



Healthy Financial Management Practices

A brainchild of the Eastern Caribbean Central Bank (ECCB), Financial Information Month is observed in October in member countries of the Eastern Caribbean Currency Union (ECCU). The aim is to educate individuals and families on the basic elements of financial management, in turn preparing them to make responsible financial decisions.

Scotiabank, recently voted one of the top ten stable banks in the world, reflects a core purpose that coincides with this objective. Our core purpose is *“to be the best at helping customers become financially better off by providing relevant solutions to their unique needs.”*

In keeping with this month’s theme *“Save and Invest Today... Enjoy Tomorrow”*, Scotiabank shares some healthy financial management practices, with specific emphasis on saving and investing and managing credit. First however, we will briefly explain a recession and identify some of its effects.

A recession is a period of general economic decline; specifically, a decline in Gross Domestic Product spanning two or more consecutive quarters. It is marked by increased unemployment, wage freezes, plant closures and a decline in retail sales. Generally, it is a tough time for families.

Saving and investing

Our ability to save money is the cornerstone of building wealth and achieving financial independence. A fundamental concept of saving money is to spend less than you earn. The ability to save is further challenged when a family member loses his job, creating disequilibrium in the household budget through lost income.

Here are some tips and techniques to help you save and invest.

1. Do not overextend yourself

Pressured by consumerism and poor buying behaviours, we may want to acquire the latest fashions and other luxury items. We need to discern “needs” from “wants” and make a calculated decision to spend within our means and within our budget.

2. Establish a monthly budget and stick to it

Always determine total monthly income and total monthly expenditure. This way you can determine your disposable income, that is, what is left after servicing commitments. This will determine how and what you can save.

3. Invest early

The younger you are, the greater your benefit is likely to be. However, it's never too late to start saving. Even if you have just a few years before retirement, make your savings grow by investing it conservatively. Then enjoy the benefits of a nest egg during your retirement years.

4. Invest regularly

Ask your employer to directly deposit your paycheck into your bank account. Invest in a *Pay Yourself First Plan*. This can be best accomplished by opening an Automatic Savings Plan. Open a Registered Retirement Savings Plan (RRSP) or some other savings plan and set-up an automatic transfer. You determine the amount. With an RRSP in particular, there are tax savings to be achieved, whether you save by regular weekly, bi-weekly or monthly contributions. Then, stay invested and you will see the power of longterm saving.

5. Diversify

Do not put all your eggs in one basket. Determine the level of risk you want to incur by diversifying and then spread your risk.

6. Down-payment requirements

If thinking about purchases (e.g. a house or land) where a down-payment is needed, try to save at least 10% of your monthly income over time. This eliminates the need to borrow funds elsewhere for this deposit, whilst simultaneously building a good saving habit.

7. Emergency fund

If you can, it is advisable to save up three to six months of expenses in your emergency fund, even if it means making some sacrifices. This money will be a cushion in the event of sudden loss of income.

These are just some tips to help you save and invest, but it is by no means an exhaustive list. Consult your financial advisers for more help on good saving and investing habits.

Managing Credit

Despite recession, borrowing may still be necessary. Managing credit now brings future financial rewards. Wise use of credit, combined with regular saving and investing, can be a powerful tool to help

you achieve your financial goals. However, abusing credit privileges may compromise your eligibility for credit approval rating when seeking loans for home renovations, mortgage, car or even a business idea.

Scotiabank recommends some best practices to help you manage your credit and establish your creditworthiness.

1. Establish healthy credit habits

- Pay bills (water, telephone, cable) on time and online! You can set-up direct bill payments from your bank account. This is automatic, convenient, saves time and helps your credit rating.
- Get a credit card. A definite convenience, credit cards have become necessary for almost everything from booking a hotel to renting a movie. Here's how to use your card responsibly:
 - Pay credit card bills on time. This helps you build a solid credit history and avoid high interest charges. If you tend to "run up" credit card charges that exceed your disposable income, use your debit card instead. This way, the money comes directly out of your account and you limit your spending to what you can afford in cash.
 - Limit yourself to one or two credit cards. Record-keeping is simpler and there is reduced temptation to abuse credit. You also need to educate yourself about the various card options and which ones are best suited to your individual needs. Some credit cards typically carry higher interest rates and fees, whilst others carry rewards for spending.

2. Be a smart borrower

Debt can be good or bad, depending on how you use it. "Good debt" is debt incurred to acquire something that represents an investment in your future. Examples of "good debt" are education loans and land loans. An example of "bad debt" is casually taking cash advances on your credit card. Higher interest is charged from the day of the advance. Incurring debt for a luxury items like a swimming pool is also "bad debt".

Key to making debt work for you is to be proactive. Here are some effective debt management strategies:

- Pay down expensive debt first. For instance, you have money in a low-interest savings account but you also have a balance on a high-interest credit card. It would be wise to use some of that savings to reduce the debt.
- Consolidate debt to save money. If struggling to reduce expensive debt, consider taking a line of credit or loan to consolidate your debts at a lower overall rate. You'll definitely save on the interest charges. It will also be easier to keep track and take control of your finances.
- Use savings and cash for lifestyle needs. For instance, it is wise to use savings to pay for a vacation, rather than take a loan. Even better, plan ahead. Open a separate "vacation" account and contribute a little to it each month.

- Credit history. It is important to maintain payments up-to-date as your credit history will influence your ability to qualify for a loan.

3. Job stability

Consider your job stability, the viability and sustainability of your specific industry and by extension, your long term ability to service the debt. Remember, a steady job and a good credit rating improves your chances of securing bank financing. One way of insulating yourself from financial hemorrhaging is to generate additional revenue through other streams of income. Yes, with increasing unemployment, jobs may be difficult to come by but you can still generate other income streams. For example, a teacher may give extra lessons. Why not plant a vegetable garden and sell the produce or develop a skill (e.g. cake decorating, plumbing, electrical installation) and be paid for it by seeking out job opportunities?

As we embark on Financial Information Month, remember the theme: *“Save and Invest Today... Enjoy Tomorrow”*. Practicing these tips will contribute to a culture of responsible financial management. Saving and investing is the cornerstone of building wealth and achieving financial independence. Managing your credit now will bring you future financial rewards. So, establish healthy credit habits, be a smart borrower, and ... save, save, save.

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