This book is written for 20 to 30 year olds by 28 year old stockbroker and radio host Scott Pape, who observed that most personal finance books are written for older people and are as “dry as your mouth the first thing on a Sunday morning”!

The book is notable for its’ colourful language (captured here also) and no nonsense tips

• It would make a good present to your Generation X or Y daughter, son, friend and is a useful refresher about what is important about wealth management

The core premise is that money = freedom, independence and the ability to make choices; money management isn’t taught properly in schools and with a little investment of your time you can set yourself up to achieve whatever goals you set

The book is written around a five step “barefoot plan” and also offers ideas on property and entrepreneurship

1. Keep it real [goal setting]
2. Look out for number one [cash flow management]
3. Repo your repayments [debt avoidance and reduction]
4. Work your mojo [investing]
5. Having a back up plan [role of insurances]
1. On goal setting

“If you don’t have a plan for the way you live your life, you’ll become part of someone else’s”

Examples of goals are self-sufficiency, end to shared housing, taking time to travel, winding down work

Simply take 5 minutes …

• Write down a mix of short-term (e.g., pay off credit card) and long-term goals (e.g., fund house down payment)
• Put a price tag on the most important ones
• Assign a realistic date when you want to achieve them
• Break them down to monthly targets

Gen X & Y face at least three challenges their parents didn’t
• Houses less affordable than in last 13 years
• Drag from educational HECS debt
• Greater job insecurity
“Barefoot bondage” calls for creating three savings accounts to which your pay is directed to automatically

1. Everyday banking account to use to fund day-to-day expenses (e.g. rent, phone)
   - Amount based on a simple budgeting exercise
2. High yielding savings accounts for your goals (as outlined earlier)
3. “Mojo” account for 10-15% of your income (your personal buffer zone, your “get out of jail free card”, “ace up your sleeve”, to give peace of mind, passport to wealth)
   - “if you get only one thing from this entire book, let it be that you set up a Mojo account. It’s the key”
   - If you can’t afford 10%, start at 1% and increase it as soon as you can

Find the best bank accounts that match your needs

- “Bank fees are the enemy” [banks drained $3b from Australian HHs in 2003]
- “Put an end to a monogamous [banking] relationship”
- “Tart yourself around the banking constabulary to find the cheapest deal”
3. On debt management (and consumption)

Most people’s expenses rise to meet their income “and then some” [i.e. use credit]

- Students who a few years earlier got by …
  - driving a 500,000 km Holden now have a shiny black BMW
  - furnishing their apartment with hand-me down couches “now blow six months of income at Dare Gallery to furnish a rented living room”

“Strip away the ‘Priceless’ marketing, the seductive gold card, and the rewards points, and what you have left is a plastic card that lets you purchase shit you can’t afford … Credit card companies work much in the same way as cigarette companies in that they hook you in when you are young with a little balance for emergencies, pretty soon you’re in serious debt”

Personal debt cheats you out of achieving your goals – the high interest is like a “loser tax because you haven’t worked out a way to budget or go without things that fall in value”

- Living off debt is a dangerous past-time and major cause of wealth destruction
- “It’s not pay later, it’s bend me over later” owing to high interest rate charges

So ..

1. “Limit your [credit] limit”
2. Pay off your card each month (“being in the black is beautiful”)
3. Build paying off debt into your goals, targeting highest interest rates first

Consider taking advantage of early repayment of HECS debt for a discount
4. On “working your mojo account” (investing)

Simply put, investing is about putting your savings into assets
Assets are things that “put money in your pocket”
  • Rent from property, income from cash and bonds, dividends from equities
There are only two ways to make money out of an asset: 1) via income it generates and
2) value of the asset increasing
“A non-income generating ‘asset’ (e.g. art, classic cars, stamps, eighties Ra-Ra skirts, gold
bullion) … requires a ‘greater fool’ to pay more than what was originally paid to purchase it”
“Spread yourself around” [diversify] using managed funds, invest regularly [dollar cost
average even through crashes] and get rich slowly
Choose your managed funds* carefully or use index funds
  • * “having an uptight Porsche-driving fund manager invest the proceeds on your
behalf, for which they charge a fee (which explains the Porsche)”

Day trading = gambling = mug punter

“By sticking with your Mojo account (directly debiting a percentage of your wage into the
account) and investing YOU WILL BECOME A MILLIONAIRE in good time”
Each time your Mojo bank account reaches $2k transfer it out and invest it
5. Insurance (your backup plan)

Pape suggests what’s most important …

• Car insurance (if you have a car)
• Health insurance (if you’ve got a body)
• Contents insurance (if you’ve got possessions)

… while life, disability and trauma insurance are “kinda important” (depending on whether there are others who can look after you) [and presumably if you are looking after others]

Various tips are offered including

• Don’t modify your car with a night-club like sound system (“besides looking like a wanker your insurance goes up”)
• Photograph your possessions with a digital camera and keep records in case of claim
• Consider a cohabitation agreement in case of relationship break up and money squabbles [STD = sexually transmitted debt]
• And on record keeping “go out and buy two pairs of new shoes”
  - Keep the boxes, put all your financial statements in one and “Important Stuff” in the other (e.g. Passports, loan documents, marriage certificate …)

“Three Panadol, a box of Bandaids and a condom don’t exactly constitute an effective insurance policy – sometimes shit happens”
Lastly, on property and entrepreneurship

The pros of home ownership including forced saving, tax effective asset growth and emotional benefits, need to be considered against cons: cost and flexibility of renting.

“When financially independent, highly paid young people can’t afford a dog box three hundred clicks from the city… warning bells should ring” [i.e.. market may be over-valued]

If waiting to buy is not a good idea for you, you may be able to get a home earlier by:

• Taking a second job (but better to just “bank the promotion” [salary raise])
• Getting help from family
• “Going Dutch with a mate” [buying tenant-in-common], but be careful
• Buying an investment property first

For those wishing to avoid “wage slavery”, explore entrepreneurial opportunities that involve doing what you love as money “will follow you”

Young people are not at a disadvantage, in fact they are advantaged by not being bound by “triple M” (not just the name of a radio station)

• Marriage, Mortgage and Midgets
... and to learn more, read the book or visit the website

www.barefootinvestor.com
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