



Cresthaze Pty Ltd

Changing lives through simple solutions!

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Smart Money Advisor

by Shane Warren

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TABLE OF CONTENTS

What is smart money?	5
Saving Dramas	5
Mortgage Management	6
Debt Busting	7
Beating the Banks	8
Insurance is not just for old people	8
Hidden Dollars	10
Secret Talents	10
Government Cash	10
Budget Burdens	11
Credit Card Control	11
Superannuation Savviness	12
The Law of Prosperity	13
Some background on Shane	14

Worksheet Examples

Ways to Increase Cash Flow	15
Personal Budgeting	18
Cash Goal Setter	20
Find out what is your net worth	21

Important note...

In this discussion many of the websites recommended are Australian based, this is because the Financial Services Reform Act of 2001, what is the Federal Government Act regulating the entire financial services industry in Australia, and the Financial Services Reform Amendments Act of 2002 placed a strong focus of awareness training and education for consumers of financial services.

As a result many peak advisory bodies, and private companies, within Australia have created education focused website for their clients. These sites hold very good information for background reading. The information on these sites are heavily monitored for accuracy by the Australian Securities and Investment Commission (the Federal Government regulatory body for business within Australia).

So whether you reside within Australia or not, it is an advantage to review information contained on these sites as they often provide you with strong tips on what to look out for...

Smart Money Advisor

- Shane Warren -

What is smart money?

Most of us believe that smart money management is only about making our money stockpile grow. This is not true, smart money managers know that it's also about saving money by spending wisely, investing in sensible assets and money protection schemes as well as investing in wealth creating options. This manual is a straight talking guide on facts you need to know to experience all facets of wealth creation...

...Saving Dramas...

It is true that to make money you have to have some to start with. But this is not an excuse for being a slack-arse when it comes to savings: making money and saving money is about you and your ability to make an income. Lets take the example of a 20-22 year old graduate, we'll call Sally. She recently graduated from her Bachelor's degree. Sally was lucky enough to secure a graduate's job paying \$30,000 a year. Now, if Sally never moves beyond this entry level of employment she has the capacity to earn \$1.3 million in her lifetime. If you earn \$40,000 a year you could make around \$2 million, so don't tell me that you don't earn enough to save.

If Sally strong enough to apply the 10% rule – that is for every dollar you earn you should put 10 cents away in savings – Sally will have saved \$130,000 by the time she retires. This figure is raw; interest has not been added to the equation yet. Lets do that: say Sally is really diligent for the first few years of her employment and was able to save \$2,000 by the time she was 25. And say she opts not to save another cent. Sally figures if she rolls her cash over in a fixed term deposit until she retires she will have enough money to enjoy a first class world trip as a gift to herself for many years of hard labour.

Although an unwise decision not to continue contributing to the savings, Sally was correct in that she would be able to afford a first class holiday. If Sally invested her \$2,000 savings for a 7% annual return, by the time she retires at age 65, Sally will have \$30,000. The following table shows you how her money would grow...

Age 25	\$2,000
Age 35	\$3,900

Age 45	\$7,700
Age 55	\$15,200
Age 65	\$30,000

If Sally is slow off the mark and only gets her \$2,000 together by age 35, by the time she retires in 30 years she will only have enough for a cattle class world trip -- \$15,000. Why?

There is a simple rule to money: if you want to get rich slow by simply keeping your money invested in safe payments from banks, then an investment paying 7% p.a. (which is a great return in the modern banking system) will roughly double its value every 10 years.

It is hard to believe but by the same formula, if you can really discipline yourself to put away \$2,000 a year (this will require putting away about \$40 a week) over 40 years you will have enough for a world class cruise - \$399,000 - on retirement. So, it's clear, the sooner you start a savings program the better!

(Please note these figures are calculated on a good investment return of 7% p.a. and may not reflect bank payments on the date of publishing, reading or in the future).

If you are still be under the age of 30 as you read these pages, here is a really good rule of thumb to have as a savings goal: *By the time I'm 30 my savings and superannuation will total at least 75% of my annual income on this date!* Such a goal will mean you are on the right path to financial freedom in your autumn years.

...Mortgage Management...

