

NEWSLETTER – HOW TO MANAGE YOUR MONEY

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HOW TO MANAGE MONEY

“The worst economy in a generation” that’s how Encyclopædia Britannica Online described the recession that hit the world recently. The economic downturn that started in the United States in 2007 has been so severe and has affected so many countries that it has been given a unique name, the Great Recession.

What caused it? Newsweek magazine put the answer simply: “A frenzy of irresponsible borrowing.” But why the frenzy to borrow on credit, to buy things for which people are unable to pay?

You will likely agree that the world’s economic system, which cultivates greed, did precisely that. The message was, in effect: “Buy! Buy! Buy!” whether you can pay for it or not. “A generation has learned the hard way the dangers of borrowing too much,” explains economist Chris Farrell in his book *The New Frugality*.

Many countries were sent reeling from the blow of the Great Recession. “Despite signs of recovery,” stated a front-page headline of the South African newspaper Sunday Times last year, “consumers...are still struggling to put food on the table.” The newspaper reports that “almost 3,000,000 consumers [in South Africa] are more than three months in arrears on their bills; and about 250,000 middle-income earners have lost their jobs in the past two years.”

Job losses have numbered into the tens of millions in recent years. As for reports of signs of recovery in the United States, the *Financial Times* quipped: “The recovery since June 2009 could be called the ‘Great Disappointment.’” The paper added: “Many economists think that the need to pay down debt will hold back consumption growth for several years to come.”

If you are a victim of the Great Recession, no doubt you can relate to what author David Beart wrote in an essay: “It seems there is a lot of discussion about the world’s financial problems, but little information offered about how to solve these issues.”

The following articles have been designed to help people struggling with debt. These questions will be considered: What are the benefits of saving? What can you do if you are in debt? How can you learn to manage your money better?

Saving is a bore,” many say. “Buying clothes, electronic gadgets, and such things is fun.”

Whether you have been affected by the decline in the world’s economy or not, you can benefit from considering ways you can save as well as ways you can spend wisely.

HOW CAN YOU SAVE?

First, before buying an expensive item, consider whether it is *really* necessary.

Second, if you need something, search for near new items that are on sale or for good used items.

A young couple may need a pram or stroller for their new baby, when they can buy an almost new one for half price. When their child outgrows it they can sell it on eBay. But looking for good deals can take a lot of time.

However to be sure that you are not buying stolen goods, it is wise to get a receipt with the seller’s name and address.

Third, don’t be impulsive; sleep on the matter. If you still feel that the item is vital, you may consider looking for something similar in a discount or second hand shop. Also, you can often save money if you do not feel compelled to buy popular name brands. Further, rather than buy the latest styles of children’s clothes at expensive stores, why not use hand-me-downs?



Similarly, a new mother may consider using cloth nappies that can be washed. The book *Budgeting Personal Spending and Money Management a Key to Weathering the Storm*, by Denise Chambers, states: “Disposable diapers (nappies) will cost you about \$2,000 or more for 2 years. Cloth diapers \$300-500 over those same 2 years.” She added: “Modern cloth diapers are so much easier to use and you’ll benefit the planet too!”

Fourth, consider that it usually costs less to buy ingredients and cook meals than it does to eat out. If you have school-age children, why not teach them to prepare sandwiches instead of giving them money to buy more expensive food? And rather than buying expensive beverages, drink water instead. It is much healthier and easier on your wallet.

Fifth, lower food costs by growing a small vegetable garden. Not long ago families had their own vegetable gardens. Have you considered growing some of your own food? Many, including those living in apartments or small houses, have an area they can use for gardening. You may be amazed at how much food a person can grow in a small sized garden

Sixth, consider further: If you need to have a Mobile phone, can you use it for emergencies only and pay in advance for a limited amount of calling time?

Seventh, if you have a clothes dryer, have you thought about limiting its use? Perhaps you can hang some of your wash or, at times, even all of it on a clothes line. You might also be able to limit your use of air conditioners and heaters. Before switching on such devices, ask yourself, ‘Is the weather really that extreme?’ You might also talk to others to learn how they limit the use of electricity.

Eighth, it is also helpful to open a savings account. In addition, it’s wise not to have all your ‘eggs in one basket.’ At times, banks and financial institutions fail. We have had that experience. So wisely select a lending

institution where your savings are guaranteed by the government in the event of bank failure.

Ninth, Also look for the price of a product where it’s quoted on a 100gm basis. You have to look for it as shops don’t like to display their products this way and it’s usually shown in small type above or below the “list” price. It’s mandatory now and it enables you to compare prices properly. Check the price of a product by looking at the price per 100gm rather than the “list” price shown on the packet. It’s confusing to do a comparative shop where the price is shown but the quantities included in the box or whatever are different from the competition. So now you can compare items on a gram for gram basis without bringing a calculator (or an accountant) with you.

Tenth, one of the most effective tips of all; when doing the grocery shopping, use a list. You’d be amazed how easy it is to blow the budget if you go to the shops for your weekly visit without a list.

HOW TO GET OUT OF DEBT

First, try to pay more than the minimum monthly amount required on each bill, credit card, or other commitment.

