Managing the Money

keeping a close eye on personal finance

It's an old anecdote - the tale about Grandma stashing her money in the mattress because she didn't trust banks. There are probably a few people who still do this, but most are less cynical. They know their cash is safer with the reputable financial managers, experts who offer advice on plans that are best-suited to individuals and businesses. These can be anything from basic everyday working accounts to more complex arrangements involving the regular or periodic transfer of funds from one account to another. Once set up, the customer is able to sit back and let the banks take care of the money. That way there is time to spend on other things far less tedious than watching the pennies. Unfortunately, a financial plan that was ideal in the beginning is not necessarily going to continue in the same vein for years to come. In fact, interest rates and banking practices change so rapidly these days that yesterday's profit can turn into tomorrow's loss in the blink of an eye. In essence, the solution is simple - keep a close eye on finances; and if you can spare a few minutes each week to manage the money yourself, you will be better off in the long run.

I have mentioned before about shopping around for the best deals, and this still applies. Although most major banks seem to offer the same interest, fees and conditions, there is usually one that comes out on top. Then it is a matter of approaching the rest to see if they are prepared to equal or better the offer. At this early stage, close enough isn't good enough. Even a 0.02% improvement shouldn't be dismissed as petty. Extra profit, however small, will start a new plan on a firm footing. The danger comes later with complacency. Assuming that everything's fine and that there is no need to keep checking is a trap many are caught by. Falling interest rates are passed on to customers, often without notice. This may be regarded as sneaky, but the right to do so is generally included in the terms and conditions which everyone agrees to but few ever bother reading.

With online banking becoming the norm, it is relatively easy to monitor what's happening with the various accounts you may have. Noticing that the interest rate has dropped since the last check is a nudge to compare it with those institutions which weren't as favourable before. They could have realised they were losing business and decided to increase rates in a bid to win back old customers and provide an incentive for new ones in the market. That's the time to take advantage. Switching banks on a regular basis may seem an unnecessary knee-jerk reaction, but your money has to work for you. Left in the care of self-serving financiers it will, at best, stagnate. In some instances it may even diminish; then Grandma's mattress will appear less of a joke.

Because everyone's circumstances differ, the type of accounts will be set up to facilitate the general financial requirements of individuals and families. There will probably be a working account into which income is paid and from which expenditure is managed on a regular basis. Movement in and out of these accounts is expected to be frequent, and

fees would reflect this; but that's not to say they are all the same. Some may offer lower fees, provided the number of monthly withdrawals does not exceed a specified figure. Over and above this, there is likely to be a charge per transaction. So, if there are sufficient "free" transactions to cope with the normal budget in that period, this is the one to consider. The downside is that whatever's left untouched in the account is unlikely to collect much interest. Some even pay nothing below a specified total, meaning that only the amount above this line will qualify for interest; and if the account drops below by a single cent, interest payments will be null and void for that month.

It ought to be obvious that this is an encouragement to deposit as much as possible into these accounts so that a portion, at least, continues to earn interest; but, of course, at a fairly low rate which disadvantages the customer and keeps the bankers smiling. One way to inflict a little frown is to open another account that pays better interest. That's the one to put any surplus in. Excess from the working account can then be transferred in person, or on-line to minimise inconvenience. Simply decide on a suitable reserve to cover expenses until the next income deposit; and move anything over that figure into the better-paying account. Actioned on a regular basis, the savings, though only small, will mount up. Just be aware of any penalties for making withdrawals.

Another account to look for is the one that pays even more interest to customers who make regular minimum deposits during each month. These target or goal-saver accounts can vary, but for most that we've researched, the monthly figure is $200. As long as no less than this goes in every month - more can be deposited if desired - the current declared interest rate will be paid on the **total** in the account. After a couple of months of paying this in over the counter, it might be worth setting up an automatic periodic transfer to save time. An occasional check will ensure the strategy is succeeding. Certainly, organising different accounts in this way takes time and a little thought, and many might consider it not worth the bother; but it doesn't take a financial genius to work out that $500 at 1.65% per annum is preferable to $1,000 at 0.45% p.a. And don't forget – this interest is compound; in other words, interest continues to be paid on interest earned. Just remember that interest rates are quoted per annum, so 12% pa equates to 1% per month; but as this may be calculated daily and paid monthly or quarterly into the account, next time interest is paid you will be receiving it on both the principle AND any interest earned to date.

With a decent savings plan, there may come a time when the working account has just enough in it to tick over comfortably; the better-interest, overflow account is healthy and transferring the necessary into the higher-interest one without a problem; and that, as a consequence, is really mounting up. Here's the time to be greedy. Term deposits are a way of gaining even more, as long as the surplus funds used to open them aren't needed for a while. Once again, they vary with respect to minimum amounts and the length of the term that the cash is tied up. Interest rates for different periods reflect economic trends, so rates for long term investments - say 3 years - are likely to be relatively low because banks don't like to predict too far ahead. Plus, from the investor's point of view, tying up a large sum for years may not be practical. Here's where the shorter term deposits can work well. The banks are prepared to offer interest rates higher than the normal accounts for sums deposited for periods of 3, 4, 6, or 9 months, etc; the better rates often being at the lower end of this scale. The beauty of these short-term investments is that the interest rate is

fixed, so what you are offered is what you get, irrespective of fluctuating economic trends. At the end of the period, the investment can be cashed out by the customer; rolled over for the same period at whatever the new rate is at that time; or reinvested for a different period paying a better rate.

In order to continue benefitting from the strategies mentioned, regular checks of current banking trends are necessary to keep up to speed. This also applies as much, if not more so, to superannuation and pension schemes which tend to be forgotten until close to the day that they are needed. It is folly to rely solely on the managers of these long-term investments to do the right thing by customers all the time. Just look back at what happened after the global financial crisis: individual retirement funds lost thousands over quite a short period, simply because clients accepted the advice of "the experts" to sit tight and wait for things to improve. They eventually did; but by then, a considerable percentage of the totals had vanished. Bear in mind, this is your money and you have every right to choose where and how it is invested. Look at all the options, the types of funds, the interest each pays; and, not least, the risks each one carries. Sometimes, especially during times of economic uncertainty, it is better to transfer money to a lesser-paying, safer fund, if only for a limited period. Then, once the situation improves, shift it to a more-profitable option. You can even consider moving the lot to a different Company altogether – if that is possible under the terms of your contract, I'd advise you to exercise it when appropriate.

The banks and financial institutions, you see, love taking your money, but they aren't keen on handing it back. They don't, however, rule your life; and it is your decision alone which mattress you stuff your money in.

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