



NORTHWOOD

Financial Services cc

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A FEW THINGS YOU SHOULD KNOW ABOUT BUDGETING

As a Certified Financial Planner®, I am well placed to help you talk about money. I have a client base which not only owns millions of rand in investments; it also owes millions of rand in debt. Every day we move someone from a trapped individual to a free being. Whatever your situation, you cannot surprise me. I have seen people earning R20 000 per month with debt of R1,000,000. I know housewives who have never worked outside the home for a single day, yet own portfolios of investments worth millions.

As to the age of our clients, one millionaire made her first investment at the age of 65.

We look forward to helping you design a budget to serve your needs and keep you out of debt.

Every household faces the same challenge:

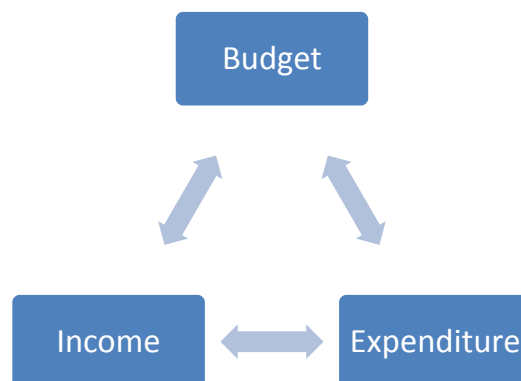
YOUR INCOME MUST BE MORE THAN YOUR EXPENSES

Obvious isn't it? You cannot take out more than you put in. If you do, you end up being debt-ridden. So where do we start? How do we move from the quicksand we're trapped in, to the joy of having spare money at the end of the month? The obvious answer is to draw up a budget, right? A budget sets your benchmarks and it helps you turn goals into assets.

Unfortunately, budgeting is a pain, and very few of us succeed on our first attempt.

THE KEY ISSUE: DRAW UP A BUDGET

Once you admit you are in trouble, the next step is to start on your budget. A budget has two elements: Income and Expense. We will start with your expenditure.



Until you know what your expenses are, you cannot control them. This is how you identify your debt, and control your monthly expenditure.

1. **Start with your credit cards:** On our webpage, (www.northwood.co.za) you will see a doodad exercise. Complete it. It helps if your exercise covers two or three statements.

2. **Examine at your clothing accounts:** Summarise and identify how much you spend in a month on clothing, etc.
3. **You Bank Statements are next:** Check and identify your Debit Orders and Stop Orders. Identify each EFT.
4. **Debit Card Statements:** Check and identify your Debit Orders and Stop Orders. Identify each EFT.
5. **Salary slip:** – Check your salary slip. Some of your expenditure will be detailed on it in the form of VAT.
6. **Cash items:** This is the most difficult because most people do not keep cash slips. You may have to look at cash withdrawals and guess the amount spent.
7. **Outstanding debts:** Don't forget to include outstanding debt - this was once also expenditure.

Notice I have called this a list of expenses, not a budget. It remains a list until you reach the next step.

SUMMARY

THE GOAL IS TO EARN MORE THAN YOU SPEND

Your first attempt at listing your expenses will probably remind you of a government department. You have spent more than you have earned, you do not know where all the money went, and you have no idea why.

Don't worry. At least you are taking charge. It can only improve.

DRAW UP AN EXPENDITURE ITEMS CHECKLIST

List all your expenses. Start with your Bank Statement for three months. Identify every debit order, every payment. Do the same for your credit cards. In fact, why not complete another doodad exercise? Our web page will give you the tools to complete the exercise.

Now list all the items that you pay for using cash. That will include things like entertainment, food items or parking.

Lastly: what about those items that only crop up once a year? Have you included them as well?

If you get this far, add income to the equation. Your first budget will resemble that of a government department: your expenditure should exceed your income.

Income - Item	Actual	Proposed
Salary		
Rental Income		
Passive Income		
Expenditure - Item		
Groceries		
Electricity		
Water		
Rates & Taxes		
Home Maintenance		
Security		
Education		
Clothing		
Medical Bills		
Debit Order 1		
Debit Order 2		
Total		

WHY DO WE GET INTO A MESS WITH OUR FINANCES?

