



# KARL DEETER

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## Make sure your cash is working

A KEY aspect to improving your finances is finding ways to make your money work for you.

So when we talk about an investment, it should have several qualities that give you a financial return periodically.

It will have a certain risk profile, which is the potential to grow (or shrink).

And in the long term, the plan will be to replace regular working income in part with investment income.

So what things are seen as investments?

For a start, the house you live in is NOT an investment, it's a necessity that you chose to buy rather than rent.

Your own home doesn't pay dividends and you can only realise its value if you sell it.

And if you do, you'll still have to shell out for new shelter.

That's why you must forget

the idea that your main home is a pension or investment.

Instead, deposit accounts should play a key role in your approach.

Sitting on some cash has a few advantages as it saves you from having to liquidate investments if you get a small financial shock.

It also means you have money on hand to jump at any good opportunities that come your way as well as ensuring that you earn a little interest.

While we work our way through several weeks of

financial rehab, it's important to remember a nest egg on deposit is fundamental to the plan.

Without some cash to fall back on, you're operating on a very thin layer and it can leave you exposed if you get a big, unexpected bill, or the opportunity to make a saving by paying a lump sum.

IT might be hard to believe if you're counting every cent, but an examination of most household budgets would reveal we're actually pouring money away.

I'm going to show that most people can make substantial savings in the smallest of places without feeling too much pain.

To find ways to save you'll need to look carefully at the Standard Financial Statement and spending diary I recommended last week.

(If you haven't already completed yours, you can find one at [advisors.ie/category/news-of-the-world/](http://advisors.ie/category/news-of-the-world/))

Don't worry, my aim isn't to turn you into a penny-pinching Scrooge who then rapidly loses all his mates, but if you want to improve your finances you'll have to make a few small sacrifices.

Here are a few examples:

Cigarettes cost about €8.30 a pack. If you have a 20-a-day habit, that'll cost you €2,990 a year — while also costing you your health.

Just consider, €2,990 is much more than a month's take-home pay for someone on the average industrial wage.

Cutting down by even a packet a week would save you €430. Cut down by a pack-and-a-half and you'd be up €650.

### REDUCTION

Another cost that's simple and a lot less painful to reduce is paying over the odds for insurance, which can add up to an extra €1,500 or more a year.

There are also massive savings available by switching energy provider or double-checking you're on the best package.

You could be looking at a saving of about €250 per year for an average household.

I've previously mentioned the quick-fix insulation idea of buying draft excluders for front and back doors and a few rolls of low-cost fibre attic insulation.

Together these could make a difference of approximately €200 a year because you'll be using less heat.

If you buy bottled water and spend about €5 a week on it, buying a water filter instead will save you around €175 a year.

The trick is to keep going through your spending list to find bills you can cut or little extras you can do without.

This rational approach to spending will encourage you to change your money habits.

