8 WAYS TO OUTSMART THE BANKS

YOUR GUIDE TO BECOMING MONEY INTELLIGENT

BY SUSAN WAHHAB

MONEY INTELLIGENCE

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INTRODUCTION

IT IS an inescapable truth that society needs banks. People get married, have children, buy homes, purchase cars – and build businesses. Most of us need banks to do these things, and the banks need us!

According to ASIC's Money Smart, Australians owe a staggering $32 billion on their credit cards – and this figure is rising.

As a financial adviser, I have seen countless clients who need to get rid of credit card debts totalling as much as $50,000. Most pay more than 15% interest. It's a vicious cycle because the interest rate is so high, most people get stuck paying off the interest only.

YOU CAN GAIN CONTROL OF YOUR DEBT

There is a way to beat the banks at their game. The key is to know the rules and exercise financial discipline.

There's no quick fix. Beating the banks will take time. Before you beat them, you need to beat the part of you that got you into debt in the first place.

Your money mindset and the spending decisions you make every day impact your financial situation. People usually kick-start their debt by using their credit cards for small things. The banks take manageable bites out of their wealth in the beginning.

But as time goes by, people make larger financial decisions – often without a financial strategy. They have increased money responsibilities: a mortgage,

> People wonder, 'Where did the years go and how did I get here?'

children, school fees, holidays, car loan. The banks bite harder, the debts snowball. People wonder, "Where did the years go and how did I get here?"

To win the game and get yourself out of debt, you need to adopt these eight money-saving strategies:

1. Begin with savings in mind.
2. Practice resourceful habits.
3. Challenge your money beliefs and habits.
4. Take calculated risks.
5. Don't let emotions blind your judgement.
6. Live by Pareto's rule.
7. Patience is a virtue.
8. Set your own standards.

Over the following pages, I will explain each of these money management tips in detail. I will give you the budgeting tools you need to not only overcome your debt and outsmart the banks, but to change your money mindset so you don't fall into debt again.

So are you ready? Let's begin.

MONEY STRATEGY #1: Begin With Savings in Mind

MAKE SAVINGS YOUR FIRST EXPENSE

1

IT'S EASY to feel powerless when your credit card debt spirals out of control. Who do you turn to? Where do you begin?

The good news is you CAN regain control of your credit card debt. The first step is to:

CHANGE YOUR MONEY MINDSET & MAKE SAVING A HABIT

We live in a society that struggles to save money. It's the norm to spend and amass as much as possible. When the common ideal is to always strive for bigger and better, saving is not a priority.

I call this the "Consumerholic" mindset. It took seed in the 1980s – an indulgence decade that hooked people on credit cards. Generation X got caught up in the craze, and credit cards became standard for the generations that followed.

People now use their credit card as if it was their personal fund, allowing them to purchase whatever they want, whenever they want. Why bother saving?

This mindset is compounded by the false sense of security people have about their jobs. Workers assume wages will continue to rise, so they kid themselves

> We live in a society that struggles to save money.

they'll be able to pay off their debts more easily in the future. But if they do receive a wage rise, the extra income is used to expand their lifestyle rather than pay down their growing debts.

