TIMESONLINE

From The Times

April 19, 2007

The latte factor: how to be rich (eventually)

As inflation hits a new high, we all feel a bit more broke — but Damian Whitworth finds solace in a book that tells you how to increase your wealth a little at a time, and six experts describe different ways to do it

I realised that my new parsimoniousness was becoming a little extreme when I had to be prevented from eating the remains of a packed lunch discarded by one of our builders.

The arrival of the builders to renovate our dilapidated house prompted a detailed examination of our domestic finances. This seemed all the more sensible after the news this week that inflation is at its highest for a decade. The results of our review: on the plus side we can now be terribly smug about our small carbon footprints when everyone else is talking about their foreign holidays. And it's a relief to know that I need no longer buy new clothes, at least until the mortgage is paid off, around 2030.

My new, cold accountant's eye also fell upon my daily expenditure on lunches and snacks. The slap-up canteen feeds, the £5 deli sandwiches, the mid-morning muffins, the tea runs and afternoon cakes; it all adds up. I started making my own sandwiches.

Turns out this is the first step on the road to financial security. David Bach, author of *Start Late, Finish Rich* , says we must all calculate our daily "latte factor" — the amount you spend on treats — and expunge that spending and invest the cash. This is the sort of route map that you fall upon if you want to maintain a middle-class lifestyle in Britain, particularly in London, the most expensive city in Europe.

It would be absurd of me to plead poverty. I am relatively well paid. But when house prices are being driven up by City boomers and rich foreigners, I struggle, like hundreds of thousands of others with a big mortgage, to live within my means. Taxes, inflation and the cost of childcare are rising. We need more home technology and it seems to become obsolete more quickly. And have you seen the price of even the most basic Cornish holiday cottage rental?

Within a few days I have become a packed lunch zealot. If you dropped the sum I am saving into the financial black hole created by our builders it wouldn't touch the sides. But I am cutting unnecessary spending and it gives me a tiny sense of control. I find myself looking at others in a judgmental way as they munch on Waitrose sandwiches.

As I examined the remaining half of the round of ham sandwiches discarded by the builder, two thoughts entered my head. 1) "What a waste!" 2) "Can I eat this?" I was weighing this question when my wife, alarm in her eyes, addressed me, calmly and firmly: "Just put it in the bin."

On the way to work the next morning I resisted taking a tiny peek in the bin. People who forage in bins for food are called freegans and I'm certainly not one of those. Not yet, anyway.

Care homes

In the film *The Graduate*, Mr Robinson offers one word of advice to Benjamin Braddock: "plastics". If, four decades on, Mr Robinson had wanted to demonstrate his sagacity, he would have alighted on an even less glamorous niche: care homes.

As far as the stock market is concerned, this is where the action is. Shares in Southern Cross Healthcare, Britain's biggest nursing home operator, have risen by 60 per cent since January, providing the best single return among London's 1,600 fully listed companies. The wider market rose by just 5 per cent over the

same period.

The excitement for investors lies in the company's ability to capitalise on two powerful trends: an ageing population and fewer NHS beds. Most of its fees come from local authorities, who are reliable payers, while soaring property prices have caused a shortage of supply: smaller operators have typically sold their land to housebuilders.

This means that Southern Cross's homes are more than 90 per cent full: a figure that would make an hotelier blush. With nationwide demand predicted to grow by 14,000 beds a year, the company can raise its fees at more than the rate of inflation.

And what else is hot? Renewable energy, inevitably. On AIM, London's second-tier stock market, the star has been Tanfield, up by 113 per cent, a maker of zero-emission delivery vehicles such as milk floats.

Finally, there is the riskier game of guessing the City's next takeover target. Here, J Sainsbury, Alliance Boots and Cadbury Schweppes have all bagged gains of more than 20 per cent.

— NICK HASELL

Property at home

If you are looking to make money over ten years or more, pushing yourself to the limit in terms of property is wise, so long as it makes up part of an investment policy rather than all of it. In property there are good and bad years — which is why a long-term view is necessary. A buy-to-let investor borrows 75 per cent, with a long-term average return of 5-6 per cent per year: over the course of time, this is a very good return.

It is also a case of basic economics, whereby supply outstrips demand. We are already a crowded nation and the housebuilding process is tediously slow, so our ability to create property is limited. Against that is a growing population, especially among immigrants and the children of baby boomers, the 20 to 34-year-olds, who will rise in number by a million over the next ten years. Both groups are looking to buy property.

Lastly, the appeal of property investment will always keep it popular, and so a sound investment. Unlike buying shares, we can understand property because we can feel it and touch it — so not only does its emotive value outstrip its share certificate, but we can have an active hand in making it worth more — by building a loft or developing a garden. It might be a dull investment, but it is a safe one.

— NIGEL TERRINGTON, *CEO of the buy-to-let mortgage lender Paragon*

Property abroad

Every time I think about it, it sends a shiver down my spine: the £25,000 I've borrowed from my increasingly nervous father; the £50,000 or so more I've borrowed by remortgaging the house; the horror, the humiliation, the penury, and the told-you-sos from friends and family if it all went horribly wrong.

But how does the saying go? Feel the fear and do it anyway: so that's what I'm going to do with my Polish property investment scheme. I've teamed up with my Polish builder friend Przamek (pronounced *Shamek*), and together we're going to develop six apartments in a pretty skiing and walking resort in southern Poland's Tatra mountains called Wisla (pronounced *Vis-wa*).

There are, I've begun to discover, lots of downsides to a scheme like this. First, obviously, there's that raw naked fear. Then there's the hassle: the constant flights to and from Katowice (though the budget airline Wizzair is amazingly good), the legal and accounting processes, the bureaucracy, the possibility of being forced to learn Polish, endlessly having to eat rich dishes based on pork and cabbage. Plus, of course, the simmering jealousy of friends who secretly want the whole thing to fail. As indeed it may yet do.