For most of us, taking on a mortgage is the most significant investment we undertake, so be sure to know your limits, buy only what you can afford and borrow only what your personal stress levels can handle.

If you do not have a mortgage yet but plan to enter into such a venture soon, you must start shopping around. Don't get bogged down in the love child of legal jargon and finance talk that has become the mortgage industry. Spend your time wisely and shop around for a good Mortgage Broker, find someone you trust, someone you can open up to and share your fears, doubts and anxieties with. This role is the new Bank Manager of our times, so be sure to find someone you like. (Ask a friend for a referral).

If you already have a mortgage, then I'd encourage you to also start looking out for a good broker – it's smart to explore refinancing regularly throughout the life of your loan you can because it could save you thousands. Even a small difference in the interest rate can

make a big difference over time. For example, a 6.5% interest rate on a \$150,000 loan over 25 years compared to a 6% rate can cost or save you \$14,000.

To save money and make the most of every alternative cost savings measure, go for the best deal for your circumstances on that day. Look for a daily reducible loan with no penalties for extra or early payments. If you can make weekly not monthly payments, over the course of the year this will reduce your payments by a month.

If you have redraw facilities on your loan, be strict when using your offset facility and know just how much in credit you are before attempting to redraw for luxury items. It's easy to think that it is your money and you are only borrowing from yourself, but the interest can be huge if not monitored.

...Debt Busting...

Be sure to understand your debt, know how much you owe and how much interest you are responsible for, and then plan well to make every effort to pay your debt off early. Accurate advice related to loans and early repayment can save you tens of thousands of dollars, just as bad advice can cost as much.

When confronting mounting debt you must be firm on yourself, do your sums and work out a budget. Yes, that word we all hate, but deep inside us we know it is something we must do. Challenge yourself to be strict and monitor your spending for a minimum of two weeks and note how you spend every cent consider how much is essential spending - you will be surprised at how much money you can save!

Now it's time to get spending savvy.

Prepare a pack lunch at least twice a week (this can save up to \$20 a week), buy in bulk to get savings and shop around for markdowns (most supermarkets discount food close to its use-by date), use your mobile phone only for essential calls (treat it like a mobile answering machine, with you being the recorded voice), ask before you buy: do I really need this? Can I get it at a better price? What are the cost saving features of the item? And so on. Think green: use less water, low energy consuming house goods and clean your lint regularly (a dirty clothes dryer filter will take longer to dry your clothes and use more energy). When buying electrical goods be sure to always know the true cost of an item before signing for it.

If your debt seems to be getting too big to manage, seek help. Tell your creditors of your expected delayed payments and get in writing an agreed repayment plan that is more

manageable for you. Such a simple strategy can save you heaps in late fees and penalty payments.

...Beating the Banks...

Bank fees are one of those really annoying things of the modern world, but you can avoid many of them. The only way to beat the banks at this game is to really understand your account and be certain it is the best one for you. Although many of the bank's, account's, strongly reflect each other's where they differ is usually the number of free transactions allowed and penalty costs for exceeding this number. So put a note in your dairy or place a tally on the fridge, keeping note on how many transactions you make in a day.

Explore internet and phone banking options that work in your favour and be sure to use them. Internet banking is a great visual reminder of how much money we have in our account and how many withdrawals we make compared to deposits, so take advantage of this in-your-face cash flow reminder.

Also only have as many accounts as you need – remember each account costs you something. Closing three unnecessary accounts may save you more than \$10 a month in account keeping fees and consolidated values might earn you more interest!

...Insurance is not just for old people...

When money is tight, most of us get caught in '*now thinking*' and often fail to plan ahead, which means insurance policies get left behind. The truth is insurance, can save you thousands in those '*what if*' moments. But shop around: there are some great insurance packages but be alert as there are also some great insurance sales people.

