

The Boys' Guide to Wealth

Rachel Cunningham-Day

Universal Publishers
USA • 2004

The Boys' Guide to Wealth

Copyright © 2004 Rachel Cunningham-Day
All rights reserved.

Universal Publishers
Boca Raton, Florida • USA
2004

ISBN: 1-58112-502-X

www.universal-publishers.com

For my Father

Acknowledgements

Thank you to my parents for providing the bedrock of my financial sense and to Julian and Sarah for taking it to new heights!

Thanks also to Gay Search and Lesley Dobson for allowing me to use Gay's tips on growing salad leaves, first published in the Sainsbury's Magazine, and to my friends Kirsty for sharing her own financial savvy with me and Edward for "baring all" for my case study.

And thanks also to YOU for embarking on reading this book. I wrote this book with you in mind and I hope my advice helps you to make the most out of your finances and so, in turn, your life.

Love
Rachel

Contents

	Introduction	9
1.	The Spending Trap	13
2.	The Nitty-Gritty	17
3.	The Home	25
4.	Household Items	43
5.	Food	51
6.	Entertaining	69
7.	Booze Cruises	73
8.	Eating Out	77
9.	Going Out – and Staying In	85
10.	Drinks, Clubbing and Sex	89
11.	Clothes	97
12.	Looking Good	105
13.	Presents	117
14.	Holidays	127
15.	Work	141
16.	Additional Income	149
17.	Debt	157
18.	Case Study	165
19.	Final Thoughts	191

Introduction

Money is like a rolling snowball. The more you have, the more it can attract and there is no limit to how much you can accrue. The difficult part is making a start. Now is the time to make a conscious decision to implement steps to make your money go further. Start building that snowball and keep it rolling by integrating a few simple habits into your daily life. Making the most out of your money, like everything else in life, is a matter of habit and I hope this book will get you into the habit. No matter how much money you earn, this book will help you increase your disposable income by showing you all the areas in which you spend money unnecessarily.

But before we begin, let me make one thing clear. This book will NOT ask you to sacrifice all the things that make your life enjoyable. It will just show you more economical ways to achieve the same end and it will change the way that you think about money. The serious side of this book is recognising that money is a way of protecting yourself. If you fall upon hard times, the money you have saved will cushion you. Money also brings you freedom - freedom to travel, to educate yourself, to treat your family and friends. You deserve to have that security and freedom. You work hard for your money. Don't let other people part you from it so easily. The fun side of this book is going to show you the ways in which you can have exactly what you want without spending the money you are used to spending, and without anyone noticing any change in you. However, your friends will probably notice that you are happier - and they'll suspect you've had a pay rise!

Reducing Stress

Two of the main causes of stress in life are financial debt and lacking the funds to do what you want in life. If I can help you to reduce the debt in your life and increase your income, your life will be more enjoyable. This book will help you with both. This book will first advise you on how to save money to increase your monthly disposable income. This book will then advise you on how best to apply this money to reduce your debts.

It is important to recognise that any decrease in debt means a decrease in the interest payments you make for that debt. This in turn means more money saved and, when you have paid off your debts, you can contribute far more to your savings. The larger your savings, the more interest they will accrue, and so the more income you will have. Every step of the way you'll have more money to spend on things that will put a smile on your face, like going out for a few drinks with your mates, a nice meal with your partner or the tuition fees for that evening course you have always wanted to do.

Financial Advisors

Some of my friends have told me that they have been to see a financial advisor. They speak of the advisor as though he were a magician who has revealed to them clever ways to make money. I am always sceptical. It is nice to believe that someone may be able to do this but you know that the reality is that:

- 1) financial advisors make money out of the products they sell you;
- 2) financial advisors are often affiliated to one company so the only products they will offer you are associated with that company and are not necessarily the best in the marketplace;

3) there is no product on the market which offers you optimum financial success in every aspect of your life. To achieve this you need to take a holistic approach which involves looking at all the financial aspects of your life and making each aspect as efficient as possible. Even if you win the lottery, adopting this principle will enable you to make the most of your winnings (although at that stage you may not care about the odd thousand pounds being spent unnecessarily!).

