Spendsmart

How to tackle debt, know your money and make your cash go further

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and Benjamin Fry

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Extract

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Introduction

More than ever before, making the right money choices is paramount.

If you are badly in debt, we know what a difficult place that is to be; if you want help to keep better tabs on where you spend your money then the exercises within this book will give you honest answers; if you find that others have a better lifestyle than you, yet they are on the same salary, we can help you to become more aware of making the right spending choices; and if you want to understand what drives you to overspend in the first place, be prepared to uncover some interesting psychological insights.

The Spendsmart experts

Jay Hunt

I got into debt myself in my twenties, so I know what an effort it can be to change your spending patterns and dig yourself out of that hole. I have worked with a lot of overspenders who needed to get out of the red fast, and that's why my practical, tried-and-tested approach is full of hands-on advice for any financial situation. So whether you are struggling with student debt, remortgaged up to the hilt, over your limit on credit cards or feeling squeezed by rising living costs and clueless as to where your salary actually goes every month, my insider tips are guaranteed to work.

In this book you'll find spending guides that reveal how you can get the most from your cash, creative ideas to help you stick to your budget, as well as the Spendsmart Directory at the end, so you need never waste a penny again.

Benjamin Fry

I provide psychological expertise coupled with no-nonsense insight. My Spendsmart advice looks at how you can automatically stop spending simply by understanding your own spending personality, and my practical guides are there to help you through each of the five Spendsmart steps.

Overspenders are people who are using destructive patterns of behaviour to communicate something. The big questions are what, and to whom? To help answer these, I have included in-depth case studies throughout the book, illustrating how I have transformed the minds of real-life debtors. As you work through the plan I will help *you* to find your own personal answers, and in so doing, will provide you with a whole new strategy for getting underneath the cause of your self-destructive spending.

Our experience

We have pooled our joint experience from working with private clients and those we have helped on Spendaholics, our hit BBC3 show, to formulate a down-to-earth approach that works. Our methods have been proven beyond a doubt to be a huge success with debt-ridden and insolvent individuals from all walks of life. Our extensive experience makes us ideally placed to put you firmly back on your financial feet, stop any overspending, help you develop an understanding of your own shopping psyche, free you from compulsive shopping habits and get you back on track.

Without lecturing, patronising or insisting on a lifetime of self-denial, Spendsmart is both empathetic and effective, allowing you to make the most of every penny in your pocket. Use it as your money handbook, an invaluable tool you can take to your bank manager to back you up, a manual on how not to get ripped off, or a credit crunch survival guide. It is designed to be a handbook you can refer to again and again for any, or all, of your money matters.

How to do Spendsmart

Spendsmart is a simple five-step plan. The steps are packed with practical advice and sound psychological pointers guaranteed to stop your overspending, explore issues around why you spend the way you do and provide you with a set of solutions to follow, whatever your personal circumstances. Whether you are looking for tips on how to survive a global economic crisis, a better understanding of your money mind, or a need to make your cash go further, we are here to help you.

Each chapter should be closely followed, and, with the exception of Step Three (a seven-day plan), there are no restrictions as to how long each step should take you to complete. Everyone is different and some steps may take you longer than others. However, the important thing is that you do them in the time frame that feels right for you. The only rule is that you do the steps in order. After all, there is not much point in jumping to Step Four in which you need to put a budget together if you have not bothered to learn more about your spending habits in the previous three steps. It just won't work!

In addition, at the end of the book you will find the Spendsmart Directory. This provides links and contacts that correspond to each of the five steps in the book, so that you have the most up-to-date information and resources at your fingertips. Refer to it and use it as you go along, to help you on your journey to becoming Spendsmart.

The Spendsmart five

Step One – Spendsmart reality

This is where we work out what has actually gone wrong with your spending and examine where you are right now and how you got to this point. We also take a reality check on your emotional relationship with money, help you deal with your money realities and provide a comprehensive set of solutions for preventing your debts and money issues from getting any worse.

Step Two – Spendsmart preparation

The key to money success is in the planning and in finding the motivation and courage this requires. This is where we get you to clear the decks, sort out your living space and start to study in detail how your bad spending habits can be reversed so that you are ready to do the Spendsmart detox in a calm and positive way that will ensure success.

Step Three – Spendsmart detox

This seven-day plan is designed to get you to focus on where you really spend and understand the emotions you are masking by doing so. It will reveal how you can live on less than you think, examine what you miss and what you don't, show

how you respond to living on a budget and expose your money moods. What you learn about yourself and your spending habits during your detox will ensure you stay on track throughout the rest of the Spendsmart process. You will be able to create new personal spending rules, find substitutes for spending and be aware of areas of temptation for the future – shopping knowledge is power.

