

Focus On Budgeting

Get your budget in order.

$$1 + 2 = 3$$



For more than a decade, household debt (this includes mortgages, credit cards, personal loans and HECS debt) has grown at a rate well in excess of the growth in our household incomes.*

So for many of us, it's hard enough just paying the bills, and the thought of saving money is a dream. Others have the money, but may not be sure where it all goes each week. Preparing a budget is the first step to getting control of your finances. Along with some handy tips for saving and details of some traps to avoid, you will be on your way to financial security.

Your financial adviser will need to know your budget and savings capacity in order to prepare your financial plan. It is a good idea to prepare this beforehand.

Work out a budget

If you are not sure where your money is going or if you want to find out what you might be able to save, you need to draw up a budget. A budget helps you to clarify what money is coming in and what money is going out and determine if you need to increase your income or cut back on your spending.

How do you prepare a budget?

You can find budget planners on the internet or as part of personal finance software packages. You can also drop into your bank and ask for one or simply grab a pen and paper and draw up your own. We have included a budget planner on our website to get you started.

You first need to list all of your income, including salary and interest on bank accounts and investments. Don't forget to include other income such as child support and Centrelink payments. The next step is to list all of your expenses. Finally, assess your findings. Your budget will show you whether you have money left over to save, whether there are areas that you can tighten up so that you can save, or whether your outgoings exceed your earnings so much that you need to pick up a part time job, consolidate your loans or talk to a financial planner.

*Opening Statement to House of Representatives Standing Committee on Economics, Finance and Public Administration, I.J. MacFarlane, Feb 2006

Scary Saving Facts

If you gave up:	Amount	Approx. Yearly Saving
A cup of coffee on your way to work	\$3.50 x 5 days x 52 weeks	\$910
Smoking @ \$12 a pack	A pack a day	\$4,380
Buying your work lunch (start making your own)	\$10.00 x 5 days x 52 weeks	\$2,600
Giving up the above 3 things will save you		\$7,890

Spend less

If you spend less, you can save more. This simple principle is the key to building your wealth. Ask yourself each time you are about to visit the cash register: 'Do I need this, or do I just want this?' As well as being selective on what you spend money on, you can also be clever. Saving a dollar here and there can make thousands of dollars difference in a year.

Tips for spending less

- Petrol prices fluctuate, buying midweek is often cheaper.
- Change to 15 watt compact fluorescent globes and you can not only save \$11 per globe per year, but can also reduce the impact on the environment by saving tonnes of carbon dioxide being released.
- Dry your clothes outside rather than use the electric dryer.
- Eat fruit and vegetables that are in season, when not in season they will cost you a few dollars more per kilo.
- Use generic brands for grocery staples like sugar and flour, you won't notice any difference and they are usually a lot cheaper.

- Don't just renew your insurance, shop around each year to confirm you are still getting the best premium on offer.
- Know your off peak phone times, the rates for mobile phones can vary dramatically depending on what time you call.
- Put on a jumper rather than turning up the heater full blast; heaters, especially fan heaters, eat up electricity.
- Find out what your bank fees are, if you make multiple ATM withdrawals or use other institution's machines then you can be up for hefty monthly fees, limit your withdrawals or switch to an account with a flat fee per month.

Plastic fantastic?

Credit cards can be convenient, but they can also be a major temptation to spend what you don't have.

Tips for card control

- Ensure you pay off the total amount each month to avoid interest. If you can't, at least aim to pay off more than just the minimum monthly payment to reduce the overall amount you end up paying.
- Be aware that unlike purchases, the interest free period does not apply to cash advances.
- Don't buy things on credit that you cannot afford to pay in cash now.
- Get a debit card rather than a credit card, they offer the ability to buy online or pay bills by phone, but you can't spend what you don't have.
- Shop around for a card with low fees and low interest (interest rates can range from 10% to 20%).
- Pay for everyday items with cash eg. groceries, clothes, petrol.
- Consolidate the number of cards - put all your cards into one low interest card.

Start saving

The best incentive to save is to have a goal. If you have something to work towards, then the deprivation to get there along the way doesn't seem quite so bad. Another good trick is to organise a direct debit from your account into a savings plan on a regular basis or organise with your payroll department to put an amount of money from your pay straight into a separate account, that way it will be gone before you are even tempted to spend it.

If you put your savings into a separate account, look for one with a good interest rate so that your money can benefit from compound interest (interest on your interest). Try to find an account where the interest is paid daily rather than monthly or yearly to maximise the amount you earn on your money.

Be realistic

The important thing when you are saving is not to be overly ambitious. Be realistic. Starting a savings plan will mean you need to be stricter on your spending habits, but not restrictive. You still have to enjoy life.

You could live on baked beans and buy clothes in op-shops, but you are probably not going to feel good about it. Like a sensible eating plan (rather than the grapefruit diet) you need to take a sensible, realistic approach to saving; this way you will be able to maintain the good habits over the long term, for example:

- Rather than give up going to the movies, go on half price nights or use movie money (many workplaces and organisations offer this).
- If you love getting your hair done regularly don't opt for the bowl-cut at home, go to a hairdressing college or a salon in the suburbs (generally cheaper than inner city salons).

Put your savings to work - get advice

Your financial adviser can help you structure your accounts and investments to make saving money easier, to make your savings grow faster and to ensure that your investments suit your own individual needs.

By investing your savings cleverly, you can ensure that while you continue to save, the money you already have is also growing for you. Your financial adviser can not only help you work out what your financial goals are, but recommend the right investments to make your money grow.

Depending on your goals and your risk profile, your investments may include cash and fixed interest for short term goals or growth assets like shares and property for long term goals. Your financial adviser can even recommend investments that will reduce your tax, meaning you have more money to save!

You have worked hard to save your money, now make your money work hard for you!

To find out more about budgeting, or how to invest your savings, speak to your Infocus Financial Adviser today.

Group Head Office & QLD State Office
Level 1 Kawana House, 1 Innovation Parkway
Birtinya QLD 4575

Call 1300 infocus

or visit infocus.com.au

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