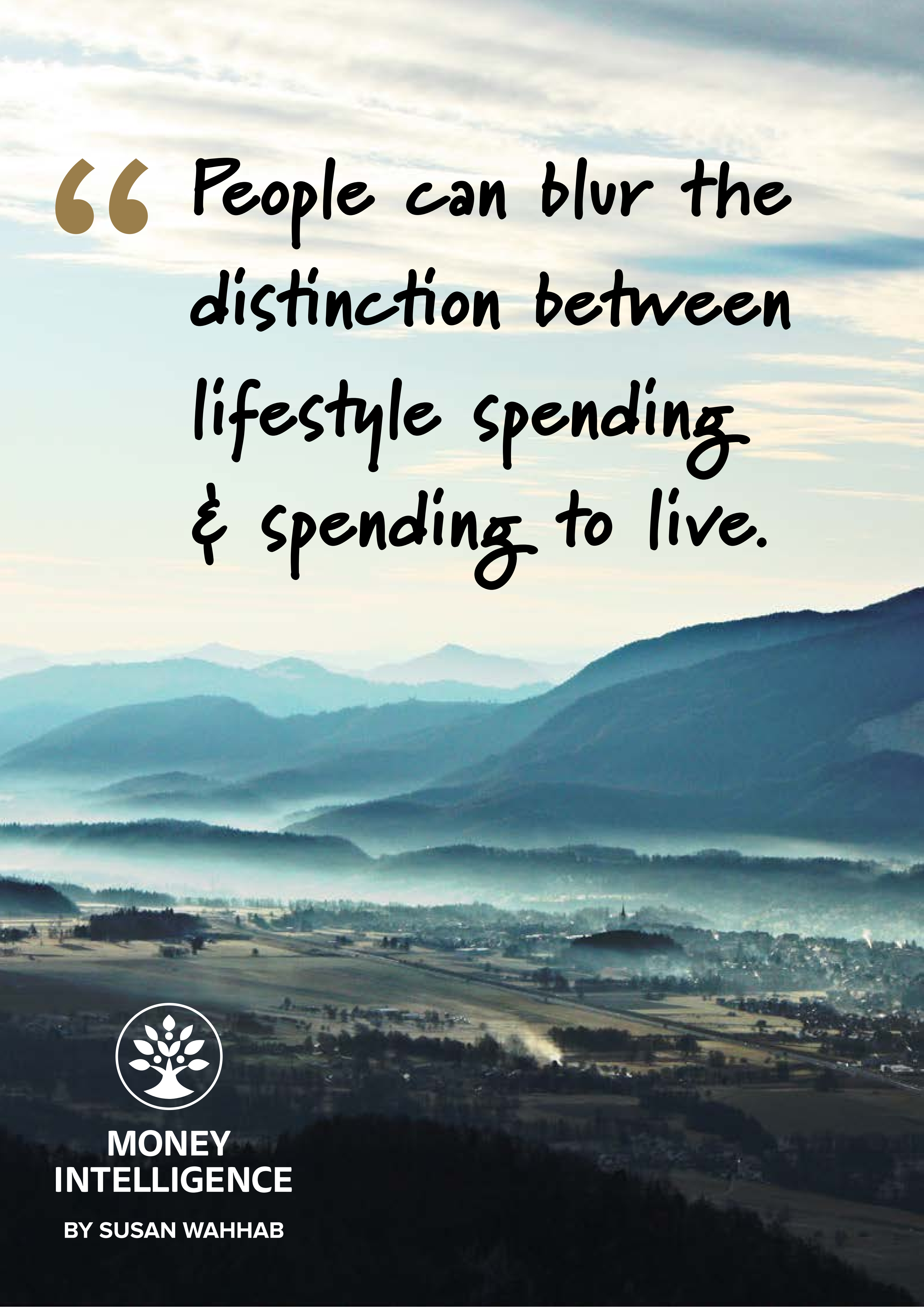
Saving is a form of risk mitigation. The old adage "save for a rainy day" rings truer now than ever. We all need a buffer for times when unexpected expenses arise. We need to learn to save money for the things we want, rather than immediately whip out our credit cards.

You may think it's difficult to save money, but it's not.

HERE'S HOW YOU CAN START SAVING NOW:

- Start by putting aside $50 a week. Place it into an interest-bearing account you aren't allowed to touch. You can even make this an automatic process so you don't forget and aren't tempted to spend the money on something else.
- Once saving $50 a week becomes a habit, build on it. Increase your savings incrementally. Add an extra $10 a week, every second month, and see how quickly your savings grow.

Saving should be your "first expense", not your last. Having that buffer means you won't have to rely on your credit card for all your purchases. You won't have to waste hundreds or thousands of dollars on interest. And it is never too late to make it a habit. Start saving money now, because you never know when you will need it in the future.



“People can blur the distinction between lifestyle spending & spending to live.
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MONEY STRATEGY #2: Practise Resourceful Habits

IS NON-ESSENTIAL SPENDING HARMING YOUR WEALTH?

DO YOU know the difference between essential and non-essential expenses? Honestly?

In a nutshell, non-essential expenses are luxuries that aren't required for survival: holidays, designer clothes, concert tickets, magazines, treats.

Essential expenses are vital to meeting core needs: rent/mortgage, food, car, home insurance, rates and electricity.

As a financial adviser, I see so many clients who struggle to save money, yet always have enough to eat out, pay for Foxtel and spend weekends away. They have blurred the distinction between lifestyle spending and spending to live.