Step Four – Spendsmart budget

This is where all your hard work pays off. Using all the knowledge you have gained about yourself in the previous steps we take you through a process of setting up a budget that you can stick to, based on your own choices and personal situation. By now you will recognise where your emotional triggers are and be equipped to deal with them.

Step Five – Spendsmart life

There will always be times in life when spending can get out of control, and times when it's important to be able to make the right money choices. Step Five is a brilliant in-the-know chapter designed to keep your money matters simple and your bank balance thriving, no matter what your situation. From your wardrobe and your home, through to birthdays, holidays and Christmas, it covers anything you might need to spend on, showing you where and how to make savings. Used in conjunction with the Directory at the end of the book, it is the perfect guide to life for the new Spendsmart you!

Will Spendsmart work for you?

Being open-minded about the fact that spending is probably not the whole story, along with a willingness to look at your life as a whole are intrinsic to our plan. In our experience, the more you are willing to explore your life holistically rather than looking at your spending issues in isolation, the more likely you are to succeed. You want to triumph over your money problems by understanding their roots and we want to motivate you to change and to be strong enough to turn any adjustments into permanent lifestyle changes. This will allow you to take on board all the practical tips and tricks we offer so that you can get a grip on your issues and in the case of bad debts, stop any further actions.

If you want to know if Spendsmart can help you out just ask yourself:

- How do you spend your money today?
- Does it make you happy?
- Do you feel miserable even though you know you live in an affluent society?
- Do you feel that the more you earn the more things you need to buy?
- Do you struggle to understand what is behind your urge to spend?
- Do you worry about your ability to live on less?

It does not matter how you got into financial trouble or what you spend your money on, the Spendsmart plan is for everyone. All of us spend in different ways, on different things and in massively different amounts. Ultimately, more of us than ever are getting into debt younger, so we know that help is needed.

The Spendsmart guarantee

Our promise to you is that by following the Spendsmart plan with us you will:

- be unafraid when opening bills and statements
- feel OK about checking your bank balance
- be in control of your money when you hit the high street
- know about how you can pay less for more
- formulate solid plans to get you through a credit crunch
- be able to afford the things you really want
- no longer be tempted to buy things you don't need
- be happier while spending less
- be free from that spending guilt the second after you make a purchase
- rethink relationships that are costing you dear
- feel empowered and free from spending shame
- be able to create a home free from useless clutter
- be able to identify the roots of your spending behaviour
- understand the emotional pitfalls that undermine smart spending.

Getting started

We already know that you want to sort out your money problems, so now let's get on with it. We will be with you every step of the way on your Spendsmart journey, offering support, sharing with you the experiences of others and providing practical tips. Whether your spending weakness is clothes, your kids or your car, we have seen it all before and are old hands at addressing your thrill at the till – a tipping point for many people to take back control.

Perhaps most importantly of all, however, Spendsmart will empower you, giving you the courage to change for ever.

STEP 1 ONE

Spendsmart Reality

Step One of Spendsmart is called ‘reality’ and is exactly what it says. Looking at your spending reality is crucial to the success of the Spendsmart plan as it helps you to understand your own situation. We will work with you to help you to understand the reasons why you have been an overspender, come to terms with the reality of how much you owe today, and put in place some immediate solutions to prevent your problems from getting any worse.

Where are you at?

Before we work out where you are at with your money it’s worth taking a look at how you got there.

For some, a credit card spree, a massive mortgage or a life-long passion for cars might be the obvious reason for ending up in debt, but for others it is not that simple. Debt can creep up on you over a number of years and it is vital that we explore the causes that are relevant to your particular situation.

Spendsmart reality is going to centre on:

- You and only you
- Your money
- Your decisions
- Your feelings.

So take a minute and consider the following list of questions:

- Do you avoid opening your bank statements and credit card bills?
- Do you worry endlessly about money?
- Do you owe friends or family money?
- Do you lie to your friends and family about your debts?
- Do you feel out of control with your spending?
- Do you mentally spend next month's salary before you've even got it?
- Do you worry that you have no savings?
- Do you owe money on store cards and credit cards with high interest rates?
- Do you think that understanding money matters is just too boring?
- Do you worry that an unexpected bill like a house or car repair bill could mean you go under?
- Do you think that you can run up huge debts now and pay them off when you are older?
- Do you feel that although you have no money, you deserve a treat?
- Do you think that something or someone else is going to come along and sort out your money issues for you?
- Have you missed monthly payments on your mortgage, rent or credit cards?
- Can you remember when your monthly salary last got you through a whole month?