In the past, financial advisors have advised me to take out a particular mortgage. I found a much better mortgage myself. They also advised me to take out a particular insurance policy. I found a much better policy myself. We all know of people who were advised to take out endowment mortgages and dodgy pension schemes. Trust me, managing your money is not that complicated. It's your money. Make sure you understand exactly what to do with it and make your own decisions. Don't take the easy way and put your faith in someone else. Don't trust other people where your money is concerned. Trust only yourself. Do the leg work. This book will talk you through it, step by step.

Your Lifestyle

You could be one of those people who don't see money as a problem - you earn it, you spend it. But wouldn't you like to have more money to spend? If on the other hand you are one of those people who never seem to have enough money, always counting the pennies, always up to your overdraft limit, my advice will help ease the pressure.

You don't have to follow ALL the tips in this book - choose the ones which suit your current lifestyle best. Bear in mind your current lifestyle will change and you may adopt tips later on which you choose not to adopt today. There will be

some tips you don't want to implement for whatever reason. Fine and understood. I don't utilise all the tips myself but I've included tips I have used in the past and tips from my friends in order to provide you with as much advice as possible.

I want you to think of this book as you would a fitness programme. All fitness programmes start with an understanding of your current body condition followed by a period of adopting diet and exercise guidelines and monitoring progress. I will show you some exercises to enable you to understand your current financial situation and to monitor it. I will then give you some tips to employ in different areas of your life to make the most of your money. The more tips you practice, the more money you will save. The effectiveness of this book depends on you.

Chapter 1

The Spending Trap

The truth is, if we take a step back and are honest, we all are caught in a “spending trap”. There are usually four elements to this spending trap:

Element 1 “Always Haves”

This involves the items we habitually buy, like lunch from Marks and Spencer, a monthly magazine (which in truth, we don’t always read) or coffee on the way to work. We originally thought of these items as treats but, because we now buy them all the time, they have stopped being treats. We stopped really appreciating them ages ago and we now take these items for granted. We continue out of habit. Not to forget kudos – buying your Starbucks every day on the way to the office makes you look the part of a successful business man who appreciates, and can afford, the finer things in life. Let’s stop getting our kicks from spending. Let’s start deriving satisfaction from other areas in our life.

I want you to think through your typical working day and write down all the times you spend money. You can disregard travel expenses (unless you could get around on a bike or by foot) but everything else should go down on the list. The aim for this coming week is not to spend any money at all from Monday to Friday. You can spend money for pre-planned events (if you know you are going to someone’s leaving drinks on Wednesday night, you should spend however much you think necessary) but I want you to write down your plan for the coming week and include any foreseeable expenditure. At the end of the week you can then compare your foreseeable expenditure plan against the record of how much you actually spent. This exercise should

flush out all those little things you buy out of habit; the magazines, the snacks, the CDs bought in the lunch hour and the rest.

If, after carrying out the above exercise, you decide that you really don't want to do without your monthly magazine, how about clubbing together with a friend who buys the same magazine and each paying half, one passing the magazine onto the other once read? Or, if this is unfeasible, at least get organised and buy the magazine on a subscription. Not only will the subscription give you a discount on the normal cost of the magazine but you'll often get a free introductory gift thrown in.

As for other items that you don't want to give up, such as buying your breakfast on the way to work, make an effort to seek out cheaper alternatives. You could keep a bowl and some cereal at work or you could continue to buy your pastry on the way to work but buy it elsewhere for less money. For example, at the time of writing a chocolate croissant from Pret a Manger costs 91 pence whereas a pain au chocolate (of approximately the same size) from Tesco Metro costs 41 pence. Alter your route to work so that buying the cheaper alternative becomes part of your new routine.

Element 2 “Must Haves”

This involves the items we write off as unavoidable expenses such as train tickets, prescription charges, telephone bills, insurance policies and household goods like toilet roll and washing powder. We rarely think to question these items because we view them as necessities. Unfortunately some items that we think of as necessities do not have cheaper alternatives – even I can't show you how to save money on your TV licence (unless you qualify for a discount or are willing to watch a black and white set) but

we can look at all the other items to find cheaper alternatives.