Often our parents teach us more than we realise. Joan has three sisters. She is constantly in debt, not because she overspends on herself, but because she keeps settling her sister's debts.

After three rescues, her sister's family is still in as much trouble now as they were before. After some discussion, we looked at patterns of behaviour in their families.

MONEY AS POWER

Joan's father controlled his family's finances and never encouraged discussion about money. If he was upset with someone, he would simply withhold money from that person. He would decide how much to give each family member and what he gave them was influenced by his mood on that day.

MONEY USED TO CONTROL OTHERS

As a result, Joan learnt that money represented power, and that withholding money made it possible to control others. She could use it to force people to do her bidding. When Joan started working, she decided never to be like her dad.

JOAN NEEDED TO DESIGN A BUDGET

Joan then began to support various family members, even though they were able to support themselves. As time went by, Joan realised her income no longer allowed her to save towards retirement. She came to us for help, and we discussed getting her expenditure under control by designing a budget.

JOAN HATED THE EXERCISE

Joan hated the exercise of drawing up a budget. Although she was happy to stop spending on herself, she could not bring herself to cut down on family support. As we discussed why she hated doing so, she repeatedly said that she did not want to be like her dad.

TAKING RESPONSIBILITY FOR OUR LIVES

It took some months before Joan was able to talk to her relatives about taking more responsibility for their own lives. Now, she is finally building up her own assets and her sisters have trimmed expenditure.

REFUSAL TO CHANGE LIFESTYLE

Sometimes the bad relationship we have with money can have catastrophic consequences. The story below stresses the need to change one's lifestyle to meet one's budget.

RETIREMENT MONEY USED TO BUY A BUSINESS

Mary and Earl are in their 60's. Their son still lives with them. Earl used all of his retirement money to buy his son a business, which flopped.

Mom had been retrenched, and in the meantime Earl developed health issues that prevented him from working. They have no more savings or emergency reserves. Their bank has refused to extend further credit.

REFUSAL TO DISCUSS A BUDGET

Mary and Earl came to Northwood. They refused to cut their lifestyle or kick their son out of the nest. Instead, they wanted to find ways of extending their credit. We were not able to work together and, sadly, I expect the next call from them to be when they have lost their home.

They were simply not ready to discuss a budget.

USING A BASIC BUDGET:

When I grew up, we were not a wealthy family. My dad worked on the railways, and money was always short. My dad never owned a credit card, nor did he use a cheque book. Our first telephone was installed when I was in high school. The only debt our family had was a home loan; otherwise everything was bought for cash. Our first family car was twenty years old and broke down every month.

THE ENVELOPE METHOD – THE SIMPLEST BUDGETING METHOD

The most basic method of budgeting is to use envelopes. My parents used this method their entire lives. They had about 20 envelopes. Each one represented a category of expenditure. The front of the envelope had the kind of expenditure and the amount that was needed.

I remember some of the categories.

1. Milk
2. Bread
3. Groceries
4. Funeral policy
5. Holiday money (accumulated until the holiday came)
6. School fees
7. Drive-in (if you do not know what this is, ask your grandparents)

My dad and mom would sit on the bed, close the bedroom door and carefully place the required number of notes and coins in each envelope. The rest went to saving. We had fun and when an envelope ran out, we stopped having fun until the following month.

LEARN BY PAINFUL EVENTS

My siblings and I learnt that money was something one discussed behind closed doors. As a result, we developed poor relationships with money. It took me a number of painful events before I accepted responsibility for working with money.

As William Feather says:

"A budget tells us what we can't afford, but it doesn't keep us from buying it."

HOW NOT TO RUN YOUR BUDGET

DRAWING YOUR CASH

Mandla knows that his last debit order for the month comes off on the 5th of the month. During that evening he draws all the cash in his bank account and then spends it until his money runs out. If the bank runs their debit order one hour late, Mandla's debit order will bounce.

