

THE CAPPUCCINO FACTOR

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Introduction

We may not all be aware of how much we spend on coffee (or other incidentals) each month. Research tells us that it is likely to be about £100 per month which is spent – or perhaps we should say ‘wasted’ on just buying coffee.

We also know that the average person in the UK spends £13 per week on the lottery and lottery scratch cards and games of chance. They do that with a one in 14 million chance of being wealthy – but there is a better way! By investing your money you could have a 100% chance of being wealthy in your lifetime.

It is an absolute truth that if we just invested a little of this money wasted on incidentals we could make a significant difference to our financial lives over time, and we may even be able to make ourselves financially free with it.

So how does that work then?

We will go through the method needed to turn £13 per week – or just £1.85 per day into a million or so.

All you need to do is to save £1.85 per day for your working life (for us that means from the ages of 18 to 65) into an investment fund which produces 11.7% return (or 12% just to make it simpler), and you will end up with:

£1,225,514..... and 31p!

I have used 11.7% because that is the return generated by the FTSE, on average over the last few decades and so it is achievable over time.

Of course, if you want to end with £2.5 million you save two lots of £1.85 – that’s £3.70. If you want to do it in half the time, then again save twice the money - £3.70.

You decide what you want and when you want it and then take the right action to make sure that you get the right result.

So here goes!

Step One.

Start TODAY! By putting £1.85 into a cup, tray, box or whatever receptacle takes your fancy.

Step Two

Do that with another £1.85 tomorrow and EVERY day – yep even Saturdays and Sundays – and keep doing it.

Step Three.

In the meantime log onto your computer. Type in:

www.investmentuk.org (that's www.investmentuk.org)

which is the web site of the Investment Management Association! Click on the link to 'Consumers', which is a sub part of the site and can be found from the orange tab at the top of the home page - and off you go.

Step Four

Click on the button there that says **Find A Fund** – it's normally at the left hand side of the front screen – about half way down the menu list.

Step Five.

Then click on the options that appear. Tick the box that says Tracker funds – and then press 'submit' and you will be given a list of tracker funds that are currently available for investment

(Hang on a minute you may ask what's a tracker fund?)

Well a tracker fund is simply a general and collective fund which invests in each of the shares in a particular index – so for example, the shares in the FTSE 100. The tracker fund just 'tracks' or mirrors the index by buying some of each of the shares that make up the index (the biggest 100 companies in the case of the FTSE 100). If you do this you can get invested in all the top shares – with a very small amount of money.

Is that OK?)

So back to the action then:

Step Six

The screen will now give you a list of all the tracker funds that you can invest in – and at the moment there are about 50 available tracker funds.

Step Seven

Now all you've got to do is pick one! So, let's start by eliminating some possible funds. You can do this by sifting out all of those that won't allow you to save in little bits of monthly money. There are search criteria boxes at the top of the lists (and you can refine your search and play 'what if' scenarios using those), and the system allows you to sort by the savings criteria so press the submit (or search) button there to get a list of available funds sorted by monthly savings amount. If it says £N/A alongside any particular fund – cross them off your list because that fund doesn't do regular savings, so that's no good. If you are saving £1.85 per day – that's £55 per month – you want one that has a minimum monthly saving amount of about £50 or less. There are loads of those.

Step Eight

You now cross off the list any fund that needs a minimum monthly saving of anything greater than £55.

Hang on a bit - what about if you want to save £100 per month?

Well in that case you include all the funds that allow monthly savings of £100, and there a few of those. But for the rest of us with our £1.85 per day – we only need the £50 per month group!

Step Nine

If we take out any fund that doesn't like regular savings – and take out all those funds that need at least £100 each month – we will then be left with a choice of about 35 possible funds

Step Ten

Now you start to make investment decisions – well not really – because all you need to do now is to review the remaining list and start to pick out those that indicate that they are a general tracker fund, so it will say say FTSE 100 or FTSE 250 in the title – or the FTSE all share. Or look down the extreme right hand column and you will see descriptions of the shares invested. Look for those saying things like UK All Companies, and exclude all those that say stuff like Japan, or Asia.

So, Why do you do that?

*Well what you want is a fund that invests in a general UK based fund where the shares and the companies are based here. Rather than say a Japanese fund – for the **only** reason that this formula is based on UK FTSE shares!*

The funds that are left are the possible funds that have passed all our tests.

Step eleven

You are now left with a list of potential funds that you could save your money with. You have the funds that:

- invest in a tracker fund which tracks a UK based FTSE share index, where the shares are in the larger UK companies

and:

- will accept regular savings – at your particular savings level.

And finally, do another search on the costs of the fund – you will see search buttons for initial fees (which are usually 0% for these type of funds) and more importantly annual charges – and you want to be looking for a fund that charges as little as possible and certainly nothing over 1% per annum.

So now you need to pick one and one suggestion I have is that you go and get a pin – the bigger the better - so an old fashioned hat pin works really well. Do a dramatic swish of your arm and plonk the pin in your list – and there you have it – your investment choice is made!

Step twelve

What you now do is to click on the menu list on the left hand side where it says 'Find a Fund Manager' – and all you need to do is to scroll down the drop down list until you find the one that your pin landed on. That will give you the contact details, web site and other pieces of information, such as can you transact on line or not.

Step thirteen

Contact that fund manager and say "I want to invest £55 per month into your FTSE 100 tracker fund. Please send me an application form.

Step fourteen

When the application form arrives, fill it out, and send it off with a cheque for your first months savings, and then set up a standing order to make sure that your savings go in every month

Step fifteen

In the meantime, your box of £1.85's now has at least £55 in – empty out the box, take the money to your bank and pay it in, such that when you write out that first cheque or the monthly standing order is collected – the money is there.

Step sixteen

Repeat the last step every month, and sit back and relax knowing that as long as the FTSE provides returns at the rate it has in recent years, you are on the way to your first or next million! And that's all there is to it – have fun!