People in this predicament do not know how to manage their P&L – their profit and loss. In accounting speak: **Income – Expenses** = **Profit/Loss.**

If you have a profit by the year's end, congratulations! Your expenses are less than your income and you are living within your means.

If you have a loss by the year's end, your lifestyle exceeds your income. You are living above your means.

Often, people's expenses are just slightly higher than their disposable income – about 5%. So if your disposable income is $100,000, you will have a $5000 loss by the year's end.

In isolation, this deficiency is not too significant. However, if it occurs year after year, the loss could accumulate to $50,000 in 10 years.

Instead of being proactive and dealing with their loss, people often continue to live the life they enjoy by taking on extra debt. They redraw their home loan and rely on credit cards. Their debt soars.

HOW CAN YOU AVOID RUNNING AT A LOSS?

Take an honest look at your spending habits. How do the decisions you make every day impact your ability to build your wealth?

Distinguish between what is essential and non-essential. Do you really need a weekend away every month? Is it really essential that you have a cleaner, attend cello classes, and more shoes?

These things are pleasurable, but the pleasure is short term. We are often left wanting more, so we fill the void by spending more.

Every time you go to spend money on something, ask yourself, "Do I really need this? Is it truly important to me and my goals? Or is it an unnecessary expense?"

Managing your P&L doesn't mean you can't enjoy your money. It's about understanding what is truly important to you and getting rid of the rest. It's about making the conscious decision to say no to non-essential expenses and building your wealth.


“To be truly alive, you need to infuse passion into everything you do. If there is no passion, there is no hope.
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MONEY STRATEGY #3: Challenge Your Money Beliefs & Habits

THREE STEPS TO CREATING A MONEY INTELLIGENT MINDSET

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IF YOU want to achieve financial success, it doesn't matter whether you earn $30,000 a year or $300,000-plus. Without the right Money Intelligence® mindset, it is impossible to build your wealth.

Your Money Intelligence® mindset is a culmination of your attitudes and beliefs. It often works at a subconscious level. It can cause you to make poor spending choices: buying shoes you don't need or booking holidays you can't afford.

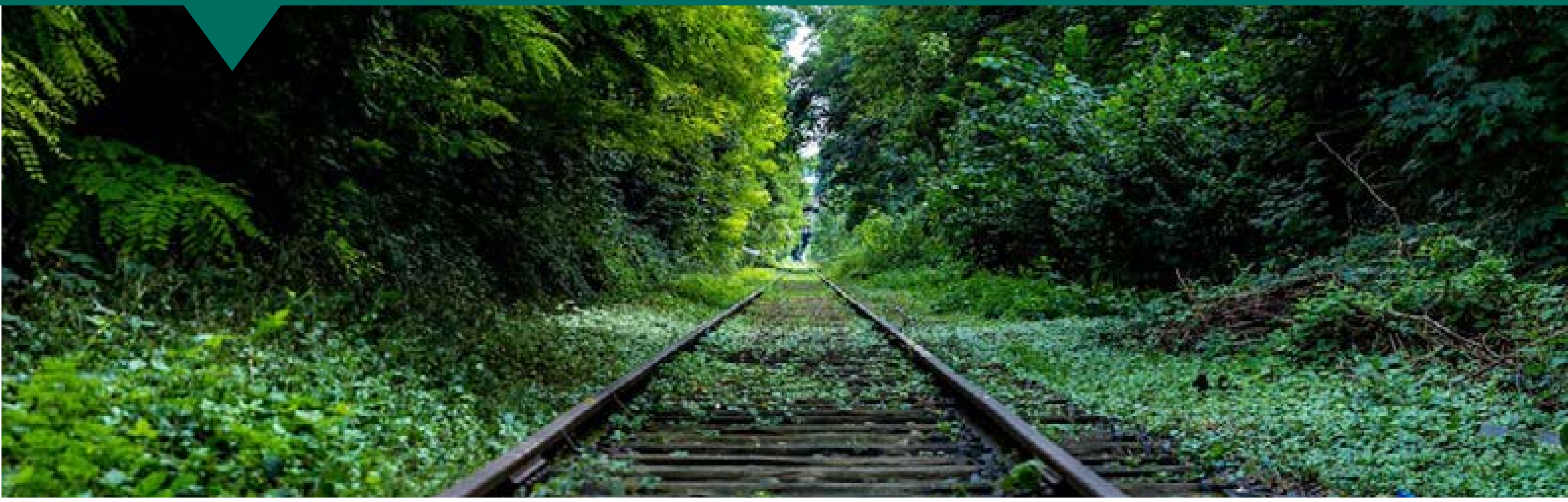
Your mindset creates habits that are hard to break – but they can be broken.

