>FINANCIAL SNAPSHOT

Name: Chris Price.
Age: 24.
Occupation: Graphic designer.
Salary: $49,000 plus super.

>Assets
Property: None.
Super: More than $10,500.
Shares: More than $3,500.
Cash: More than $3,100.

>Liabilities
Personal loan: $350.
HECS: $11,000.

>The average week
After-tax salary: $715.

>Expenses
Rent: $140.
Personal loan: $50.
Super contribution (salary sacrifice): $12.50.
Term deposit contribution: $70.
Living expenses: $120.
Other: $50.

Graduate has designs on a home and an expanded share portfolio

Ambition is a wonderful thing, but often we need a little help to achieve it, **Janet de Silva** writes.

THREE years out from university, 24-year-old Chris Price is starting to think about saving for his first home. He is currently in a relationship and living in a shared house in the inner Melbourne suburb of Clifton Hill.

The qualified graphic designer has been working in the brand and communications department of Origin Energy for nearly three years and does some freelance graphic design work in his spare time. In the next five to 10 years, Chris plans to expand his freelance design business so that it eventually becomes his sole source of income and earns him at least $80,000 a year.

He envisages remaining in a shared household for another year where his rental repayments are a relatively modest $140 a week.

Chris says his chief financial goal is to save for a deposit on a house in the next two years but he wonders if this is realistic. At the end of next year he is looking to move to Perth with his girlfriend to further both their careers. He expects to rent for at least a year in Perth while looking for a house to live in.

He also wishes to increase his share portfolio with the view to holding the stocks for at least five to 10 years before reassessing what to do with the money. He describes himself as someone with a medium to high tolerance to risk.

He is unsure what to do about his $11,000 HECS debt. "Should I be concentrating on reducing my HECS debt or just letting my employer contributions do it and channel my savings towards the house deposit?" he asks.

Finally, he asks: "Are there other opportunities for me that I should consider to place my money so that it works harder for me, like overseas shares or a managed fund?"

If you would like to participate in Investor Overhaul and receive free financial advice, send an email with your location and a brief explanation of your financial situation to investor@fairfax.com.au.

Leave super for later and look for high-yield assets

Mike Ingham
Godfrey Pembroke

BUILDING your superannuation savings should not be your highest priority, Chris, given that your chief financial goal is to save for a house deposit. Don't forget that any salary sacrifice contributions to superannuation are locked away until you turn 60 in 2042.

I recommend you stop the salary sacrifice to super of $650 per year. On your marginal tax rate of 30 per cent, you are saving only $204.75 a year in tax (and Medicare levy). This small benefit is far outweighed by the penalty of not being able to access your savings. Moreover, the salary sacrifice contributions to your fund are taxed at 15 per cent ($97.50).

Your circumstances and objectives will undoubtedly change before you retire and you can always boost your contribution levels at a later date. Importantly, make sure your superannuation is invested in a diversified investment option with a high allocation to "growth" assets such as Australian and global shares, private equity, Australian property and global property. This is consistent with your risk tolerance and with maximising investment returns over your long-term retirement horizon. Ensure your superannuation fund is competitively priced and offers you adequate insurance cover.

As to where to invest your surplus cash in the short term, I recommend a high-yield cash account and short-term liquid fixed interest investments. Investing in more volatile investments such as growth oriented managed funds or shares, or borrowing to invest (gearing) in those assets will expose you to risk of negative investment returns and loss of capital over your two-year investment time frame.

Getting rid of debt first will kick-start your deposit fund

Canna Campbell
St George Bank

SAVING for a deposit can be a painfully slow process, but the earlier you start the easier it will be for you.

Start by paying off all non-deductible debt, this will include your personal loan and HECS debt. Personal debt is the worst type of debt as it does not provide you with any tax relief or income or capital gain.

To kick-start your debt relief mission, you could consider selling your shares after speaking with an accountant and reviewing any tax implications. You may also want to cease your voluntary salary sacrificing and increase your repayments by the equal amount. This will help reduce your debt far quicker and save you interest.

Once all your debt has been cleared, you will have a fresh plate to start your savings plan.

Ideally, you should try to have a 20 per cent deposit so that you don't have to pay mortgage insurance and most banks will lend you up to five times your annual income before tax. You may be able to borrow up to $250,000.

Having a larger deposit and borrowing a smaller amount will help you reduce the mortgage quickly, which is important if you are going to become a self-employed designer when your income may fluctuate.

If financial security is important to you, minimising non-deductible debt and directing your cash flow surplus into assets that will produce income and capital growth will dramatically help build your personal wealth.

As soon as the mortgage is cleared, you should restart your salary sacrificing contributions into super, especially if you are self-employed.

If you have time to take risks, there are big gains to be made

Paul Moran
Cameron Walshe Financial Planning

BEFORE setting your course of action, you should have a think about the timing of your goals.

If you want to buy a house in the time frame described, especially in Western Australia, you had better get saving. I believe that a 15 per cent deposit should be considered the minimum for first home buyers, and this could mean $60,000-$70,000.

On the other hand, if your time frames are a little more flexible, you could potentially build a share-based portfolio and accelerate your wealth building. Given your high risk tolerance, you might consider adding borrowed funds to your own savings to magnify your investment pool.

The two simplest ways to do this are through instalment warrants and internally geared managed funds.

Instalment warrants (similar to the current T3 issue) allow you to buy shares directly while only making a "down payment". Say you wanted to buy a bank share trading at $20. If you were investing $2000 you would buy 100 shares. If the share was offered as an instalment (many brokers will provide a list of available instalments) with only $10 down and the balance in five years, you would buy 200 shares. If the shares rise, more shares generally equals more profit.

There are a number of managed share funds that offer internal gearing; that is, they borrow money within the fund itself. An advantage of using managed funds is that you can add a regular savings plan.

But remember, while gearing to invest may magnify your returns, it can magnify losses in a falling market. Hence the importance of your time frame.