A BUDGET HELPS YOU TO UNDERSTAND WHERE YOU'RE GOING FINANCIALLY

So how do we run a budget? **When used correctly, your budget is a tool that helps you understand where you're going financially and how you're getting there.**

HAVE A PLAN

Most people have dreams or goals, but the only way to ensure they realise their dreams or goals is to have a plan.

A budget is such a plan. It:

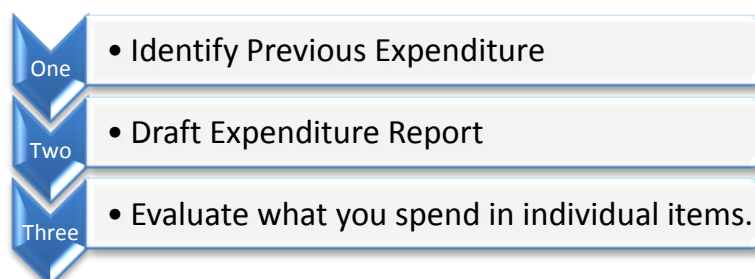
- Helps you live within your means/income
- Ensures that you have cash available for investments
- Allows you to control your finances, rather than being controlled by debt
- Ensures you spend money on things you that you need, rather than on what society makes you think you need
- Reduces arguments. You can always tell your partner no allowance was made on the budget for what it is they want to buy

A BUDGET WILL EMPOWER YOU

Running with a budget is very important. It will empower you. It will ensure that you can control your own estate, rather than having your creditors control you.

EASY THREE-STEP PROCESS

Starting a budget is an easy three-step process:



STEP ONE

The first stage of drawing up your budget is to identify previous spending patterns. Your best way is to check your credit card and bank statements. Check all your shop accounts, as well as any other regular payments you make using cash.

STEP TWO

Draw up two expenditure reports.

Phase One expenditure report

Draw up a list of headings indicating your main areas of expenditure. Divide your more detailed areas of expenditure and put them under your headings. These headings will give you your **Phase One Expenditure Report**.

Phase Two expenditure report

Once you've prepared Phase One, move on to Phase Two. Go to your completed checklist,

Complete the template using headings and categories that you've already prepared. The extra categories that we've added could help you to jog your memory. Estimate figures if you're not sure how much you actually spend on a category of expenses. Change categories to suit your own situation. Delete categories you don't want.

TEST THE SPREADSHEET

You've now prepared **Phase Two Expenditure Report**. This is the report we ask every client to give us. You may find that your draft budget still shows a negative balance. Now test the spread sheet for a month or two. Fine tune it by editing, adding, or removing categories. After this work, you should have a budget that reflects your actual expenditure.

EVALUATE INDIVIDUAL ITEMS

You've now reached **Phase Three of your budget**. This phase is the time to evaluate individual items of expenditure, such as car insurance, to see if you are getting good value for money.

INSURANCE OVERPAYMENT

Contact our office if you suspect that you are overpaying on your insurance. Our software will scan six companies for the best quote. Often you can reduce the premium on your short-term insurance by just increasing your excesses slightly.

EMERGING PATTERNS

Your **Phase Three** exercise should show you any emerging patterns in your expenditure. You should, for example, be able to detect spontaneous over-buying at times when you had only intended to buy one or two items.

1. REDUCE YOUR EXPENSES

Always use your budget to help you reduce your expenses. The section takes you through four major ways that will help you reduce your expenses.

1. CHECK YOUR MONTHLY DEBIT ORDER(S)

Check your monthly debit orders and regular debt payments. Are they necessary?

REMEMBER, A REDUCTION OF JUST R300 PM IS ACTUALLY A R3 600 ANNUAL REDUCTION.

NATHI REDUCES HIS MONTHLY PAYMENTS BY R1500

Nathi assured me he never wasted any money. He knew exactly how much debt he had. After some discussion, he admitted that he'd never examined and identified his debit orders. So we turned to the task.

Here are some of the charges Nathi made. You can also make these changes.