- Do you think it's pointless to even try to sort out your money and debts?
- Do you ever think that if it all gets too much you will just declare yourself a bankrupt and write your debts off?

If the answer to *any* of the above questions is 'Yes', chances are you are very much in need of some Spendsmart advice.

The overspending syndrome

Shopping has become a favourite hobby for many of us, and shopping centres the world over are filled with classic overspenders.

We buy things when we know we shouldn't: we spend money on cool clothes for our children that they will inevitably ruin in no time, we spend way too much on designer jeans for ourselves that don't even really fit and we buy flash cars on hire-purchase deals when we know we can't afford to run them. Somehow, though, we always manage to convince ourselves that our spending is worth it, in the hope that *this* time we have bought the ultimate magic-fix item – one that makes us happy, that means we never want to spend on anything again, one that we never get sick of and that totally changes our life for the better.

But guess what? That magic-fix item simply does not exist. You might feel for five minutes that this time you have really found it, but somehow it never completes your life, so off you go again on yet another fruitless search, guaranteed to fail, and each time costing you more and more and more. If this sounds familiar, don't be alarmed; we have heard it all before from people who thought they would never stop spending but have now turned their lives around.

Spending is not about simple economics. Why we overspend on some items and not others can be hard to work out. The old-fashioned ideal of going out to buy something with just enough money in our pockets like our parents did is just not what happens any more. Today, it's not only the basics that matter but all the other things we *think* we need – exfoliators, iPod accessories, digital TV, Internet connections, organic blueberries, dry leg moisturisers, designer buggies, new sunglasses, etc.

If you have been an overspender you will need to identify and break your compulsive spending patterns. If you recognise any of the feelings described below when you are out shopping then we have work to do and we will be looking at ways to do it later in this chapter.

Recognising a compulsive spending pattern

The shopping scenario outlined here demonstrates clearly the various stages of classic overspending behaviour.

1. Your brain engages

You spot the handbag, speaker system, dining table you can't live without and start to imagine that item in your life – how fantastic it would be, how it would make you feel, how it would solve all your problems. You just have to have that magical item.

2. Justification

Your brain supplies you with all the reasons why you *should* have this item – you have worked so hard, you had a big row with your partner this morning, you feel unappreciated at work, you feel fat or simply that you deserve a treat and this is it.

3. Adrenalin starts pumping

This is when you feel the kick, the dilemma. Should I buy it? It's over my budget. Which card do I have credit on? Can I really purchase something so expensive? I can't believe I am actually going to do this . . .

4. Denial

All thoughts of your bank balance go out of your head; you know you are going to make this purchase and you don't want to feel bad.

5. Purchase

You hand over the card (rarely are these purchases made with cash), you punch in your PIN, your heart rate starts to slow and by the time you are given the bag or receipt for the goods, your spending hit is over.

6. Remorse

You leave the shop and it is now that you feel really bad. You remember how big your overdraft is and are aware of having broken a promise to yourself to not spend. You start to panic and think that maybe you should take the item back when you realise that you don't even know the store's returns policy. You feel ashamed and may well decide to hide the item when you get home; you just can't cope with dealing with it yet.

What sort of overspender are you?

It is really important for you to look at the areas in which you have been an overspender.

If you are overspending on your rent or mortgage you may have to consider renting out a room or moving to somewhere you can afford to run while you repay your debts. If it is supermarket bills, you might need to think about a new way of eating and shopping that will allow you to stay within budget. If all your money is going on your utilities bills, have you done everything you can to insulate your house? Does your money go on entertaining or socialising? If so, how can you still have fun and money in your pocket?

Whatever your overspending habits have been, you need to start identifying them right now in this Spendmsart reality step before we can move on to doing something about them.

Have you been overspending too soon?

Think about what happens when you get your pay cheque. Do you have a list of things that it is going to pay for before it even hits your account? Overspenders often find that they only have a few days of the month in the black when their salary gets paid in – debts, credit card bills and all the new things they want to buy can mean their account is cleared out in a number of days.

If you can't remember a time when your salary actually lasted a whole month and find that every month you end up owing more than the month before without a clue as to where the money has gone, you need to go through your statements and work out the areas you overspend in.

Have you been overspending abroad?

You can't understand the exchange rate so you just blank it out and shop; after all, holidays are a time for treats, great wine, dinners out and anything else you fancy. You have bills for shopping in duty free. You feel free from debt worries in a new place and end up buying things you would never even look at if you were at home . . .