Here are the three steps to creating a positive Money Intelligence® mindset so you can save money now:

1. CONFRONT YOUR WEAKNESSES

Do you have a penchant for designer clothes, weekends away or expensive wine? Identifying your addictions allows you to control them.

Write down all the purchases you have made in the past week. Look at each purchase and ask yourself honestly – was it a necessary expense or the result of bad habits and weaknesses?



> You may be surprised at how limiting your money assumptions are.

A one-off indulgence doesn't make much difference. But if it happens over and over, it can take huge chunks out of your wealth.

2. CHALLENGE YOUR MONEY BELIEFS

Your money beliefs significantly impact your financial decisions – and your future. Look at the following list. Do you hold any of these money attitudes and beliefs? How do they impact your day-to-day decisions and your ability to grow your wealth?

- Money is the root of all evil.
- Money makes life easy.
- Money gets you all that you desire.
- Those who make too much money are greedy.
- Those who don't have money are lazy.
- It's wise to save money regularly.
- It's important to budget for household expenses and holidays.
- I pay my taxes so when I get old, the government owes me.
- The more money I make, the better my lifestyle.
- I listen to money management advice from experts.
- I know how much money I need for retirement.

It can be confronting to uncover your money beliefs. You may be surprised at how limiting your assumptions are. But now you are aware of them, you can see what you need to change.

3. CHANGE YOUR VALUES

This is vital to creating a positive Money Intelligence® mindset and achieving financial success. An enlightened Money Intelligence® mindset is based on seven key values. These are:

- **Determination:** How determined are you to reach your financial goals? Your financial future requires thought and planning every day, not just once a year.
- **Resilience:** Do you crack under pressure? When the going gets tough, it's important to never give up.
- **Responsibility:** If you fail to take responsibility for your decisions, nothing will change.
- **Self-belief: Y**ou are worthy of abundance. You have the power to make real, positive changes in your life.
- **Courage:** It takes guts to confront long-held money beliefs and habits. It's OK to feel uncertain, so long as you can re-group and move forward.
- **Trust:** Believe in your abilities. You have what it takes to transform your consumerist mindset to a Money Intelligent one.
- **Collaboration:** You can't change your financial future without the help of others. Establish partnerships (with your partner, friends, and financial adviser) that allow everyone to work to their individual strengths to create win-win solutions.

With these strong Money Intelligence® values, you can create a positive Money Intelligence® mindset. Effective money behaviours will come more naturally to you: e.g. saving money for contingencies, sticking to a household budget, paying bills on time, restricting eating out, budgeting for holidays.

And you will be well on your way to achieving financial success.

“Sustainable success needs time, effort, energy and planning. You need time to think and ponder.

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MONEY STRATEGY #4: Take Calculated Risks

HOW TO BUY A HOUSE AND STILL BE FINANCIALLY FREE

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BUYING A HOUSE is one of the biggest financial decisions you will make. But instead of consulting a financial planner first, most people go straight to a mortgage broker.

It's a common trap. The mortgage broker offers the maximum loan possible. People choose a property with a huge mortgage. It's only after the contract is signed and they move in that people start working the numbers.

Then the money struggle begins.

Home ownership is a risk. Risk is not necessarily a bad thing: if you don't take some risks in life, nothing changes. Your wealth will not grow.

But financial risks must be calculated. And they must include a strategy. To ensure your decision to buy a house doesn't damage your wealth, you must:

1. KNOW WHAT YOU WANT YOUR FUTURE TO BE

Buying a house is a long-term decision. It determines what you can and cannot do over a long period. It can impact your ability to invest in shares or property, whether you can send your children to private school, and whether you can afford to salary sacrifice more into your superannuation fund.

> "Many retirees are asset rich yet they are cash poor.

Ultimately, buying a house can impact your ability to become self-funded at retirement. Many retirees are asset rich and live in expensive homes in prestigious suburbs. Yet they are cash poor and survive on the pension.

Could you live on $22,542 per single, or $33,982 per couple, for 20 or 30 years?

Ensure you decide on a house that fits in with your goals and allows you to thrive in retirement, not merely survive.