If you own any major assets such as a home, valuable jewellery, expensive furniture, modern technology items, etc it is stupid not to have these insured. (Even if you rent cover your contents). A basic house and content replacement policy is not that expensive when you weigh it against the cost of having to start again if you loose it all. The secret to getting a good deal with insurance is to talk with independent professionals, most of the large insurers pay such little commission for an insurance adviser to sell their household insurance policies that very few bother and those that do usually charge a small administration fee for the service. This is actually to many consumers; benefit because it means that the few who do advise in this area usually attend to the matter with a sense of honour and are not so swayed by commissions and other. The result is they are usually happy to listen to your story and advise on a policy that is best suited to you. However make sure you still do your own homework and ask the right questions:

www.property.com.au is a good website to start your background research on household insurance even if you do not live in Australia it will give you pointers on what questions to ask.

If you own a car it is compulsory to have third party insurance, so why not protect yourself a little more and have comprehensive insurance. Sadly, for most of us, our common insurance experiences are in fact dealing with car insurance. Why? It's simple, for most some time in our lives we will need to deal with an accident, theft or damage claim associated with a motor vehicle. But just like household insurance, be sure to have the best policy for you, so maybe chat with a professional adviser and visit www.drive.com.au for background reading.

Now, protecting ourselves and our lifestyles: health and life insurance. So many of us recognise the benefits of each of these but for some reason, defying logic, we are happier to just ignore it. Many of us see it as an unnecessary expense, "the government health system will take care of that." Sorry but not for very much longer. Just take five minutes to think about how comfortable you like to be when you have a cold. Now multiple that by 5000 and you are starting to understand the comfort demands you'd like to have in place if you are living with a life threatening illness, let alone when you are in your final days of that terminal life journey. Unarguably the truth is, it is cheaper to buy both health and life insurance when we are young. So go out there, join a health fund, get top cover and benefit from it. Many covers these days will contribute to the cost of dental care, a new set of glasses each year and a couple of massages as well as the 'serious stuff'. So take advantage of it, enjoy looking after your health through your insurance protection; you will be saving money by minimising sickness in your older age! To get some good background reading on health insurance check out www.infochoice.com.au and www.privatehealth.com.au

Now for life insurance, what a waste of money right!? Wrong!!! A good life policy not only provides money for your dependants after you pass over ensuring that they do not lose everything i.e. the house, car, private schooling, etc, etc, but also such a policy can ensure you retain the lifestyle you are used to in the case of a terminal illness diagnosis or an injury resulting in your inability to work. Also did you know that a life insurance policy can be linked to a long-term savings plan, where you receive investment returns on the interest gained from your annual premium payments? Most companies provide this service but one of the strongest in Australia can be found at www.aaia.com.au

...Hidden Dollars...

One man's junk is another man's treasure! You've heard it said a thousand times, so why then do you not see the value in that pile of 'rubbish' in the back shed? Don't waste anytime grab a notebook, stand up and walk around the house/garage/shed and start compiling a list of unnecessary items you have in the house that could be sold. Auctions houses, E'bay, garage sales, boot sales: the opportunities to 'dump' your treasure is endless so go to it! (Be sure to put this money toward money-making activities).

You might like to use Worksheet 1 to help in this process.

...Secret Talents...

What skills and talents do you have others would pay for or even pay to be coached in? Think about it, don't be shy, the country is dotted with people hiding in their homes potting away, painting potential masterpieces or tinkling at the piano. Many people make a tidy cash-in-hand pocket allowance singing at weddings and funerals (this is lucrative as many people do not like to do it) or wedding the garden for the elderly residents of your neighbourhood (it is not just for the scout movement you know). What about ironing, I hate doing this, but a friend's mum loves to in front of the daytime soaps – so guess who know gets paid to watch TV and guess who gets his ironing done?

Keep that notepad open and now start seriously thinking about what skills you can start charging for!

You might like to use Worksheet 1 to help in this process.

...Government Cash...

All levels of government return part of their tax revenue through 'handouts' to its constituents. This can come in the form of tax refunds, baby bonus payments, family benefit levies, childcare payments, home grants, or even simply compost bins, native trees and indoor plants. Don't miss out on these things, not only is it your right to claim, but also it can be the start of some series cash savings for you. I know of one green thumb who makes a nice income now from seedlings she struck from the free natives given to her on arbour day by her local council, I'm sure fertilised by the goods of her free compost bin.

