Detox Your Finances

The Ultimate Book of Money Matters for Women

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Introduction

I'm pretty average really. I'm about average height and I think with average looks. I'm an average age (36), my family are neither rich, nor very poor and I've always earned around the average wage, which in case you're wondering is currently about £30,000 for full-time workers in the UK. Yet, one thing I do have that seems to be in rather short supply these days is financial independence. I can afford to live where I want, I don't worry about the monthly bills or my pension, I have no debts and quite a few assets and I can afford not to work for at least a year, possibly several. If something big were to happen tomorrow, like a large, unexpected bill or a death in the family that meant I had to take an international flight, it wouldn't be a problem. I could cover that expense without it affecting my life or my stress levels. Can you do that?

The reason I decided to write this book is because I realised that a lot of my friends are not in this position, but would like to be. Instead, they are constantly worried about how they are going to stretch their next month's pay to cover all the bills. Even friends earning high salaries feel extremely nervous at the idea of making an investment or even approaching someone in finance. They have no idea what to do about pensions and they worry about their credit card bills and their future.

I was a financial journalist for 12 years, but my financial education started a long time before that. It began when I was 17 and I read a book specifically about women and money. I don't have that book anymore, but I've certainly remembered many of the lessons it taught me. I hope this book will open your eyes in the same way that book helped me to see how, just by following a few simple rules in life, you can get on top of your finances and start building wealth.

Aims of this book

The aim of this book is to improve your relationship with money so that you:

* Are less stressed.
* Improve the quality of your life.
* Feel in control of your finances.
* Stop fighting about money with your partner.
* Deal more effectively with your kids on money issues.
* Negotiate better.
* Recognise the psychological blocks that are preventing you from achieving your financial goals.
* Understand the key principles of building wealth.
* Know how to deal with people working in finance.

For many of us, our financial lives have become cluttered and inefficient. Like eating high-fat food or accumulating too much household junk, we have got into the bad habit of using high-interest rate credit cards and spending money in shops we can little afford. Even where we have built up savings or investments, they are often not working as efficiently as they should, wallowing in the land of weak returns and excessive fees.

It's time to clear out your purse, get back into the black, dust off those old share certificates and insurance forms, rid your life of that whiny stockbroker who keeps losing you money and commence a financial detox!

The first step is to get your budget in order and clear those debts. Once you are debt-free and have a sensible budget and savings plan, you can move on from a firm base. We'll also take a look at any negative thinking patterns that may be holding you back.

Then I will explain and walk you through the different types of investment products so you know what's out there, what the risks and rewards are, and what is best for you.

Later on, we'll look at developing your own portfolio, one that works as efficiently as possible and which you tailor-make so that your own unique requirements are met.

We'll also take a look at how you can improve your earnings at work, in your investment portfolio, and what you should reasonably expect from a financial adviser or stockbroker.

I encourage you to use this book as an opportunity to take a long, hard look at all aspects of your financial life. That way, you can decide what to polish up and revitalise, and what needs to be tossed. Whatever, or whoever, is cluttering up your finances, now is the time to take action. With the current state of the economy, there's no longer room for these unhealthy habits. It's time to detox your finances!

Section One – Money and the Mind

In the first section of this book I deal with the emotional or psychological aspects of our relationship with money: how our upbringing, our personal views and our habits affect the way we treat our finances. This has a direct impact on how much money we have, the problems we get into with it and even the way we fight about it with our partners or the money lessons we pass on to our children.

Section Two – Taking Control

The second section of this book is more concerned with the practical aspects of saving and investing. This is the ‘how to’ part of the book. However, it’s important not to skip over the first section, because I firmly believe that, unless you understand yourself and your attitudes to money very well, you are likely to make saving or investment mistakes. Even if you decide to delegate your investment decisions to a financial adviser, one of the first things they will try to determine is how much risk you are comfortable with. If you haven’t even thought about your views on money, you won’t know where to start when it comes to investing.