2. REMEMBER THE EXTRA COSTS

Take stock of all the extra costs home ownership entails: council rates, water, electricity, building repairs, maintenance and strata (if applicable).

It's easy to overlook these costs. Renters wanting to buy their first home are particularly susceptible. They compare the rent they've been paying with mortgage repayments and are happy to see there isn't much difference.

Yet they fail to budget for the expenses usually paid for by their landlord. Once they buy their home and the bills start rolling in, they struggle to keep up. They often cover the extra costs by using their credit card – which lands them in more debt.

3. WORK OUT YOUR MONEY CONTEXT

To ensure you settle on a property that fits your budget, you must understand your money context. Your money context is your unique financial position. It is the combination of your income, expenses, responsibilities, goals and values.

To gain a full understanding of your money context, you need to work with an accountant or financial planner. You can also see how your decision to buy a house will impact your cash flow, tax position and family budget by asking yourself these questions:

- How will the monthly mortgage repayments restrict my budget?
- Will I be able to afford utilities, maintenance and council rates on top of the repayments?
- Am I prepared to pay the loan over the next 30 years?
- To reduce the loan to 20 years, how much would I need to increase the repayments by?
- Could I afford to invest in other assets while paying off the loan?
- What if interest rates rise another 2%? Would I have a cash-flow buffer to manage the increase?
- Do I have an emergency savings account in case the property needed urgent repairs?
- When would I need to renovate the property? Would I have cash set aside for home improvements, or would I need to refinance?
- What if I stayed in rented accommodation and bought investment properties based on a strategic financial plan? What would the tax and cash-flow consequences be?

Being too financially cautious will fail to grow your nest egg. But putting all your eggs into one basket won't help, either. You need a middle ground – a calculated risk, using *your* numbers to work out *your* strategy – to ensure you don't hit financial trouble.

“When there is a will, there is a way, and it starts with an honest conversation.

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MONEY STRATEGY #5: Don't Let Emotions Blind Your Judgement

DOES IMPULSE BUYING AFFECT YOUR WEALTH?

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DO YOU tend to live on impulse? There's something romantic about the notion of acting on a whim or fancy. But making drastic changes based on your emotions can set your finances back years. Even decades.

We've all made a hasty decision at some point. Problems arise when you continually make major financial decisions based on emotional wants, without considering all your options or getting professional advice.

Even the smaller impulsive purchases – buying more at the supermarket than you intended, getting a stylish new pair of boots that look great but are quite uncomfortable – add up over time.

> "Even the smaller impulsive purchases add up over time.

So how can you avoid making hasty decisions that will cost you in the long term? Here are my top five tips for taking the emotion out of your buying decisions:

> What if something doesn't work out? What if you lose your job?

1. THINK BEFORE YOU JUMP

Whatever you do, don't simply jump! If there's something you want, wait and have a think about it. Give any buying decision at least 24 hours of thinking time. This will numb the initial feeling of "I want it now!" and help you look at things more objectively.

2. SEEK FINANCIAL ADVICE

You may think you will save money by not consulting an accountant or financial adviser. But the truth is, you'll end up paying for it and more in other ways. A financial adviser will help you create a financial plan that builds and protects your wealth. With a practical financial strategy in place, you will be able to make sensible, objective decisions that will save you hundreds if not thousands of dollars in the long run.

3. CONSIDER "WHAT IF" SCENARIOS

This is particularly pertinent when you buy something that involves years or decades of repayments, such as a shiny new car, expensive property or even a mobile phone plan. What will happen if something doesn't work out? What if you lose your job? Can you change the contract? How much will it cost you? What will you do?

4. HAVE A RESPONSIBLE VISION

You can be financially conscientious and still follow your dreams. The key is to research as much as possible. For example, if you see a colourful brochure advertising your ideal holiday on a tropical island, ask questions before you hand over your credit card. Arm yourself with information. What you think sounds great may be very different from reality.

5. DON'T BEAT YOURSELF UP

No one is perfect. We are all blinded by our emotions from time to time. But if you make a hasty decision that doesn't meet your expectations, make sure you learn from it. Pick yourself up and move on.


“Create partnerships with people around you. Commit to cherishing them and don’t take them for granted.
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MONEY STRATEGY #6: Live By Pareto's Rule

COULD YOU SAVE 20% OF YOUR EARNINGS?

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FOR MOST people, their biggest expense is their mortgage. And it's the first thing people complain about when money is tight.