- DSTV – Nathi changed to a cheaper bouquet. He asked himself: “How many channels can I watch if my working day is twelve hours long?”
- Nathi stopped buying popcorn and other sweets at the movies. He moved movie night to Tuesdays, when the tickets were cheapest.
- Nathi stopped buying expensive take-away foods. Instead, he would buy a whole grilled chicken rather than KFC. This saved R100 on Friday evening.
- He stopped eating out more than once a week.
- When he went to buy milk and bread he took only R30 in notes. He left his wallet behind. This saved him up to R150 per trip.
- He compared his short-term insurance premium with two company adverts that caught his eye. He was able to get cheaper rate because of the competition.
- He planned his car trips and avoided unnecessary trips.
- He planned his car trips per area so that he could get as much as possible done per area.
- He formed a car pool with his friends.
- He paid school fees in advance. This enabled him to get discount.

1.1 SAVE WITHOUT PAIN

We applied the next two ideas and saved R8 000 per year without any pain.

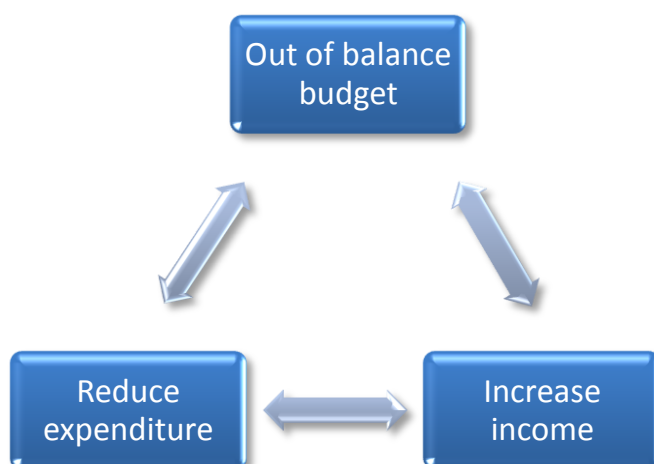
How did we do it?

- **CHECK YOUR PHONE PLAN**
We cut out an eye-catching advertisement in the telephone directory, then used their services to cancel call waiting, and the second line. These changes reduced our phone bills by R5 000 per year.
- **CHECK YOUR MOBILE PHONE PLAN**
When my mobile phone plan came up for renewal, I was able to switch to a cheaper plan with per-second billing. This saved another R3 000 per year.

Your budget never grows stale. Keep referring to it, and use it to manage your finances. If your budget is out of balance, you face two choices:

- Reduce expenditure
- Increase income.

The diagram below sums up what I’ve been saying:



Let's start by

looking at how you

can increase your income. It's easier than you think.

2. HOW TO INCREASE YOUR INCOME

Judging by how carefully our focus group read this section, we expect it to be a popular one.

THIS IS WHAT KEVIN DID

Kevin changed jobs, and it seemed as if the new job's salary was just too low. No matter how carefully we examined his budget, he would be short.

So I gave Kevin my "knowledge is a valuable commodity" speech. If you are a lecturer at a university you would have heard a version of this before.

To shut me up, Kevin applied for a tender. It was awarded to him, and now provides him with an extra R250 000 a year. I'm not suggesting this is an option for all of us, but we certainly can try.

TWELVE WAYS TO INCREASE YOUR INCOME

If you aren't like Kevin, but still need more money, try one of the following:

- Consider a job on the side. A 10% increase in disposable income could go a long way.
- Go for a higher-paying job.
- Ask for a raise. We are considering completing an article on raise-requesting strategies in one of our newsletters. If 20 readers request it, we will publish the article.
- Offer to take a pay-cut in exchange for a performance bonus.
- Contact companies like Markinor, and get paid to survey people.
- Ask your boss to pay for further studies. Better education opens more doors.
- Turn your car into a mobile advert. A friend uses his car to advertise for an estate agent. He gets paid and never has to look for his car at the Mall parking garage.
- Rent out a room in your house
- Consider a lift club to work, or take public transport.
- Have a garage sale. If this embarrasses you, let the kids hold one. Let them keep the cash in lieu of pocket money.
- Consider a home-based business. There are many reputable network marketing companies (for example, MLM) that can give you a good part-time income. At the same time they'll give you excellent personal growth opportunities. Check out the options. Choose one that suits you, and that has a sponsor you can work with.
- Investigate using a second bond. Use this to build a granny flat or extra room that could be rented out. The income from this space could pay for the second bond while adding value to your property.