At the end of every financial year, it is always best to visit a reputable accountant/tax agent to get your tax return done. Many of us like to save money by completing our own tax pack, this on the surface is good, but seriously a good tax adviser will not only be able to get the best return for you, but can also advise you on social security payments and family

benefit allowances to which you are entitled, better cash management options and even give you a link to good insurance advisers, mortgage brokers, financial planners etc. Ask around before choosing your accountant. I always think it's best to get these types of professionals (and solicitors) by referral from trusted friends and colleagues.

...Budget Burdens...

Budgeting, I don't know anyone who does not get a shiver down the spine when they hear that word. Believe it or not it can be something you enjoy! But to benefit from budgeting you first must get a clear picture of how much money you earn, how much you spend, and for what reason(s) you are choosing to save. It has to be something you are passionate about or it will be something you leave alone, so attach it to a savings reward – a holiday, a new car, a new dress, etc. Also, set yourself minor rewards along the way e.g. when you reach a certain savings target or have cleared one bill you will buy yourself that new CD.

Strange as it may seem to really get on top of your budget, it's best to appoint a cash coach or financial counsellor; somebody who will help you identify spending patterns, amend less healthy urges and increase savings capabilities. Most of these professionals come at a cost, but it is money well spent as they are also someone to whom we become accountable – it's like having mum to answer to each week. They can be scary because they often make us look at our failings very honestly.

On page 14 you will find a few examples of budget worksheets but these are not conclusive and are a book by themselves.

...Credit Card Control...

Credit cards can be a blessing and a curse! It is all about how you use them. If you can always pay your balance owing in full from one month's pay and still live happily, then go ahead and use them – the award points are wonderful. However, if your monthly credit limit exceeds more than 50% (75% if you are fantastically clever and very money smart) of your monthly earning capacity, then call the banks NOW and arrange a credit limit DECREASE!

Many of us really do not understand the costs involved with credit cards and this is how we get into trouble. The official interest rate for credit cards is always around 12 to 14 per cent. This means for every purchase you make there is an extra fee on top, so that sexy little number you bought for the party at a great discount of \$50 in fact really cost you

between \$56 and \$62, imagine the scale of this if the dress was not on sale or worse you bought an even more expensive dress!

It is true that having access to a credit card these days is a very useful resource: when you want to shop online, through catalogues or over the phone, it is almost essential to have one. Not to mention when you check into a hotel, they almost always insist you give them a credit card imprint on arrival. But this is no excuse if you are bad with credit – the simplest way to get around this demand is to arrange for a debit visa card, which you can get through most building societies, credit unions and the smaller banks. These cards are great because they give you all the convenience of both an eftpos card and a credit card, saving you time and money but no credit allowance, hence no interest charges.

...Superannuation Savviness...

So many of us do not understand superannuation or pension schemes and how they can work for us. You must make it your mission to own your super, be aware of its value, its investment return and its potential net worth on your day of retirement.

Let's back to Sally. Imagine if she never increased her earning capacity beyond the annual \$30,000 a year and never saved more than her initial investment of \$2,000. For her retirement Sally opts to rely totally on her employer's superannuation contributions, which at the time of writing in Australia, is 9 per cent of her salary. This will mean that when Sally retires she is looking at a superannuation payment of not much more than \$400,000. She is just beating our first class world cruise. This is because the most her employer is legally obligated to invest on her behalf every year is \$2,700 annually.

Now that sounds nice, she will have her \$30,000 holiday courtesy of her first three years of savings plus an annual pension from her super. The trouble is, according to national statistics from the Federal Government Actuary, Sally is expected to live more than 20 years after retirement (maybe even 40 years) this means her annual salary will drop to around \$20,000 a year or around \$385 a week less tax. Can you live on this?

Assuming that you have meet all other debts such as mortgage payments, car loans, personal loans etc. official statics suggest a couple will need around \$38,000 annually to live happily. However, most Australian and New Zealand couples interviewed for this chapter report that for a comfortable retirement they have budgeted on \$50,000 a year drawings from their superannuation and other investments. That is a weekly pension of around \$960 per week, some \$575 more than Sally.