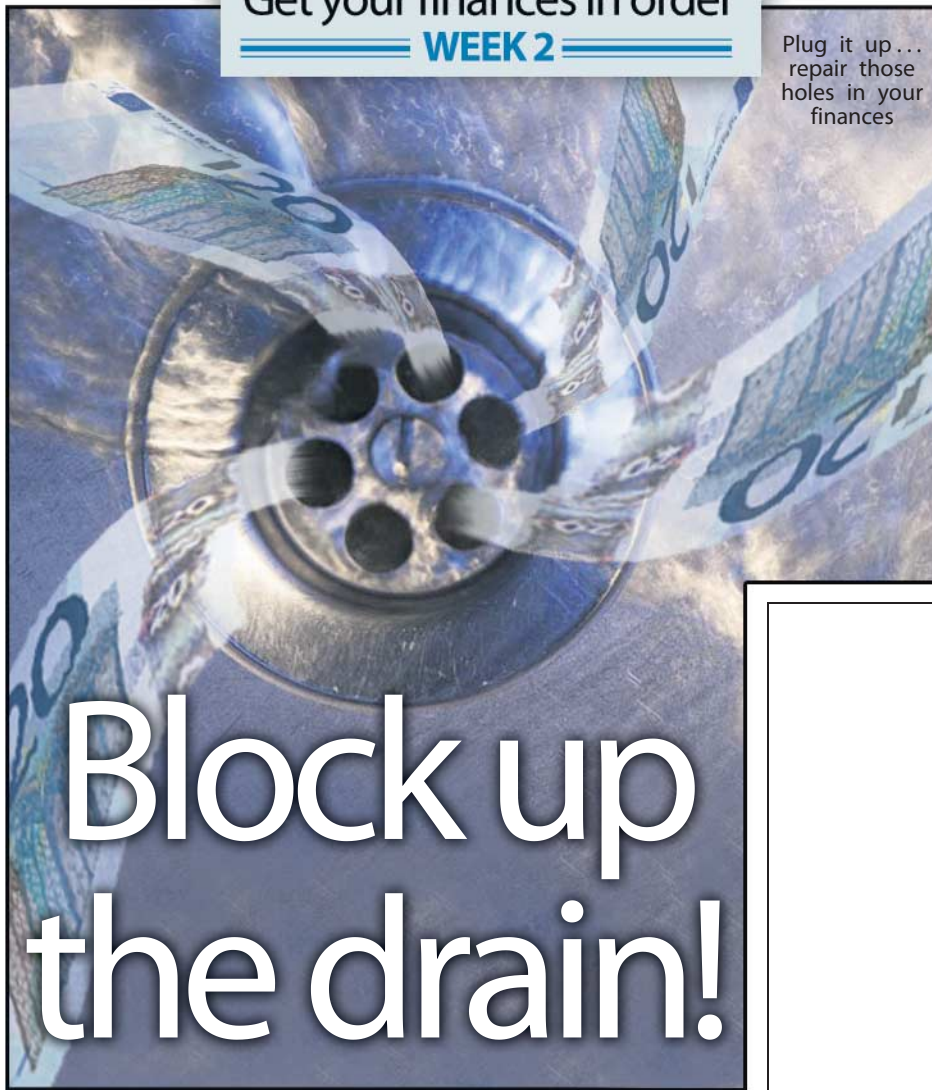
What I've found works best is to make any changes quickly and stay with them until they feel normal.

If you were to take the items above

## Get your finances in order

WEEK 2

Plug it up... repair those holes in your finances



# Block up the drain!

## STOP WASTING MONEY

— cutting smoking, getting better insurance and energy deals — you could be looking at having a lump sum of €27,277 after tax in five years' time.

Put that money into a savings account that makes four per cent (annual contributions being €5,000 and DIRT at 27pc) and imagine all of the things you could do with €27,000.

### TIDY

Non-smokers can save €3,000 which would add up to a tidy €16,400 after tax in year five.

I want to stress that it's important to consider quality of life.

I don't buy into financial equivalents of crash dieting where you have to go to a zero-spend.

As a professional advisor I'm telling you this: Don't do it, it makes you boring (I learned that the hard way).

Instead, look at everything you spend and then go online and look for deals, price comparisons or offers related to whatever areas of your standard financial statement you want to change.

Simply take one item at a time and see if you can find a better deal.

If so, make a note of the relevant cost versus what you're paying at the moment, and when you add it all up at the end you might be very surprised.

Next week we'll talk about day-to-day spending as your two weeks of keeping a thorough spending diary come to an end.

## == NEXT WEEK: What to do with all that extra money ==

## Q&A

Hang up and save a packet

**Q** I FILLED in the financial statement you mentioned last week and realised a lot of money goes on my phone, most of it on the line rental and the internet rather than on calls.

I've read about internet phones, so are they worth it?

**A** THERE are a few types of internet phone. You could use a service like Skype which runs on a computer. Or you could try a Voice Over Internet Protocol

phone (VOIP). These make calls over the web, but you don't have to be on a computer to use them.

To get the cost down, look at non-line rental solutions such as market leader UPC who can supply phone, broadband and TV packages.

My other suggestion would be to buy a mobile broadband dongle or wireless broadband package from a company such as Digiweb or Clearwire.