Credit Cards are probably the most expensive reason for budget failures.

SIX WAYS TO DESTROY YOUR FINANCES BY USING YOUR CREDIT CARD

Sometimes I find that a client has developed bad habits. If I were to identify where most fall off the rails, I would say that credit cards are problematic.

Read about Anita's problem.

Anita visits Woolworths every evening to buy food for the evening meal. When she is tired she

tries to buy meals that require less preparation.

During our “Doodad” exercise she realised her food bill for mom, dad and 2 toddlers came to R8000 per month

Which of these no-no’s do you regularly commit?

- 2.1 Making your payment late: This allows your credit card company to revoke the 52 interest-free days you would have had if you’d the debt on time. They charge you from day one.
- 2.2 Making the minimum payment only, and not settling your card debt in full. This allows your credit card company to increase their profit by another 200%.
- 2.3 Drawing cash from the ATM: This allows the credit card company to charge a shocking penalty interest rate for 50 days before you even see a statement.
- 2.4 Not checking the interest rate your card charges you. Every bank has a different charge. They don't like people who use the cheapest credit card.
- 2.5 Using a card with irrelevant benefits (because it promises you a free braai unit after five years of constant use and a cheap movie on Tuesdays).
- 2.6 Drawing cash from one credit card to pay the minimum balance on another credit card.

This is how Thomas ran into trouble:

DRAWING CASH FROM CREDIT CARD

Thomas runs a small firm of attorneys. Some of his workers are paid on Fridays. As a result he often runs out of petty cash. Thomas has developed the habit of visiting the ATM around the corner when this happens: He draws cash from his credit card and replaces the money on Mondays.

Thomas does not realise how the bank treats this “loan”. Suppose that the normal use on his credit card leaves him with a negative balance of R10,000, and that on Friday he draws cash to the tune of R7,000. His negative balance is now R17,000. The R7,000 will incur cash overdraft charges, and the R10,000 will be free of charges (provided Thomas settles his account on Mondays in full).

THOMAS’S METHOD WILL COST HIM PLENTY

When Thomas pays back the R7,000 on Monday, it is offset against the R10,000 that he owes, and not against the cash loan. To settle the cash loan, Thomas will need to deposit R17,000. By month-end he is still paying cash loan charges on all the cash withdrawals. His method will therefore cost him many thousands of rand every year.

If you want get out of credit card trouble, then read on.

3. HOW TO USE YOUR CARD WHILE GETTING OUT OF TROUBLE

Can you design a strategy to get out of credit card woes? Of course you can.

This is what you can do.

- 3.1 While you get your debts under control, cut up your card. When you’ve settled your debts, ask your bank to issue a duplicate card.
- 3.2 Pay more than the minimum balances on outstanding debts.
- 3.3 Get the credit card company to reduce your credit limit.

4. CREDIT CARDS ARE NOT ALL BAD NEWS, PROVIDED YOU UNDERSTAND THREE CRITICAL RULES

- 4.1 Settle the outstanding balance in full every month.
- 4.2 Rules 2. and 3. are the same as rule 8.1.

5. HOW STORE CARDS DESTROY YOUR FINANCES

Be careful how you use your store cards. They are really credit cards with special rules. Please note following warnings:

- 5.1 The six-month option gives you free credit. However the 12- and 24-month options allow stores to rip you off as money lenders.
- 5.2 The store's money club costs more than you realise. It's a waste of your money. You won't win R10,000. People who think they can win are simply giving millions of rands to the store every year.
- 5.3 If you use your store card to pay your doctor, the store charges you interest from day one every time you catch the flu.
- 5.4 The Life Cover stores sell you when you buy large items is a rip-off. Only persons who are 98, sickly, and tired of living should consider the cover.

6. THE PATH TO TROUBLE

How did Nomso get into trouble?

