

Time to get your house in order



Noel Whittaker

Creating dedicated accounts with enough money to pay your bills can change your life.

CHRISTMAS is probably a dim memory now, and your focus has switched to making new year's resolutions.

Most likely they will be about losing weight and getting fitter after the excesses of the past couple of weeks, but a popular one is always "getting my finances in order".

Unfortunately, human nature being what it is, you need much more than good intentions to make major changes – you also need to put systems in place that will make things happen automatically.

You made the resolution, which proves you are motivated.

Today I will share a foolproof system that will change your life.

The key is to accept that becoming financially secure is not a matter of earning more money, but using the money you earn in a better way.

You would be amazed at the number of high-income earners who are in serious strife right now just because they spend more than they earn.

The only way to make the best use of your income is to draw up a money plan. Yes, a budget.

The irony is that you are probably already aware of the importance of having a budget to help you manage your money.

But you may not have got around to starting, or you may have made an effort, but found the paperwork was too difficult.

It's too late to change what has been, but you can ease the pain in the future by putting a

simple budget strategy in place.

I call it the "Claytons budget" – the budget you have when you aren't having a budget.

It's not complicated, anybody can do it, and it takes about an hour to set up.

Find a sheet of paper, or open an Excel spreadsheet, and write down your fixed outgoings such as house repayments, loan payments, school fees, rates, car registration, insurance and so on.

Don't forget to put something in there for regular savings too.

We all have this unique ability to pay our commitments and spend what's left over, so make sure saving is a major commitment, just like paying the rent or loan repayments.

Add up the figures and then divide the total by the number of times you get paid.

If it's fortnightly that will be 26; if it's weekly, 52.

Let's suppose it comes to \$52,000 a year and you are paid fortnightly.

One 26th of \$52,000 is \$2000. That is the amount you will need to set aside from each pay to cover the items listed.

So deposit that \$2000 into a separate bank account and use it for the sole purpose of paying the expenses you listed when you arrived at the original total.

The investment can come out by direct debit direct to the fund manager from the account each month.

Provided you don't fall into the temptation of dipping into the account for other purposes, you will now have all your fixed costs, as well as

your regular savings, under control.

Next estimate how much you spend a year on predictable expenses such as power, phone, gifts, newsagent and hairdressing.

Divide these by the number of paydays, and put the appropriate sum into a separate account as well.

Next figure out what you spend over Christmas and start making regular deposits into a Christmas account.

While you're at it, start a holiday account too.

Look what you have achieved.

You have now provided for all your regular expenses, as well as Christmas and holidays, and never again will you have to worry about paying those bills.

In fact you will look forward to the bills coming because you will have the money in the bank to pay for them.

If you now pay cash for all other consumer spending you will be on the right track even though you may have to eat mince for a few days if you get an unexpected costly emergency.

In any event you will certainly be ahead of most of the rest of the population – you will be living within your means and in control of your finances.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittakermacnaught.com.au.



Q We have about \$20,000 that is to be used to help pay for my three children's private school fees. We would like to invest this money while being able to use it at the start of the school year to pay fees up front. Would a term deposit be the best option for investing on a year by year basis? Or do you think buying shares would be a better option?

A Your best strategy depends on your timeframe. If you can take a five- to seven-year view you

should do well with shares. For a short term such as one to two years you are much better off to leave your money in the bank where there are no entry or exit fees and its value will not drop if the market falls.

Q I refer to your recent column about the tax on superannuation payouts. Why is money from superannuation taxable if paid to non-dependants while the same money, if in a bank account, is tax free to non-dependants? Surely, if the money was withdrawn

from the super fund tax free for the superannuant it should be tax free for her children upon her death.

A Withdrawals from superannuation are tax free once you reach 60 but the taxable component of withdrawals from super are hit with a 16.5 per cent tax if left to a non-dependant. This is why superannuation needs to be monitored and lump-sum withdrawals made if appropriate where it is considered that death is imminent.

Australian investors could lose on US properties

By RICHARD WEBB

AUSTRALIAN property investors risk losing hundreds of millions after snapping up thousands of US housing bargains at forced-sale prices, experts have warned.

Emboldened by the soaring local dollar, Australians invested about \$600 million on US residential property last year, according to the Washington-based National Association of Realtors, as overseas buying of US housing doubled.

But consumer advocate Neil Jenman predicts that thousands of Australians will lose their money after unwittingly buying undesirable property.

"It's going to be a calamity, for sure and certain," he says.

Many investors are being lured by agents promising unrealistically high rental returns.

Investment experts say swathes of properties on offer are in bad neighbourhoods where it would be almost impossible to get a tenant, and even harder to get your money back if you decide to sell up.

In the past six months, Australian companies that help investors buy US residential property have reported a big surge in interest. Vincent Selleck of Byron Bay-based buyer's agent 888 US Real Estate says his business has grown fivefold since June.

The robust local dollar means Australians' purchasing power in the US hasn't been this strong since the Aussie floated in 1983.

At the same time, bank-forced house sales mean the US residential property market has been flooded with millions of homes at bargain-basement prices.

US property spruikers are promising net rental returns of up to 20 per cent on properties that can be picked up cheaply.

Mr Jenman says the situation is creating a window of opportunity for investors who are prepared to do the research, travel to the US and make suitable purchases.

For everyone else, it's a recipe for potential disaster.

"Some of the properties being offered are in ghettos and you need a bulletproof vest and an armoured Humvee to collect the rent in there," Mr Jenman says.

"Tenants also have more rights in the US and if they don't clear the garbage up, it can be the landlord who gets fined – there are a lot more legal issues."

Some Australians are already finding that after they buy their US property "bargain" and spend more money to renovate it to an acceptable standard, they can't find a tenant. Vandals and opportunists often strip renovated properties of their fittings if they remain unoccupied.

Chris Gray, chief executive of property portfolio manager Empire, said Australians had limited understanding of foreign property markets.

"Buying a house for \$40,000 might seem like a bargain but how do you

know that the house isn't really worth \$20,000?" he said.

"It's a bit like pyramid selling where it goes well only until it goes wrong, and then virtually everyone loses apart from a couple of people at the very top."

Paul Moran of Paul Moran Financial Planning says investors need to be very wary of what is being offered. He has clients who are making property investments in the US work and he is not against it for the right investor.

"But in each case, the client had good knowledge of the US residential market, went to the US and inspected the property and bought it themselves – and they are getting good returns," he says.

The Age