

WEALTH WATCHERS

A Simple Program
to Help You
Spend Less and
Save More

ALICE WOOD



Book Wealth Watchers

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Alice Wood
Free Press, 2009

Recommendation

In 2000, estate-planning attorney Alice Wood suffered a serious brain injury. It affected her ability to think clearly and harmed her marriage, her law practice, her weight, her life – her entire ability to function. As she recovered, money became a major issue for her and her husband. When she joined Weight Watchers to try to slim down, she realized that its careful, day-by-day approach was an excellent model for a personal financial control program. That’s when she developed Wealth Watchers. In their first year on the program, Wood and her husband cut their expenses by \$12,000. She explains her simple, sensible tactics: List each cost, establish a budget and cut back on unnecessary purchases by exercising daily discretion. Her suggestions about saving money, buying insurance, putting aside retirement funds, budgeting for college, and so on, are very practical. *BooksInShort* recommends this excellent book as a useful guide to getting the most out of your budget, husbanding your earnings and managing your money. If you don’t yet have wealth to watch, she tells you how to save so you can accumulate some.

Take-Aways

- People do not save money as they once did; many carry heavy debts.
- In the “Wealth Watchers” program, you establish a budget and cut back on unnecessary purchases to trim your spending.
- To control your finances, list every expense.
- If you share expenses with someone else, both of you should keep a list.
- Little expenses for seemingly insignificant purchases add up to large sums over time.
- Determine what you can afford to spend daily after you pay your fixed costs. This amount is your “daily disposable income.”
- Trimming or eliminating daily expenses can make a major difference over a year.
- Use the “power of 365” by reducing your daily costs by a certain amount and multiplying that savings by 365 days.
- When budgeting and controlling your expenses, set a specific financial goal.
- Start saving on a regular basis, even if it is a small amount each week.

Summary

What Can You Afford to Spend?

People don’t save as they once did. The savings rate for most Americans is close to zero and many people are deeply in debt. If you want to achieve better control of your finances, first you must know how much you spend, both on necessary bills and on discretionary items. This knowledge will help you determine your “daily disposable income” (DDI), a pivotal place to exercise financial planning and control in the “Wealth Watchers” program. This money management approach uses the same philosophy as the popular Weight Watchers diet system. It serves as the little voice that whispers to you to watch what you buy each day. It reminds you that you should always be able to answer the all-important question, “How much money do you really have available to spend?”

“If you follow the principles and use the tools of Wealth Watchers, you will be able to have and enjoy the things that you want no matter what your income may be.”

Wealth Watchers helps you control the seemingly insignificant daily expenses that can add up to major sums. For example, spending \$15 every day on drinks at a bar

amounts to \$5,475 a year. If you can eliminate or reduce this expense and others like it, you can save a substantial amount of money annually. Research indicates that for most people, happiness comes not from having a certain amount of money, but from exercising financial control – that is, from knowing what they can and cannot afford to spend. Thus, understanding your DDI will make you happier.

“There couldn’t be a better time to take control of our financial lives.”

To begin to implement the Wealth Watchers program, gather and store your financial data – bills, bank statements, and so on – in one location. Carefully review your bank statements and credit card reports to see where you spend. Check your pay stubs to determine exactly how much you earn each month after taxes and deductions. Then, develop a monthly budget. List these figures:

- **“Monthly net income”** – All income that you earn or receive, net, except certain gifts.
- **“Monthly fixed expenses”** – Standard expenses that don’t change from month to month (mortgage, children’s tuition, health insurance, and so on).
- **“Monthly semifixed expenses”** – Standard monthly expenses that vary, like utilities. As you make your tally, consider whether you can reduce any of these expenses.

“If we don’t know how much we can spend without spending too much, we don’t know when to stop.”

Deduct your fixed and semifixed expenses from your net income to get your “monthly disposable income,” the amount of discretionary money you can spend each month. To calculate your DDI, multiply this figure by 12 and divide it by 365. The “Power of 365,” a crucial Wealth Watchers concept, says that if you cut unneeded expenses daily, you will amass a significant amount of money over a year. Establish a solid financial goal, like paying off credit card debt or taking a trip. Tell someone close to you that you plan to control your money more effectively. Accountability makes all the difference.