Think about how long it will take you to pay off all these holiday debts and consider giving yourself a holiday budget in pounds – you just need to do one exchange calculation and know that is your total for the holiday. Then take that amount with you in traveller's cheques and know that when it has gone, that is it until you get home. Also, make yourself a mini exchange rate card listing different amounts converted into the currency you will be using and keep it in your wallet for easy reference.

Have you been overspending on others?

Does having a few drinks make you overgenerous? Are you the one everyone loves to go out drinking with, always the first to get a round in and often making a grand gesture of footing the bill to show off? Are you the one who turns up to a birthday party with a present that makes others gasp in admiration? Do you love taking your children shopping or treating your mum?

No one would guess you had money problems the way you shop. You like to do it with a flourish and spending on others gives you real pleasure. Generosity is a great quality but you should think about doing something for your friends and family that does not involve money. Try giving of your time, for example, rather than giving in ways that you cannot sustain.

Have you been overspending at the sales?

Are you the sort of person who cannot resist a bargain? The minute you see a sale sign you blank out anything else at all. Your home and your wardrobe are full of great sale bargains that are somehow never as good as they were in the shop once you get them through your own front door.

Sales mean that things that are normally out of your price range are suddenly within it, opening up a whole new world to you. But unless you can pay off the credit card bill at the end of the month those items will end up costing you more than they would have done at full price. Do remember that sales are full of things the shops can't get rid of, so although it's a good opportunity to buy a new fridge or vacuum cleaner, it's not such a good opportunity to buy things for your wardrobe, unless you are replacing an item that is worn out.

Have you been overspending on quantity not quality?

Are you a discount-store junkie? Are you only really happy if you can pile it all up at the till and go home with dozens of items for very little? Do you boast to your friends about how much you've bought and what a huge bargain it was, yet somehow never seem to have anything you really treasure?

What you are doing is convincing yourself that the items you've bought were so cheap that it does not matter. But it does. The adrenalin rush that these not-so-small-but-often shopping trips deliver is not enough to keep you away from the shops for long, so you go back, spend more and keep going round in circles. You are just shopping for shopping's sake, to get a quick fix. Beware of your addiction stores and avoid them. Think about having fewer quality items that you cherish, rather than lots of cheaper items that you tire of fast.

Have you been overspending on impulse buys?

Do you leave the office to get some lunch and come back with a new pair of shoes, five CDs or a couple of books? This is an automatic see-and-spend pattern which can be a hard habit to break. If you find yourself fidgeting and feeling impatient in the queue to pay, you're probably desperate to spend and move on to the next fix, which is a good sign you've been overspending on impulse buys.

Try going out with just enough cash for that sandwich, or only going into a shop when you have a list of things that you need – shampoo, dog food, etc. It may be a boring list, but getting a buzz from buying lots of small things you don't need is a real waste of your money; at least this way you are spending on items you actually need.

Have you been overspending to fill emotional needs?

Do you hit the shops as a way to escape? Does a row with your partner, the kids driving you mad or your boss refusing you a promotion send you into a frenzy of comfort buying? Spending when you are in this mood is never going to work and you will only ever be punishing yourself. The purchases you make will end up reminding you of the situation that you were trying to blank out in the first place, so that you don't want to use or wear them in any case.

You need to find alternative responses to these feelings so that you don't end up using shopping as a form of therapy.

Benjamin – understanding your own spending history

As we have seen, overspending is not just about money. Clearly, it is the product of a relationship between a person and his or her money. Yet this relationship aspect of personal finances is often overlooked because so many of the details that make up a financial overview tend to be practical and impersonal. But at the heart of every overspent situation is an overspender – a person, not just a bank balance. So it's important to spend time considering not just *what* you spend, but *why* you spend.

If you are an overspender you spend more than you should one decision at a time, and it is the financial consequence of a series of these decisions that leads to trouble. So to get to the root of the problem we need to look at what each of these decisions represents, and why each one is taken.

In our experience of working with overspenders we have seen an alarming array of spending choices, as varied as the people who make them. However, they all seem to share one core issue: people choosing to spend money that they should not be spending, and somehow getting through that spending moment by short-circuiting the part of their mind that knows it is a bad idea.

So what's going on? We know that we need to look both ways when crossing the road. Our brains will not allow us to walk out into a busy road without looking, or only looking one way. Why then are we so reckless and self-destructive with our money? The answer seems to lie in an intricate concept we formulate of what money really means to us and what it represents.