Second, concentrate initially on paying the debt that carries the highest interest.

Third, curb your spending habits. This is especially important.

LEGITIMATE DEBT

Few people are in a position to pay the full price of a house or an apartment. So, many buy a house by obtaining a loan from a bank. The monthly sum they pay to the bank for this loan can be viewed as rent for a house. But when they have paid back the loan over an extended period, they own the house!

Many people also find it helpful to take out a loan to purchase a fuel-efficient motor vehicle. By paying off the loan as quickly as possible,

the car turns into a valuable asset, another form of saved money. Some have found it wise to buy a used car that is in good condition and has relatively few kilometres on it. Others save money by using public transportation or even riding a bicycle.

Whatever the case, be modest and realistic about what you buy, and make your decisions carefully. Being a carefree spender can become addictive and can lead to heartache. So work on being a cautious and prudent spender, which can put you in a position to enjoy lasting happiness.

Further, to be a happy saver, you must know how to manage your money. Bear in mind that if you lose your income and are unable to make your payments, you may lose the house or the car and all the money you have paid up to that point.

HOW TO BUDGET

Basically there are three ways to manage money: (1) Spend it, (2) save it, or (3) give it away.

Let us first discuss how to spend money wisely. If the Great Recession has highlighted nothing else, it has shown the wisdom of living on a well-planned budget. What is a budget? Simply put, it is an estimate of how income will be used, whether by an individual, a family, a business, or a government.

A Family Project

How can you plan a budget? "All family members," says the book *Budgeting*, by Denise Chambers, "should be included in drawing up the plan so that all have a commitment to the family budget." Periodically, all should get together to see how their budget is working. Creating a successful budget can become a rewarding family project as each one finds ways to live within the family's income.

The Mechanics Of Budgeting

To work out a budget, some people use a computer program (spread-sheet). Others simply use a pencil and a sheet of paper, which they divide into two columns. One column is for income, and the other for expenditure. It is also important to include in the budget a monthly amount to cover once-a-year expenses, such as income tax and perhaps a holiday.

First establish your income flow. If it's a salary then it's easy. Weekly, do your calculations on a weekly basis, if monthly do on a monthly basis.

Divide your expenses into the period when you are paid your salary, let's say it's weekly. Then set up 4 columns for expenses, those paid weekly, those paid monthly, those paid quarterly and those paid annually.

The first column is for weekly items like food, petrol and other travel. Estimate what you need every week and insert that amount. Then include other weekly items like lunches for both Mum and Dad and each of the children.

The second column is for monthly expenses like house payments or rent. Insert monthly expenses here.

The third column includes quarterly expenses, like school fees and medical fund payments, council rates and water rates. Insert these here.

The fourth column includes annual expenses, like car registration and insurance, holidays etc.

Add each column and get a total for each. Then with the monthly one divide it by 4.3 (there are an average of 4.3 weeks to a month).

With the quarterly column, divide it by 13, with the annual one, divide by 52.

Then add the weekly equivalent for each column and that is the amount you have to put aside for expenses. It's best to have a separate savings account to accumulate this amount and out of it pay these expenses.

Another time-tested method of budgeting is based on the use of envelopes, folders or jars labelled "Food," "Rent," "Transportation," "Electricity," "Medical Bills," and so forth. In the past people put cash for those expenses in the envelopes each month. Now many feel it is safer and easier to deposit money in a bank account and withdraw it as needed.

If you use the folder method of budgeting it is just as important to be strict about how your money is divided. For example, if you run out of your monthly allowance for meat, then you should not take money set aside for savings to buy more meat.

Get the family involved and regularly have discussions to see how your budget is working and to make needed adjustments.

Teach Them Early - Children Saving

There are a number of products on the market in the form of money boxes for children that teach them how to save and are a variation on the various methods described above for adults. They involve the use of multiple money boxes that are labelled "Save", "Give" "Spend" and Future".

As the web site for one of these products puts it

"The visual design of the money box, immediately shows the children there is more to money than just spending it.

Children get very excited about filling all the boxes, learning how to earn money, about short term saving, long term saving, spending and thinking of others by saving in the give box.

Mum and Dad also benefit, as the children become more focused on helping in the home

rather than just wanting everything their own way."

The Greater Happiness

Studies show that the giving of resources to others, including time and energy as well as some money, brings a greater happiness. To the extent your resources allow, it can be the best of the three options mentioned in the introduction.

Chris Farrell, in his book *The New Frugality*, says that savings are "a means of supporting spending." He recommends: "One of the most valuable and sensible things you can do with your money is give it away." Farrell adds: "When you think about what matters most, it's usually relationships, experiences, and the sense of making a difference, not money and possessions."

Michael Wagner, an economist, seems to agree. In his book, *Your Money, Day One*, aimed at motivating youths to save, he states:

"When you take it upon yourself to help those who are less fortunate, that kindness and generosity will come back to you in a variety of positive ways, but most rewarding is the feeling you will experience in your heart by helping your fellowman."

Money can be given away in the form of gifts or hospitality such as preparing meals for friends and family.

And remember; when making a purchase, especially with a credit card, will you buy impulsively or be patient and count the cost? Do you really need the item, and can you afford it?

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