Element 3 “Why Nots”

These are the “splash outs” which are either voluntary or imposed upon us.

The voluntary splash outs occur when we say “what the hell” and order loads of drinks on our credit card at the bar when we’ve spent all our cash because we are too wasted to care and they occur when we buy clothes that cost much more than they are worth (and you know it!). There is no such thing as an “investment” where clothing is concerned, no matter what GQ may tell you. An investment is an item that you will probably be able to redeem at a higher price than your purchase price. To be sure of an investment you firstly have to be sure the item will rise in value and you secondly have to be sure you will be able to find a willing buyer. There is little certainty in either where clothes are concerned. Moreover, you will reduce the item’s value through wear and tear.

The imposed splash outs are when we have to buy wedding, birthday or Christmas presents and we do not want to appear mean. The expense of imposed splash outs can be reduced by prior planning and utilisation of clever tips.

With regard to voluntary splash outs don’t be too hard on yourself – we all deserve to lose the plot now and then but there are ways in which we can minimise the financial damage and we’ll look at these in detail in the following chapters.

With regard to imposed splash outs, it is important not to become so obsessed with saving money that you become a

real tight wad with your friends and family. However, spending money isn't the only way you can show your appreciation – your time is a valuable commodity too and a gift bought with thought will mean more than an expensive last minute purchase. However, you can have the best of both worlds - by planning ahead and being clever you can buy a thoughtful present at a good price.

Element 4 “Nice to Haves”

These are the items that make life enjoyable and keep you looking so great. These include meals out, drinks, expensive toiletries, clothes, gig tickets, gym membership, books and other bits and pieces. To sacrifice all of these items would be very hard but to substitute them with cheaper alternatives is easy.

You can avoid some of the pitfalls of the “spending trap” by understanding your own situation and using whatever financial benefits are at your disposal. You may be entitled to state benefits such as certain payments, tax credits or free prescriptions. Your eligibility status will change over time so look into the situations where you would be entitled to these benefits.

If you are a student get into the habit of always asking if student discounts are available. You will be surprised how many times they will apply and you can adapt your habits to take advantage of when discounts are restricted to certain times or days of the week. The same applies if you are a pensioner.

Chapter 2

The Nitty-Gritty

OK, its time to get down to basics. Fetch a pen and paper. We are going to do a quick exercise to identify where we can save you money and to get a figure for your disposable income each month. This is NOT one of those “budget planners” which banks are so fond of which asks you to quantify how much money you spend on food and clothes and going out each month. Do you know the answer to these questions? Or do you do as I used to and approximate (£50 going out, £30 clothes) and end up with a figure which is totally meaningless but meant to represent how much spare cash you have each month? Bin all of those planners and follow these simple steps.

Monthly Expenses

Write down how much money you receive each month (salary, trust fund, grant etc).

Now write down how much you spend on the following “fixed price” items:

rent/mortgage

household insurance

bills

council tax

travel

loan repayments (make sure you list the minimum repayments you can make each month – I will explain why later)

TV licence

satellite TV

club/gym membership

The more items you can quantify on this list the more meaningful your final disposable figure will be.

If you don't already, it's a good idea to pay your bills by direct debit. Gas and electricity companies can set up a direct debit from your account each month which they will alter to reflect your usage. It is useful for you to be able to include this expenditure in your monthly outgoings. In addition, putting in place a direct debit can reduce your overall bill because the utility company will automatically knock a certain sum of money off your annual bill to reward you for paying by direct debit. Look into it – even if you house-share you could work something out with your housemates. It may not seem worth it by the time you have divided the saving amongst your housemates but if you do this for each utility bill it will probably add up to a saving which will enable you to buy a few rounds of drinks one evening. Free house drinks! Better than paying this money out in bills!

To ensure fairness, each housemate can set up a direct debit to a utility company. The other housemates can pay the payer in cash or by setting up a regular direct debit into their account. The direct debits paid out are unlikely to be equal and will change over time so be careful about offsetting.

If the bills are not paid the liability rests with the person whose name is on the bill. Have a house file for bills so you keep up to date (and can be sure everyone is paying their bill!). Check bills against meter readings to ensure monthly payments keep in line with actual usage, not an estimation of usage.

