

Spend, spend, stop!

Debt doesn't have to dog you for ever – there are simple ways to beat bad spending habits.

Celia Dodd gets money wizard Alvin Hall to shell out some tips for avoiding that red ink...

After the most extravagant Christmas and new year on record, more people than ever are in need of a drastic financial diet. If you've run up scary debts or simply want to know how to manage your money more efficiently, Alvin Hall, financial therapist at *Your Money or Your Life*, can help. He says: "The traditional cycle is to go into debt at Christmas, pay it off by summer, start again in October, and go higher every year. It should be everybody's new year resolution to break that cycle."

The new series focuses on the psychology of spending, which fascinates Hall: "People think money is some big mystery, that if they just ignore financial problems they will get better or go away. And increasingly, as people reach a certain point in their lives, they have a strong sense that they're entitled to a pretty good lifestyle, whether they can afford it or not." It's not surprising that a lot of people find Hall's stern diagnosis of the realities of their financial situation hard to take.

Yet he is the first to sympathise. He didn't start saving until his thirties, after a youth of partying and regular visits to New York's Studio 54. Since then he's made a fortune from shrewd investment on Wall Street, and now designs financial training programmes. But he still has a weakness for coats; he owns more than 60. "We all have crazinesses – you need to know what sets yours off so you can control them. These days I cut myself down to one coat a year. I still try them on, I just know I can't buy."

Alvin Hall's plan for managing money

Be proactive. Take control of your financial future. We all want to believe there is some magic formula, but there isn't. And controlling money is much easier than people think – it doesn't involve difficult mathematics, just simple arithmetic.

Keep a financial diary of your spending each week. As well as giving an accurate view of outgoings (a big surprise for most people), just writing down the figures means you'll start to cut back.

Start saving. Everyone should save unless they're in education. The aim should be to have three to six months' worth of living expenses in savings as a cushion. Without that back-up, just one thing going wrong, such as the car breaking down, can start a spiral of debt and stress. On the positive

side, psychological tests show that if you put ten per cent of your salary straight into savings you won't miss it.

If you're self-employed with an erratic income, put yourself on a monthly budget rather than spend all the money when a big wodge of it arrives.

Learn to use credit cards to your advantage, not the credit-card company's. My rules are: have no more than three; don't spend more than you can pay off; and buy at the beginning of the grace period, so you have more time to pay off the debt.

Find a trick that works for you to control your spending – for example, don't go to the shops for certain periods. If you see something you want, wait 48 hours. I also play the sacrifice game: I work out what I have to give up – magazines, meals out – to pay for something I want more. If you can't resist sales, buy one thing – the one you want most.

Explain supply and demand to your children. If they ask for something, discuss the cost and your earnings with them. Think of ways the family can cut back to make it happen. Working together this way helps develop a healthy attitude to money.

If your situation is complicated, a financial

adviser can help. But be prepared to work with them – too many people abdicate full responsibility when it should be a team effort.

And if all else fails...

A firm but fair five-point plan to get out of debt:

- 1 Work out a schedule for how long it will take to pay off the debt – six months is about the norm for Christmas debts.
- 2 Pay off the credit card with the highest interest rate first. Some companies are offering six-month special deals, so you could put all your debts on that card and pay it off before the end of the period.
- 3 Cut your spending right back. Get rid of all but three credit cards and use cash as much as possible.
- 4 Consider taking a second job. People hate the idea of giving up weekends, but it's sometimes the only way to get rid of a debt.
- 5 Once you've paid off your debt, start saving – put the sum you've been putting towards paying off your debt every month into a savings account. ■