EXTRACT FROM SECTION TWO: TAKING CONTROL
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FUNDS

WHAT IS A FUND?

Funds are a bit like investment clubs. They allow different investors to pool their money together and then hire someone to manage it full-time. With a relatively small amount of money, each individual investor has access to a ready-made portfolio, which may hold hundreds of stocks, bonds, property or other investments.

This way, investors don't have to be rich to start investing, they can access investments that would otherwise have been out of reach and they take less risk because their money is diversified across a number of different investments.

The first fund in Britain was created in 1868 by Foreign & Colonial (a company still in operation today). It was created so that small British investors could profit from exotic investments in the colonies. At the time the return on UK government bonds was quite low (between 3.5% to 4.5%) so the smart men at

Foreign & Colonial decided to create a fund (or ‘trust’ as it was called then) to allow ordinary British investors access to US, Australian, European and even South American government bonds.

Why funds are good for women

For the women in my investment club, and for many other women, funds make an ideal investment. This is because they allow you to access the stock market in a less scary way. Many of the women in my club feel quite intimidated by the idea of buying individual stocks which, we are led to believe, require lots of research, hours of reading the *Financial Times* and analysing complicated ratios. In contrast, a fund allows you to buy a ready-made investment portfolio for much less than it would cost to build one up yourself. This means you are instantly diversified, which reduces your risk – and women are wary of taking risks with their money.

The next question that arises, of course, is which fund? After all, these days buying a fund has become a lot more complicated than it used to be, simply because there are so many on offer. Should you buy something invested in your home country, or something more exotic like an investment in emerging markets? And what if you end up with a fund manager who isn’t any good and actually loses money?

I have been writing about investment funds for most of my career and have also been invested in them for many years. In fact, the second investment I ever made was into a general fund, which held a combination of stocks, bonds and cash and performed quite nicely over the years. As a result, funds have become my speciality, but this has meant I’ve often seen the bad side of the industry, as well as the good. Fortunately, I still believe that funds make an excellent investment for many women as long as you follow a few simple rules:

* Pay as little in fees as possible.
* Buy a simple product like a tracker, index fund or ETF – these charge low fees.
* Make sure you understand what the fund is invested in.
* If you don't want to take too much risk, don't buy a really specialised fund; rather, opt for one that's more general.

Pay as little in fees as possible

The Effect of High Fees

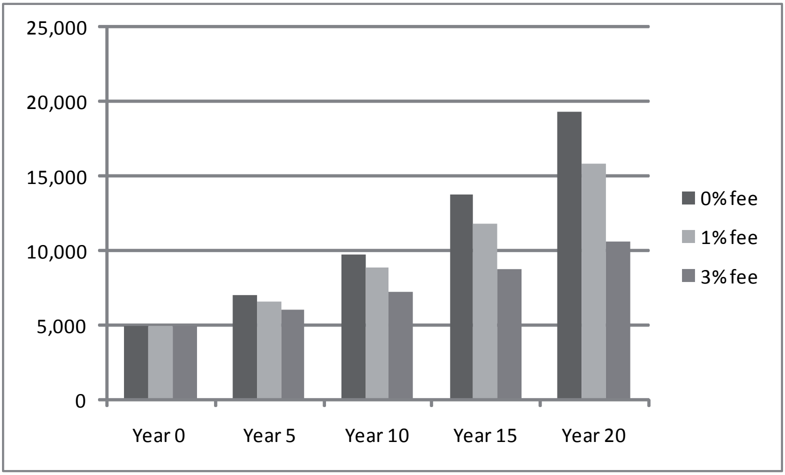
Let's say you have invested £5,000 in a fund which grows in value by 7% a year on average. Assuming you don't pay any fees, after 20 years that investment should have grown to £19,348.