Items like phone bills can't be included in this fixed list unless you have one of those deals where you pay so much a

month to include all the calls you make. If you take this option, make sure you are actually making more calls than you are spending (and not just for the sake of it!) otherwise you would be better off on a more conventional payment plan.

OK, you should now have a list of all the items you absolutely HAVE to pay out each month. How much money does this leave you with? Multiply this by 12 to see how much disposable income you have in a year. How much of this money did you put aside in a savings account last year? How much money did you spend? Isn't it shocking to see how much money you actually spend?

Annual Expenses

The next step is to look at your annual expenses, such as car insurance, car tax, etc. Where you can pay for these monthly through direct debit, add them to the list above. Where you can't pay by monthly direct debit you need to include them in a separate annual list.

Use a big piece of paper and divide it into monthly headings. Under each monthly heading write down the expenditure that is going to hit you this month. You will need to refer to this occasionally to make sure none of these expenses take you by surprise. Now add up all of these amounts and divide them by twelve. This is the amount you should put on your monthly list to cover your annual expenses.

Flexible Expenses

You will also need to approximate how much you spend each month on other items such as petrol. Remember that petrol is generally cheaper when bought at supermarkets (and sometimes offers enable you to get further reductions

per litre if you spend over a certain amount on your shopping). You can also find details of the cheapest petrol station in your area by entering your postcode into the AA run website www.petrolbusters.co.uk. Remember also to service your car or motorbike regularly to maintain engine efficiency and cut fuel consumption. Performing regular, simple checks like checking the water and the oil will keep you safe on the road and save you money.

Assessing Your Expenses

Once you have completed your monthly expenses list with as much detail as possible, I want you to really look at each entry.

Rent/mortgage is probably your biggest outgoing so, if things are getting tight, it would be wise to look around for cheaper accommodation or another mortgage deal. If you are renting bare in mind that a nice, safe home environment is worth a little extra. If you are happy where you are, think hard before you move.

If you are paying a mortgage, beware of penalty fees which will kick in if you change to another mortgage provider. If you plan to start saving money in earnest, I think it is worth paying a slightly higher interest rate in order to have the flexibility to repay as and when you choose without penalty. Both the Intelligent Finance mortgage from Halifax and the Virgin One mortgage from The Royal Bank of Scotland have just this facility, enabling you to pay a little bit extra each month and pay off your mortgage sooner without incurring an early redemption fee. Intelligent Finance also enables you to set off your mortgage balance against your savings, so saving you interest every month. Some banks, such as First Direct, now also offer an offset loan which is

linked to the mortgage and so is available at your mortgage interest rate rather than the higher interest rates for loans.

Don't assume that you have to continue with your present mortgage provider. Arm yourself with the details of your current mortgage and compare them to what is on offer at the moment. Doing this exercise alone could save you more than any other single tip in this book.

Comparisons

You can compare your other fixed expenditure through running some searches on the internet and keeping your eyes open for deals advertised in the papers, TV or the radio. For example, some utility providers offer cheaper rates than others, but this depends on where you live, as most providers are not nationwide. Look on www.upmystreet.com to find the best utility providers for you.

You can make a big difference to your disposable income by shopping around for your car and breakdown insurance. When looking at insurance policies don't automatically go for the cheapest one – it may not offer you the same protection as your current provider and so would actually work out more expensive from a value-for-money perspective. For example, some breakdown services include courtesy cars as standard whilst others demand an additional premium. You can reduce your premiums by adhering to special terms such as parking your car on a drive overnight or installing smoke alarms in your home. I look in more detail at reducing home insurances in Chapter 3 entitled The Home and the same approaches can be taken to reduce car and breakdown insurance.

If you live alone you will be eligible for a reduced council tax rate and if you have recently moved into your property

you should ask the council to check you are in the correct council tax banding. They are unlikely to lower the banding once you have been paying the council tax for a while.

If you think you use less water than the average household for your home size you should ask the water authority to install a meter. A meter will enable you to pay only for the water you actually use.

