greater than the cost for the share itself!). Thus in theory you can start with any amount.

However the question asked is implying that you want to use an Asset Manager to make the decisions for you. For Managed Accounts the minimum is much higher, because you are also paying for personalized service. Managers will also explain to potential clients that small accounts take more work and time because there are additional issues that don't exist with larger clients. The smaller client because of fear and lack of experience needs more hand holding. Thus very small accounts are not profitable and take away from properly serving clients who want and appreciate what a personal Asset Manager can do for them. Most Asset Managers currently have a minimum of several hundred thousand Dollars or equivalent in the local currency. We can provide the less affluent client simple alternatives. And for those searching for great Asset Managers, we provide reviews and introductions to Managers who have worked well for our clients.

C) Does having an Emergency Fund preclude using investment funds? The answer is clearly NO.

One of the real problems that many are currently experiencing is the fear of investing, especially in light of what happened in 2008. The banks were the only relatively safe place to have money in 2008, because governments were knowledgeable enough, from prior meltdowns, to know that if they let the banks fail there would be a worldwide depression like the 1930's, leading to major wars. So far, they have been able to avoid this scenario. However, those who saw the value of keeping money in a bank account instead of

The Israel Resource Network, Ltd.
P O Box 31066 Jerusalem Tel.: (972-2) 622-3065, Fax: 624 5850 Info@IsReNet.com

being invested in 2008, are the ones who have been hurt the most since then. Underlying inflation has been galloping along at 2-4%/yr, unabated, throughout the past 6 years. Money kept in a bank account is getting virtually no return, and whatever nominal growth there is still gets taxed. Thus. 'a totally safe savings account' is not entirely true.

The answer at this point in time is to put much of the emergency money in low risk investment funds with track records of 8 years or more (so you can see that they knew how to survive crises), that have daily or at worst weekly liquidity. Other than a checking account the banks currently are providing few advantages.

D) Specific considerations:

Americans: Due to changes in the US tax laws that came into effect this year, American taxpayers can no longer invest directly in funds, in most instances, outside the USA without having to pay annually new punitive taxes. The alternative is to buy shares and bonds directly, which for most of us means we should use an Asset Manager here, or wherever outside the United States you may be living.

The best way for Americans and most other nationalities to invest money long distance, and safely (plus for nearly a dozen other reasons I won't go into here) is to open an American Fidelity account to do the investments. It can be easily operated directly by the owner (you) or can be managed. We have several documents that can be forwarded to you explaining more about this alternative.

Non-Americans living abroad: There are generally no restrictions on what you can do but the laws are changing. Within the next 10 years expect that most of the requirements and restrictions on Americans will also apply to citizens from the countries where you hold passports. Now is the time to think proactively in terms of: holding assets directly or indirectly, jurisdictions of custodians, and to see how to legally reduce tax footprints for oneself and heirs -- before the belt tightens and you have fewer options. This is a significant component of our Financial Planning services.

Getting back to our specific issue, investing in funds makes the most sense either in the country where you reside, or via an offshore vehicle, or via a Fidelity Account. Again, for most who are of modest or moderate means, the Fidelity account makes the most sense for many reasons. Generally investing back in the country you left does not work well for tax reasons, plus often the ability to communicate with the institution from afar does not work as well as with a Fidelity account.

Those investing in Israel with small amounts of money:

There is a new way to do investing in Israel for those with modest sums, 5,000nis or more. One of the insurance companies is offering an interesting and simple investment platform for modest investors. It is technically a life insurance policy (so it probably is even available to Americans without punitive tax consequences). Liquidity is available in less than a month, so it will work for much of one's Emergency Fund. The program allows one to grow money across a spectrum of options from very conservative to somewhat aggressive. This option is only available from an insurance agent who has been properly trained about how to help their clients manage such a product. We can give you contacts to qualified vendors.

How much should be in the emergency part of my assets?

There are all kinds of ways of looking at this. Too keep it simple, look at having at least 3 months of living expenses. The funds should be easily accessible and not overly at risk due to stock market / economic volatility.

One of the advantages of having large parts of one's wealth in securities (bonds, shares, funds) as opposed to Real Estate, direct investment in start-ups, the family business, art, etc., is the liquidity factor. Traded securities normally can be easily and quickly liquidated. Other types of investments are longer term and should not be considered as initial investments, until the Emergency Fund issue is covered. One of the issues we regularly discuss with older people is whether having most everything invested in one's home makes sense? If you are starting to run out of cash for daily needs, one generally can't start selling windows and doors to pay the bills!

The Israel Resource Network, Ltd.
P O Box 31066 Jerusalem Tel.: (972-2) 622-3065, Fax: 624 5850 Info@IsReNet.com

Your age and how that effects investing?

Classically advisors were considered verging on criminal activity if they told older clients to invest aggressively with a substantial portion of their wealth. In the last five years the thinking has totally changed, which is why many of the same advisors are against bank accounts and other conservative approaches. Money not growing faster than the erosion from taxes and inflation is losing the economic wars, and if you need to live from the account, and are not very rich, then you will be destitute at an age when you cannot return to the workforce and have much higher living costs than when younger.

Most of us have to take some risk, because the risk of being elderly and destitute is too great. There are today many simple and relatively low risk investments available that challenge the classical warning that 'past performance is no proof of future returns'. If you are ready to get started, we can help you choose some of these options without needing to hire a full-time Asset Manager.

The most important type of investment insurance.

Many important rules and simple logic govern investing. We have articles listed on the website that will quickly and easily help educate you, whether you want to do it yourself or to be knowledgeable enough to start interviewing Asset Managers. One concept we feel trumps all the others -- Diversification. One needs to do far more than just diversify broadly between investments, but also between custodians, currencies, regions, etc. By being diversified we reduce risks in many ways, including that there is usually something performing if we need to pull out cash. When you have to sell something that is going through a cyclical downturn, you are taking a double hit, as there will be fewer shares left to recover when that investment turns around. We can help guide you to making better choices, especially when there is not much room for error.

I hope this quick overview helps to answers your questions, and will help enlighten others.

Regards,

F. Mark van Gelderen

---==^==---

Go to **http://frnisrael.com/Knowledge_Bank.html** for more articles on this and other financially related topics.

IsReNet, representing the Financial Resource Network in Israel, helps clients solve financial problems. Through our many contacts in the Legal, Accounting and money management fields, we help clients find the proper mix of talent to solve complex money related issues – at reasonable cost. **IsReNet** generally represents the client and is not involved in marketing specific problems or solutions. Initial meetings are free.

Wealth Enhancement, made simple!™

The Israel Resource Network, Ltd.
P O Box 31066 Jerusalem Tel.: (972-2) 622-3065, Fax: 624 5850 Info@IsReNet.com