But it's not the mortgage that stops people from building their wealth. It's not even the recurring expenses, such as rates and electricity that undermine our finances.

It's the small things. It's the spur-of-the-moment, non-essential items that hit our wealth the hardest: takeaway meals, alcohol, entertainment and holidays.

These purchases usually represent about 20% of a person's income. The remaining 80% is made of the larger, essential expenses, such as home loan and car repayments.

People tend to focus on the 80%. Yet it's the 20% that delivers the biggest blow to your wealth.

WHY YOU NEED TO KEEP PARETO'S RULE IN MIND

The Pareto Principle – also known as the 80/20 rule – explains how small decisions can have the most impact on your finances.

> Instead of spending that 20%, imagine if you saved and invested it?

Vilfredo Pareto was an Italian economist who, in 1906, observed that 80% of his country's land and wealth belonged to just 20% of the population. To explain this unequal distribution, he created his 80/20 mathematical formula.

Pareto's rule means that 20% of something is responsible for 80% of the results. In other words, the minority impacts the majority.

The 80/20 rule is applied extensively in the world of business and finance. For example: 80% of a business's sales are generated by 20% of its clients; 20% of staff cause 80% of a business's problems; and 20% of staff provide 80% production.

So, 20% of the money you earn is what affects your wealth the most. Instead of spending that 20% on unnecessary items, imagine if you saved and invested it? What kind of difference would it make? Your long-term wealth would grow exponentially.

And I'm not talking about saving 20% of your earnings on top of the 9.5% your employer contributes to your superannuation, either. I'm including that 9.5% in the 20%. So, in fact, you would only need to actively set aside **10.5%** of your income to see significant financial gains.

We can take the 80/20 rule even further. Answer the following questions to see how your small spending decisions can snowball and seriously disrupt your wealth:

- Do you have a wardrobe full of clothes you don't wear? Most of us only use 20%-30% of the clothes, shoes, jewellery, bags and make-up we own. Try to be more selective with the garments you buy. It can save you hundreds of dollars each year.

- How many household items do you own but never use? Kitchen gadgets that gather dust and fine china saved for special occasions are just some examples of money that could have been put towards building your wealth.

- How much fresh food do you throw out each week? Are your cupboards full of tinned food well past their use-by dates? It's so easy to overspend on groceries. Avoid this by creating a weekly menu plan. Write a shopping list and stick to it, and keep the number of takeaways and dinners out each week to a minimum.

It's astonishing to see how much money we spend unnecessarily. Do a stock take of all the possessions you own. Are you surprised to see all the things you haven't used for months? Years?

How much money would you save if you committed to not buying any new clothes, bags, shoes, jewellery, make-up, towels, plates and sheets for a whole year?

Imagine how much money you would have if you saved your 20%!

“Abundance is there for you. It's not only for the rich. Your money mindset is the key to changing your life and society.

MONEY STRATEGY #7: PATIENCE IS A VIRTUE

HOW TO SPOT AN INVESTMENT SCAM

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IT CAN start with a simple phone call and end in ruined dreams. Investment scammers are well-spoken, personable and offer returns that sound too good to be true.

The sad truth is that they usually are. Yet many people believe they can make a "quick buck" when it comes to investing.

Investment scammers encourage you to part with your money for dubious financial gain. They make promises of low-risk investments with high returns, usually involving shares or real estate.

Signs you are being cold called by an investment scammer include:

- You've never heard of them before.
- They offer you a no or low-risk investment.
- They promise high, quick returns.
- They claim to be offering you inside information.
- They try to keep you on the phone and call you many times.
- They tell you if you don't act quickly, you will miss out on the deal.
- They redirect you to a slick website.

Investment scams are not only made by cold callers. They are also pushed by so-called experts at investment seminars.

These "experts" claim to be giving you professional investment advice. They're often charismatic and highly enthusiastic. But in reality, they are spruikers urging you to borrow large sums of money or buy investments on seriously risky terms.

There's no quick fix when it comes to building your wealth. But you can reach your financial goals with a budget and the right values. The two key values you need are:

1. DISCIPLINE

Be disciplined enough to hold on to your investments. Don't be tempted to cash in your assets for quick financial gain. In the words of Warren Buffett: "If you are not willing to own a stock for 10 years, do not even think about owning it for 10 minutes." If the value of your shares or property increases, use the increased equity to invest in more assets. If your investments are making a loss, seek proper financial advice.