List All Discretionary Expenses

Start a “Wealth Watchers journal.” For one month, list every purchase and how you pay for it – by credit card, debit card, check or cash. Develop the habit of writing down what you spend right after you spend it. This will spur you to think about your purchases before you make them. Record all your nonfixed and nonsemifixed expenditures, like groceries, restaurant meals, gas, and so on. Tracking these expenditures will show you numerous areas where you spend too much and can economize. If you share expenses with a spouse or partner, make journaling a joint exercise. Your budgeting will accomplish nothing unless the other person does it, too. If you use separate journals, reconcile them weekly. If you keep your journal going, you will be able to analyze your finances by running these tallies:

- **“Daily total”** – Add all your nonfixed or nonsemifixed daily expenditures.
- **“Weekly total”** – Add each week’s spending and divide by seven for a daily average.
- **“Monthly total”** – Tally your month’s expenditures. Create an average daily total by dividing the sum by the number of days in the month.
- **“Quarterly total”** – Add the monthly totals to arrive at a quarterly total. Divide by the number of days in the quarter to get an average.

“While there are many causes to the economic problems facing the country, it is undeniable that a lack of financial literacy is a contributing factor.”
(investment expert Charles Schwab)

Your weekly, monthly and quarterly averages will show whether you’ve followed your budget. Next to each date in your journal, place a plus sign on any day when you save money and a minus sign when you exceed your budget. Your journal will help you control spending, the main element of budgeting. A few journaling tips: Do not enter gift cards or cash gifts in your record. Circle reimbursable expenses so you won’t forget to collect them. Credit any returns or credits the day you receive them. And keep your journal with your cash. They should always be together.

“There’s something very uncomfortable about debt and there’s something very comforting about money in the bank.”

Take these additional steps to control your personal finances:

- **“Develop a coding system for expenses to share with your family” so your journals are consistent** – For example, *C* = cash, *CC* = credit card, *DC* = debit card, *CK* = check, *G* = groceries, *R* = restaurant meals and *T* = transportation.
- **“Rigorously challenge your fixed and semifixed expenses”** – The amounts you spend on these budget items is not carved in stone. Seek less expensive options.
- **“Find out your credit score and if it is under 700, make it higher”** – This rating, which matters to banks, hiring managers and anyone you ask for credit, should be important to you, too.
- **“Set up a bill payment system”** – Paying your bills online is a good tactic. You can also manage your checking and savings accounts online.
- **“Know your small leaks”** – In spending as in life, people are not perfect. Some are careful with daily expenses but splurge on vacations. Others buy more clothing than they need. What is your weak point? Diagnose it so you can seal your financial leaks.
- **“Set up a simple, old-fashioned savings account”** – You can instruct your bank to transfer 10% of your checking account to your savings account each month.
- **“Have your paycheck deposited directly”** – The less money you have in your possession, the less you will spend unwisely.
- **“Commit to saving an additional percentage of your income for retirement”** – In the U.S., open a 401(k) or some other retirement account, and establish automatic payments. If you’re self-employed, open a SEP IRA, the equivalent of a 401(k).
- **“Ask your banker how you can avoid any overdraft fees”** – Many banks offer financial products that enable you to avoid these expenses.
- **“Understand the difference between good debt and bad debt”** – Mortgage debt for a home you can afford is good debt. Credit card debt that cycles from month to month is bad debt. Any credit card is a “loan product.” Pay the balance each month and you will be OK. If you don’t, you can get into big trouble fast.
- **“Recognize the power of compound interest...teach your children about it”** – Even small amounts can build significantly over time when your savings earn compound interest. The money really grows when your employer also contributes. Teach your children about compounding and help them learn to manage their finances. The *National Strategy for Financial Literacy*, a 2006 U.S. government report, says young Americans spend a whopping total of \$150 billion annually. Yet most young people have no working knowledge of basic financial principles, such as “annual percentage rates, inflation and interest.” Teach your

children how to save, compare prices and budget their expenses.