However, if the total fees you are paying are just 1% a year, your performance after 20 years will be reduced to £15,839. There is a very useful calculator on **www.thisismoney.co.uk** which you can use to help you work out the effect of fees on your own investments:

Investment of £5000

	0% fee	**1% fee**	**3% fee**
Year 0	£5,000	£5,000	£5,000
Year 5	£7,012	£6,670	£6,034
Year 10	£9,835	£8,899	£7,284
Year 15	£13,795	£11,872	£8,791
Year 20	£19,348	£15,839	£10,610

Source of calculator: www.thisismoney.co.uk



You can see how an increase of just 1% in fees really eats into your profits and why it's important to pay attention to fee levels. If a fund is not performing very well (because the fund manager hired isn't any good) *and* you are paying high fees, you'll quickly lose money.

Most traditional funds that use a fund manager – hired to choose the stocks or other investments in the portfolio – charge a lot more than 1%.

According to Morningstar, the median level of annual managment charges for all UK funds was 1.5 % in 2008. Around 57% of UK funds charged this amount whereas US funds only charged 0.67% per year. Stock market funds tend to be the most expensive, charging around 1.6% on average, and those based in Luxembourg have the highest prices.

If you were paying total yearly fees of 3% on an investment of £5,000, your performance after 20 years would be dragged down to just £10,610. So, £8,738 would be taken out in charges over the period.

It gets worse. Often, when you buy a fund you are asked to pay an initial, or upfront fee as well as annual charges. Some funds that you buy through a discount fund broker will cut this upfront fee down to zero, but others, particularly popular funds with good performance, won't. So, you could end up paying between 3-6% of the money you invest.

That means that, of your initial £5,000 investment, on average less than £4,750 will be put to work for you because of upfront charges. That's before you even start to look at the effect of the annual charges.

Now, you might be thinking that perhaps it doesn't matter if the fees on a fund are high if it's a really great fund that has excellent performance. Sure, that's reasonable. After all, if a fund is giving you a return of 15% a year, and charging 3% in fees per year, you still end up with a healthy 12% return.

But to get a fund which provides such a high return, you usually need to take a bit more risk, and most of us start off with a lower-risk fund where the returns are less spectacular. The important thing to remember is that, over the long term, even just a small change in your return of 1% can make a big difference.

Buy a Simple Tracker or Index Fund

Tracker Funds

Fortunately, there are funds available that do have very low fees and quite reliable performance – index tracker funds. These are funds which are designed to track (or follow) the performance of a stock market index such as the FTSE 100.

An index is the average price of a group of shares. When you hear people say that the FTSE 100 has risen 20 points today, they mean that the average value of all the 100 largest stocks in Britain have risen by 20 points. Of course, some may have fallen and others done better than this but the overall trend was positive. The index's name tells you how many companies are being included – the FTSE 250 or the S&P 500 (in the US) have a much larger range of shares in their group.

Instead of having to choose which British companies are the best investments, you simply buy a portfolio of 100 of the country's largest and best-known companies.

Websites for Tracker Funds:

* **iShares.co.uk**
* **www.morningstar.co.uk**
* **www.trustnet.com**

If it has been created well, a tracker fund should give you almost exactly the same performance of the index it is following. If the UK stock market rises 20% one year and falls 5% the next, then that's exactly what your fund should do. You won't have to worry about your fund manager having a bad year or making a mistake and getting it wrong, but you also won't have the chance to 'beat the market'.

If you choose a fund that tracks the FTSE 100, you will have a ready-made portfolio with companies like HSBC, Vodafone and BP. The fund either buys shares in all of the stocks in the index, or buys enough of a sample so that its performance is the same as the performance of the index. So, if a company gets into trouble, and it shrinks and is no longer one of Britain's most valuable companies then it is sold.

I like tracker funds because they were designed to allow the little guys to get into investing, beat the dismal returns on their bank account, and get a taste for the market. They do exactly what they say they are going to do – track the market – which reduces certain risks to you as an investor.