2. PATIENCE

Be patient and build your wealth and investments slowly. Day in, day out; year in, year out. Your wealth is not the result of a once-a-year review of your budget. It's the culmination of every single spending decision you make. Maintain a long-term view of your wealth and don't fall victim to a con artist. Promises of quick capital gain will only get you into debt.

There's no glitter to patience and discipline. No one's cold calling or organising colourful seminars to spruik these values. But they are essential to building your wealth and assets.

“The meaning of life is to consider the future generations and leave the world a better place than when we arrived.

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MONEY STRATEGY #8: SET YOUR OWN STANDARDS

IS THE NEED TO BE ACCEPTED HURTING YOUR WEALTH?

HAVE YOU ever received a pay rise and decided it was time to upgrade your perfectly fine car? Perhaps you've splashed the extra income on an 85-inch ultra-high definition TV. Or maybe you've moved into a bigger house in a better suburb – because that's what people do, right?

"Keeping up with the Joneses" is fraught with danger. While we busy ourselves keeping up with our friends and neighbours, they are desperately trying to keep up with someone else, too!

It doesn't matter how much money you earn, there is always someone else who has more than you. That's why it's so easy to fall into credit card debt. Credit cards make us feel as though we can afford anything. This couldn't be further from the truth.

Even people with large incomes can easily get caught up in debt as they constantly strive for bigger and better. All the income they work so hard for is spent paying off interest, simply so they can feel accepted.

Is the approval of others more important to you than financial stability?

When we preoccupy ourselves with what everyone else has, we lose sight of what is truly important to us. You may find yourself working longer hours to pay

> **Is it true friendship to be accepted by others for the things you own?**

off a new lounge suite, when what you want is to come home on time so you can spend the evening with your family.

What's more, the authenticity of our relationships is compromised. Is it true friendship to be accepted by others for the way you dress, the place you live and the things you own?

When things get tough, would you be able to turn to these people for advice and support?

No one wants to feel as though they don't fit in. But there comes a point when the comparisons need to stop. You must choose between mere survival – living week to week, paying off mounting debts for things you don't need – and prosperity.

So how can you stop keeping up with the Joneses? You need to set your own standards.

TOP FIVE TIPS FOR ACHIEVING YOUR UNIQUE MONEY GOALS:

1. **Say no to the notion that "bigger is better".** You don't need to always update and upgrade the things you own.
2. **Be comfortable with having enough.** Take stock of what you already have and spend more time nurturing your relationships for true fulfillment.

3. **Work out your values and priorities.** What matters to you most? Is it spending time with family? Good health? Helping others? Keep these values in mind every time you make a purchasing decision.
4. **Create a budget and stick to it.** Base it on your values. You can still have fun with your money, so long as it aligns with what matters to you and not anyone else.
5. **Save regularly.** Set aside part of your income each week to build your wealth. Make it an automatic process so you aren't tempted to spend it on extras.

When you set your own standards, keeping up with the Joneses becomes irrelevant. Knowing your money limits and not caring what others think gives you control of your financial future.

I hope my *8 Ways to Outsmart the Banks* e-book has helped you re-evaluate your personal and financial goals. I hope it has given you a clear path to avoid unnecessary debt.

Remember, *you have the power* to take control of your financial future. With a Money Intelligence® mindset, you have the tools to live a debt-free, prosperous life.

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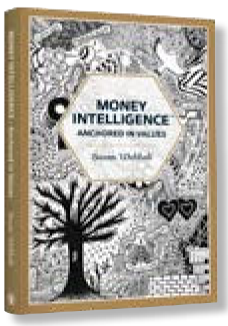
SUSAN WAHHAB is a financial strategist and author who has helped hundreds of clients build their wealth.

Susan is a Sydney-based CPA, SMSF specialist and the managing director of financial service practice Winner Partnership. Susan has a loyal online following through her Money Intelligence® blog and Facebook page.

As an inspiring money mentor, Susan is a sought-after speaker. She has featured in the Australian Financial Review, Business Class, Mercantile Mutual, Keynote – The MLC Investor Magazine, ANZ Business Hub, New Woman, the Sydney Morning Herald and Daily Telegraph.

Susan's book, *Money Intelligence® – Anchored in Values*, is available in paperback and as an e-book.
Get your copy here.



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