Set against all that, though, are the margins. Poland, like so much of Eastern Europe, is experiencing a huge property boom. In places such as Cracow, prices have risen as much as 30 per cent per annum. Greed, then — healthy, capitalist greed — is the spur. And besides, as a wise man once said to me: "You're never going to pay the school fees through journalism."

— JAMES DELINGPOLE

Look west or east

For the past ten years everything British has tended to outperform everything else in the world. It has been hard to beat the pound, there have been more takeovers and mergers of small and middle-sized companies in Britain, our housing market has been the strongest and the UK is open to company takeovers.

This has not always been the case. Between 1986 and 1996, for example, the UK experienced a devastating property crash under John Major, the collapse of sterling and a surge in government bond yields.

So our current strength is a relatively new phenomenon. Will it last? I would say not.

If I were to try to make money quickly, I would reverse the habit of the past decade. I would borrow money in the UK and invest it internationally. I would make the most of the pound going through the two-dollar mark and invest in large American companies, because they have universal value.

As far as property goes, I would invest in the European and, for the adventurous, even the Japanese property market.

In both these places interest rates are currently very low, so it is a case of making hay while the sun shines.

— GUY MONSON, *CEO of Sarasin Investments*

Pay yourself, invest in property and earn more

Initially you need to realise that you've got the money needed to take the steps to make yourself financially secure. The key to realising this is to find your "latte factor". It's working out where you are spending money on the little things. When people say "I can't afford to save", my response is, you know what, I guarantee that today you went out and had a latte or a beer or you had lunch out. That's where your £3 a day is.

PAY YOURSELF

Once you determine your latte factor, there are three steps to take. The first decision (which is so incredibly simple and obvious but people simply don't do it) that you have to make financially is to pay yourself first. It's not what you earn, it's what you spend. And the real key, especially if you're married, is to make a decision TODAY to pay yourself first. A formula that I use is this: if you work 40 hours a week, you should be saving a minimum of one hour a day of your income. So if you're in your twenties or thirties and you're just starting out and you want to be rich, you should save an hour a day of your income. If you're in your forties or fifties and you're just getting started, your goal needs to be to save two hours a day of your income. So before you pay your mortgage, your credit card, your utility bills, your mobile phone bill, your cup of coffee from Starbucks, the first thing you do is set aside money for yourself. Whatever it is that you're saving for, the key is to save automatically. Because what we've seen is that if people don't save money automatically, they don't save. It's a mind shift — it's going from paying everybody and hoping that there is some left over for yourself, to "I'm going to put myself first". No matter what, I'm getting paid first. So if I'm going to bust my tail and work my ass off, I'm going to get paid first.

INVEST IN PROPERTY

That leads to the next step: save the money automatically in your pension plan or, if you're still renting, you need to save automatically to buy a home. And those who already own a home should save to buy an investment property. MAKE MORE MONEY What most people will find is now they have less money to spend which is a problem because most people don't want to have a lifestyle reduction. Now you really need to go and make more money. Well, how? The first thing is to get your money to work for you. I recommend the Perfect Pie Approach, which is that your money should be invested in three separate asset classes: one third of your money should be in stock (I would suggest global ETF's exchange traded funds), one third in real estate — that can be your home or your investment property or both, and one third of your money should be in fixed income — guaranteed investments. Also, most people are actually underearning. They're underearning because they are being underpaid. One of the fastest ways to make more money is

literally to go ask for a raise. You might get a no and you might get a yes and you won't know until you ask. And if you're self-employed, the thing you need to do is raise your rates by 10 per cent or more.

— **DAVID BACH** *Financial expert and author of Start Late, Finish Rich (Penguin, £8.99)* *www.finishrich.com*

Saving £3 a day (the average cost of a latte and a muffin) over seven days

= £21 a week £21 a week

= £90 a month £90 a month invested at an annual return of 10 per cent earns...

1 year: £1,201

5 years: £7,333

10 years: £19,144

20 years: £68,798

40 years: £531,642

Emerging economies

I don't think there is any honest way to get rich quick. For those who have more than £7,000 and are prepared to take a bit of a punt, the BRIC economies (Brazil, Russia, India and China) will be major growth sectors in the next few years. One of the leading funds in that sector, Allianz Group, is worth investing in.

If that sounds too racy, how about a natural resources fund from JP Morgan, the investment house. China and India are absorbing natural resources like they're going out of fashion.

Both of these investments offer the prospect of short and long-term growth. If you have less to invest, you could probably start an ISA at £50 a month from those funds.

The potential growth of emerging economies is phenomenal, but so are the risks. It is somewhat similar to investing in Eastern Europe, especially in those countries now in the EU, ten years ago — the windfalls have been fantastic for investors who stuck it out, and the potential with BRIC economies is similar if not greater, because the populations of those countries are so much bigger.

Obviously, the more you have to invest, the better you'll do, but you don't need a lot of money to start accumulating: £50 a month is a good start but it will never grow into a colossal lump of money. But just by starting to save, you will begin to see the value over time of investing in the stock market — and if you can afford to increase those savings periodically, it will pay dividends in the future.

— **MICHAEL OWEN,** *Financial Planning Director, Duncan Lawrie Private Banking Group*

Contact our advertising team for advertising and sponsorship in Times Online, The Times and The Sunday Times.
This service is provided on Times Newspapers' standard Terms and Conditions. Please read our Privacy Policy. To inquire about a licence to reproduce material from The Times visit the Syndication website. © Copyright Times Newspapers Ltd