NOMSA CAN'T PAY HER DEBT

Nomso was in trouble again. She had bought a washing machine for R3,000. To this she added:

- *Life cover*
- *A two-year extended guarantee*
- *Retrenchment cover*
- *Club membership*
- *A five-year repayment term*
- *After four years she discovered she still owed more than the original purchase price. As an angry response she decided to stop paying her account.*

SIX STEPS THAT GOT NOMSA INTO TROUBLE

Let's explore the six steps that got Nomso into trouble when she stopped paying further instalments:

- 6.1 Nomso got a telephone call while trying to prepare her family meal. It was a young woman reading from a script. She reminded Nomso of the unpaid account, and asked what was going to be done about it. A second call a week later was more insistent: the caller demanded immediate full payment.
- 6.2 Nomso started getting letters about the unpaid account. The first was polite, the second insistent, and the third one was rude.
- 6.3 The final demand arrived. Somehow the debt had increased by another R600. Thanks to the demand, Nomso knew that her credit history was damaged. No one would sell to her again unless she paid the full amount immediately.
- 6.4 There was silence for two months and Nomso relaxed.

- 6.5 A summons arrived after a few weeks. Further charges had been added to the account.
- 6.6 On payday, Nomso's payslip reflected a deduction against her salary, ordered by the magistrate's court.

PEOPLE IGNORE THE WARNINGS ABOVE. WHY?

Below is a summary of many years' answers to this question.

- *"The telesales lady was rude on the telephone and she scared me off by demanding too much."* My response: If you cannot afford what she demands... negotiate! Offer what you can afford. She cannot reject your offer. If she does, tell the Magistrate.
- *"I feel shame."* My response: Get over it! You made a mistake. Learn and move on. No one said you are a bad person.
- *"I feel cheated."* My response: If you do, speak to the store manager. He may be more helpful than you expect.

LIMIT TO PENALTIES

Remember, under the new Act there are limits to the penalties the store can add to your account.

7. TEN IDEAS TO BREAK THE CHAINS OF DEBT

I wish our family had spoken about money more often. The following 10 ideas would have saved me a lot of grief.

- 7.1 Switch to debit cards. Cup up your credit cards. Stop racking up more debt.
- 7.2 Avoid impulse purchases. Don't spend money on things you don't need.
- 7.3 Stop smoking or cut out this year's holiday.
- 7.4 Design a savings plan. R100 per month is better than nothing.
- 7.5 Write down your goals. You'd be surprised at how a written plan, which you review regularly, can help you keep on track towards your goals.
- 7.6 Pay above the minimum on any loans you have. If you have limited money, pay off your highest interest rate loans first, particularly those considered "bad debt."
- 7.7 Celebrate every time you close an account. Have an extra coffee, and enjoy the moment. Don't celebrate by buying a new item of clothing at a very expensive shop!
- 7.8 Make the best use of your money. If you have money saved that is earning very low rates of return in a cash account, use these funds to reduce higher interest debt.
- 7.9 Get help. For some people, the problem of overspending is a psychological one. Controlling your spending can become as difficult to kick as alcohol, drugs, or gambling.
- 7.10 Consolidate your debt to simplify your payments. Suppose you have a revolving credit with a R20,000 limit, and the rate you pay is prime plus 1%. When you have a gap of, say, R10,000, use this to settle a debt that charges you more than prime plus 1%.



CHANGE YOUR ATTITUDE TOWARDS MONEY

Lastly, experience has taught me that it's our attitudes towards money that must change. Debt management is a psychological issue. If you are constantly in debt, get therapy to help yourself. All the debt management ideas in the world will not help if you need to spend money in order to feel better about yourself.

WHAT THIS E-BOOK HAS TOLD YOU

This e-book has described to you what our clients have learnt about debt management and budgetting. **If you recognise yourself in any of the stories, that's okay. The real problem will be if your friends recognise you in one of the stories.**

CONSIDER A FULL FINANCIAL COACHING EXPERIENCE

If this book has helped you, you may be ready to consider a Full Financial Coaching experience with Northwood Financial Services. If so, feel free contact our office immediately. We're here to help.

This book was not designed to replace your Financial Planner. Remember: always seek professional advice before making major financial decisions.