Gym membership may be one of your “essential luxuries” and I wouldn’t advocate sacrificing it (IF you actually use it!) but I would encourage you to compare the facilities and prices at your gym against other gyms in your area. If you attend a gym close to your work, it might be cheaper for you to attend a gym close to your home. Ask your gym about alternative ways to pay. Some gyms offer savings of 10% if you pay your yearly fee upfront. I look at gyms in more detail in Chapter 12 on Looking Good.

Bills can be easily decreased. For a start, do all the usual things your parents used to tell you to do, such as turning lights and stereos off when you leave the room. Do you often have the TV on in the background out of habit? Start thinking about the money this is costing you, as well as the energy you are wasting. Don’t leave the tap running when you brush your teeth, put a lid on your saucepan (the water boils faster), don’t fill the kettle if you only want a cup of tea, put your central heating on a timer and get used to using hot water bottles and jumpers. These measures won’t kill you but they will save you money in addition to helping to save our environment. Don’t be lazy - thoughtlessness is expensive and wasteful.

Energy saving tips are available on www.saveenergy.co.uk
For example, did you know that loft insulation at the

recommended depth of 250mm could save up to 25% on your heating costs?

You can pick up further bill reducing tips by visiting the website www.lower-my-bills.co.uk which also enables you to carry out price comparisons, including comparing mobile phone tariffs.

Rationalising

Look through your monthly expenditure list again and really think about whether you use all of those items. Do you really get value out of satellite TV? If so, then keep it but remember if you want to increase your savings, then something will have to give, so be prepared to give something up to keep your satellite TV. If it doesn't mean that much to you after all, then cancel it.

I know this exercise is boring but this is where you will make long term savings - and in doing so you can watch your monthly disposable income rise. You will be surprised at how much difference you can make to this figure. Don't forget your disposable income represents your "fun" money. The more work you can be bothered to put into reducing your monthly fixed costs, the more fun money you will have each month.

Give yourself one or two weeks to work on this monthly expenditure list. Take at least one item a day. Don't forget to convert as many as possible of your quarterly bills and annual costs to a monthly direct debit and include them in your monthly fixed item list as this will make managing your money easier.

Phew! Once you've whittled your monthly expenditure list down to as low as you can get it, deduct this sum from your

monthly income. This figure is your monthly disposable income (“MDI”). Armed with this figure we are ready to move on to the fun stuff.

Well done for making it this far. Believe me, it really is the only way to do it. Don’t move onto the next chapter until you have completed the exercises above. I advise you to keep your monthly disposable income figure in mind when reading the rest of this book because the following chapters will show you how to make your disposable income stretch further. By applying your own situation to the information in the following chapters you will get the most out of this book.

Chapter 3

The Home

Whether you are a home owner or renting, you need to buy essentials for the home. How many times have you bought something that you needed in a department store, on sale, only to find it being advertised at a fraction of the price in a supermarket flier? Yes, I'm talking about duvets, pillow cases, kitchen equipment. The type of item you can't find cheaply anywhere – until you have bought it. And do you know why this is? The number one rule for bargain hunting is to look in the right place. Most of us were probably brought up to buy our new pillows in department stores so we continue to head straight there but times have changed. Supermarkets and other discount stores now offer us these items. So, if you are moving into a new place or you just need a few new domestic items, your first port of call should be your nearest large supermarket.

I remember when I moved into my first house. I went to Woolworths and bought all the items I thought we would need. Cutlery, plates, bowls, Tupperware, cheese grater, scales, egg cups, baking trays, casserole dishes etc. etc.. I thought I had nabbed quite a few bargains. I even managed to coincide my visit with the shop's sale (coincidence really) but I still spent around £200. Now this may not seem to be that much (it could have cost me a lot more) but a couple of weeks later I was looking around a church jumble sale and I bought a couple of casserole dishes for 20 pence each. There were lots of other bits and pieces for the kitchen there and it struck me that I seriously could have bought all the items I needed at that jumble sale for about £20. The casserole dishes did need a good clean but nothing that a bit of elbow grease didn't solve. With a bit of prior knowledge and additional cleaning I could have saved around 90% of the