One of the failings many of us make when planning for retirement is that we assume our expenses will significantly decrease, and in many ways they do. However, other expenses increase even if many others stay the same. Filling in the eight hours a day previously occupied by work does cost a lot of money – holidays to visit grandchildren, tournament tours with your local sporting club and the like all add up and are often big one-off expenses which must be taken into consideration when planning a weekly cash flow in retirement. Further car insurance, registration, household insurance, some life assurance policies, professional fees and other expenses will continue until you pass over, so don't forget to budget for these factors.

So, as you can see superannuation and retirement savings for most of us is the next largest single investment after the family home, so you must spend time getting to know this savings strategy. Do not be one of those people who spend more time planning the finances and details of a four week holiday than the 40 year holiday you can have in retirement!

I advise you to have a chat with specialised retirement savings planners.

...The Law of Prosperity...

It would be unforgivable to talk about smart money strategies without drawing your attention to the Law of Prosperity. This is the belief that what we do for, or unto, others comes back to us three-fold. So be generous with your thoughts, your gifts and your money and the world will bless you with abundant wealth.

A study of 100 self-made millionaires in the world found them to be very generous by nature. Interviews with lifetime friends all spoke about how even when the individuals were still financially challenged, they were known to give away or share whatever they could with others. Believe in the principal or not, but at least keep the ideal in mind!

Life is full and overflowing with the new. But it is necessary to empty out the old to make room for the new to enter.

[Eileen Caddy]

...some background on Shane...

Before turning his hand to finance **Shane Warren** was known as a writer, researcher, consultant, trainer, clinical counsellor and business life coach. With more than a 1000 hours of group facilitation and training up his sleeve he has found time to publish over 500 articles on life change issues and business development, plus several manuals on money management, life skills and business leadership. Shane brings to the table training in counselling, theology, philosophy, business, law and finance. An avid traveller he has had the opportunity to explore life and witness business behaviour, money motives and lifestyle demands in all four corners of the world qualifying him in many ways to be a true mentor on life's journey to financial fitness.

...extra work opportunities...

Potential part-time work:

_____	_____
_____	_____
_____	_____
_____	_____

Estimated amount you can make:

Overtime work:

Estimated number of hours you can work: hrs @ \$. per hr + hrs @ \$. per hr

Estimated amount of you can earn:

...money making hobbies...

Hobby or interest to make money:

_____	_____
_____	_____
_____	_____
_____	_____

Estimated amount you can make:

Total Additional Income:

(sales + extra work + hobbies)

Shortfall:

(goal – total income)

Example Worksheet 3:**CASH GOAL SETTER**

1.	
----	--

for which I need \$ in years

2.	
----	--

for which I need \$ in years

3.	
----	--

for which I need \$ in years

4.	
----	--

for which I need \$ in years

5.	
----	--

for which I need \$ in years

Example Worksheet 4:**FIND OUT WHAT IS YOUR NET WORTH**

To get ahead in finance you really must have a clear understanding of your net worth, this is easily calculated by taking into account your total assets less your total liabilities...

...assets...

Liquid:

Bonds	\$
Cash at Hand	\$
Life Insurance Surrender	\$
Managed Funds	\$
Savings Account	\$
Shares	\$
Term Deposit	\$
Total	\$

Non-Liquid:

Boat	\$
Caravan	\$
Furniture	\$
Holiday Home	\$
Home	\$
Investment Property	\$
Motor Vehicles	\$
Total	\$

Other:

Antiques	\$
Art Collection	\$
Collectables	\$
Jewellery	\$
Superannuation	\$
Total	\$

TOTAL ASSET WORTH: \$

...liabilities...

Short Term:

Credit Card Debt	\$
Charge Card Debt	\$
HECS Debt/Student Loans	\$
Hire Purchase	\$
Lay-bys	\$
Leases	\$
Personal Loans	\$
Tax Liability	\$
Total	\$

Long Term:

House Mortgage	\$
Investment Loan	\$
Long Term Loan	\$
Total	\$

NET WORTH

Total Assets	\$
Less Total Liabilities	\$
TOTAL NET WORTH	\$

What would you like the answer to be in...?

5 years:

\$

10 years:

\$

**Shane Warren is dedicated to
assisting people to change their lives
by changing their money experiences.**

**Cresthaze Pty Ltd, Shane's company, mission is...
*Changing lives through simple solutions!***

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