The Bottom Line

The real truth of the final reckoning

When it comes to money, there is always a bottom line. The ones who really know about this are in "The Profession" - accountants, investment consultants, financial advisers, etc. They understand the intricacies, those confusing details that support and justify whatever comes after. If you have no idea what I'm talking about, you are in good company. Most of us tend to go blank once the experts start explaining why a particular deal or offer is so beneficial, and that's when they pile on more of the same. Eventually we are totally bewildered and either accept the advice without further questions, or beat a hasty retreat vowing to stuff our money back in the mattress and leave it there. These are the reasons we miss out on the best buys, or get sucked into long-term arrangements that keep us in our place - poor and misguided. But if you convert it all to the simple truth, it isn't so hard to understand.

Even the most complex of arithmetical equations boil down to a single figure, the one which all the others finally lead to; and when that figure is what you are left with once the dust settles, everyone understands the difference between zero and plus. In finance, however, there can be another result - the minus factor - and that is definitely the one we need to avoid. It can be done. You just have to make sure you don't get swayed by the mumbo-jumbo and discover the bottom line. That's the result after the final reckoning, what's in your pocket at the end of the day - extra cash, or a big hole. Let me give you an example.

The other day we received a credit-card statement. Nothing unusual in that, nor in the total amount owing which, on checking, accurately reflected our purchases over the previous month. As we always pay before the due date, interest wasn't a consideration either. There was, however, something different - a few lines of advice. Someone at the bank had used the final figure of our account to extrapolate the consequences of only re-paying the minimum amount, rather than clearing the lot. It read like this:

> **"Minimum Repayment Warning: If you make only the minimum payment each month, you will pay more interest and it will take longer to pay off your balance..."**

Had we elected to pay only what was necessary, the goods and services we'd bought in that single month wouldn't have been paid off for **13 years** and would have cost us **over 3 times** their original value! Now, bear in mind this was just what we owed for thirty days. Imagine how much more it would have been for unpaid dues accumulated over a year. That's exactly how it is for many people, whether out of choice or necessity, and it's a financial killer. I wonder who would even have a credit card if they were made aware of the true costs in the beginning? We know because our bank has just told us, and good on them for being so up-front. There is, however, another way of reducing costs that they didn't mention, that being the fact that they calculate interest on a daily basis. So, each item you card is incurring interest every single day that amount is owed, and this is on top of any balance carried forward from the previous month. If you are really serious about reducing your credit-card debt, pay as much as you can, as soon as you can - once a week, once a fortnight, or whenever your income allows. Leave paying an outstanding balance until the last minute and you are simply adding to the bank's profits instead of reducing your own liabilities.

Plastic cards, of course, aren't the only form of credit, and when the cost of an item under consideration stretches into hundreds, sometimes thousands of dollars, loan companies and banks may be the only salvation. Unfortunately, they won't help you out for nothing and they can end up owning you - body and soul! Here's where the bottom line can hurt big time if it comes as a late surprise. When you are seeking advice on this kind of loan, insist on 'plain' for everything - talking, figures and facts.

You need to know:

How is the interest calculated - daily, weekly, monthly?
How much will the re-payments be each month?
How much will be saved by making interim payments?
What is the total cost if the loan continues for the life of the agreed term?
What penalties will be incurred if payments are late?
What, if any, is the penalty fee for paying out the loan early?

This final question is particularly important when large amounts of money are borrowed (eg mortgages and business loans) because, at some time in the future it may prove advantageous to re-finance with another company, and you want to avoid the added expense of payout and transfer fees. Having put your advisers on the spot, be guided by their reactions. If they won't give you a straight answer, ask the same questions again, and again if necessary. Three strikes, and you're out of there! And if they claim not to know the answers, don't even give them a second chance - they are either being deceitful, or are mathematical incompetents. Just remember - the deal has to be fair for both parties, not just weighted in their favour.

Perhaps an even greater mystery than loans is the way retirement funds work. Because this investment is one which can extend over decades, we tend not to think about it too much in our younger years; but we should. Handing over regular sums of money and neglecting to check on its progress once in a while isn't all that smart. It only takes a bit of mismanagement, or an event like the global financial crisis to come along, and that retirement nest-egg can diminish significantly. The GFC did happen, of course, and there's nothing we as individuals could do about moneys already lost; but there are ways to ensure current and future investments don't get whittled away. The fund managers will tell you: "Leave it with us. Be patient and the good times will come again." That's what we were told, but we refused to believe in flying pigs!

Our solution was quite simple - get personally involved. As soon as we realised our superannuation was taking a dive, we looked at the available options. All of our retirement money was invested in a balanced fund which, we were originally advised, was reasonably safe and gave a good return. It did, until the GFC. Then it went into negative mode. By that, I mean that instead of interest being added to the principle, it was actually being deducted from it. Had we left it in the hands of the experts, we wouldn't have been able to retire at all. So, initially we transferred what remained to a cash fund which was supposedly the safest of the lot. The interest rate was much lower, but it was very unlikely to go negative. Murphy's Law struck again and our money continued to decrease. That was it - we'd had enough! As quickly as possible, we withdrew everything and used it to set up our own retirement saver account with the bank. Once again, it didn't pay a high rate, but the interest would never go lower than zero. The worst that could happen was that our cash wouldn't grow - but we wouldn't lose any of it either. Had we wanted to, we could have put the investment back into a managed fund once the crisis was over; but that hasn't happened yet. We are comfortably retired now and are grateful we took personal control of our finances. Anyone can do what we did, or not as the case may be. Isn't it nice to have a choice, though?

Whether close to retirement or years from it, there will always be something needed that costs. Quite often, an item is too expensive to pay for with cash, and in some cases even the credit-card won't stretch to it. No worries - the big super-stores are on hand to make life easier. Nothing to pay for 3 years! No deposit and 24 months interest free! Sounds good, eh? Now you can get a new lounge suite and that massive wide-screen TV in time for the finals. But there's nothing for nothing. Back up a bit, ask the questions, read the fine-print and do your sums. I guarantee that when you eventually work out the final and true cost of the products - in other words, what you will eventually have to pay - you won't be so keen to rush in. Whatever you buy, consider the end result very carefully.

There are many areas where considering the bottom line will save you money. Most people get trapped by the complexity of the details, none more so than with the plan scam. This is where companies offer package deals - individual services and components bundled together for a seemingly bargain price. One that springs to mind is the convenient phone/Internet combo. By shopping around, you can actually save money, but if not careful, the reverse can be the case. Don't get sucked in by the free phone and $200 of free texts. It's fine if you need both, but have a good look at the rest of your commitment. There could be one or more items in the package that you'll never use. Where's the sense paying for what you don't need? And remember that these plans are usually for a fixed period, sometimes two years or more. Once you sign on the dotted line, you are locked in; and if you come across a better deal next week - tough luck!

Never feel guilty about being tight with your money. It took a while to earn it, and you want whatever you spend it on to be of value. If the bottom line doesn't reflect that, don't buy it!

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