- **“Always look for a better alternative”** – Don’t buy movies and books; get them free at the library. Don’t go to the mall to shop; go for a stroll around your neighborhood. Save money by planning meals ahead of time. Stay away from ATMs. Consider public transportation, which is cheaper than driving.
- **“Live smart”** – If you save, you can live the life you want. Get advice from friends and relatives who are more skilled with money than you are.
- **“The key to success is self-discipline”** – Budget your expenses, track them in your journal and do not spend any more discretionary money than your DDI permits. That is the Wealth Watchers system in a nutshell.

Some Tips on Specific Expenses

Many people have fixed costs for housing and the like. To manage such expenses, heed these tips:

- **Housing** – Whether you rent or buy, make sure that you can afford your monthly housing payments. If you purchase a home, a short-term mortgage (say, 15 years) is better than a long-term one (say, 30 years), if you can afford it. On a \$150,000 fixed-rate mortgage, you will pay considerably more interest on a 30-year loan than on a 15-year one, although your monthly payments will be lower with the 30-year loan.
- **Insurance** – Don’t be passive about your insurance policies. Thoroughly investigate alternative policies so you buy the most economical ones that suit your needs. If you are self-employed, join a civic or professional association to gain access to less-costly group health insurance. Don’t buy a car before finding out what it will cost to insure. Fees vary substantially, depending on the characteristics of the car and the driver.
- **Transportation** – Before you buy a new or used vehicle, check the “True Cost to Own” feature on Edmunds.com. It shows what you will spend per mile when driving specific makes and models over a five-year stretch. A 2009 Mustang convertible costs 63 cents per mile to drive over that span; a 2009 Volkswagen Beetle costs 57 cents per mile.
- **Childcare** – If you are paying for childcare, consider hiring an au pair. The “average weekly cost” of \$320 can be a savings, particularly if you have more than one child. The U.S. State Department monitors some au pair programs.
- **College** – As children age, they get increasingly expensive, especially when they become old enough for college. The average cost for a private four-year college is now more than \$50,000 annually (for “tuition, room and board, and fees”). Community colleges are a reasonable alternative. Some families send their kids to community colleges for lower-level courses and then let them transfer to more costly colleges to finish their degrees.
- **Food and supermarket items** – Never enter a supermarket without a shopping list that will help you avoid impulse purchases that can pad your food bill. Do the shopping yourself. Taking along the kids or even your spouse can add to your number of impulse purchases. Shop at super savers like Wal-Mart or Costco for common household items, such as laundry detergent, toothpaste, and so on. Clipping coupons can also save money.
- **Clothing** – Maintain an up-to-date clothing inventory so you are less apt to buy clothing you do not need. Don’t buy bargain clothing just because it’s on sale. That kind of bargain shopping can burn through your money quickly. Try T.J.Maxx and Marshalls for fashionable clothing at better prices than you’ll find at most department stores. Put your receipts in your bag with your new items until you are sure you want to keep all of them.
- **Dry cleaning** – Think of this expense as an investment. Maintaining fine clothing, such as suits and expensive dresses, will extend the number of years you can wear them.
- **Furniture and other big-ticket items** – Each month, put money into your savings account so it will be available when you need to make relatively expensive purchases, such as furniture and home appliances. If you own your home, save funds for repairs.
- **Restaurants** – Your Wealth Watchers journal shows you exactly what you spend eating out each month. Such expenses can add up fast, particularly for families. Cut back on restaurant meals if you can. Bringing a packed lunch to work can save a great deal of money over a year’s time.
- **Gifts** – Do children really need the latest heavily advertised toy? Many children have more possessions than they need or can use. Since you are now working hard to hold your DDI spending at the right level, every penny you spend on a gift for a child or another person means you must cut back somewhere else. Realizing this will help you become a smarter gift giver.
- **Weddings** – Ask yourself whether you want to go into major debt for an expensive, one-time social event: a wedding. Is a costly celebration a smart choice, particularly considering that money problems are now the major cause of divorce?

About the Author

Alice Wood, a former estate-planning attorney, heads a financial literacy company she started in 2005. She lives with her husband and children in Naperville, Illinois.
