

Contractors should get their finances in shape to survive the credit crunch

It's been 8 months since the first UK casualty of the credit crunch hit the headlines? Since the Northern Rock debacle the state of the financial markets has frequently been in the news. In addition to the pessimistic view of the TV pundits household bills are rising and the credit squeeze is taking its toll on borrowing costs. It's no wonder many people are feeling that life is a little less cosy than it seemed this time last year.

So what can contractors do to ease current pressures and prepare ourselves for a period of slower economic growth?

Household Bills

"The first and most simple step is to cut back on your spending", says Tony Harris, a principal at [ContractorFinancials](#), a firm which specialises in independent financial advice for contractors. "Cut those empty expenses that gnaw away at your financial security and you'll be better placed for a potentially tougher economic climate. Ten pounds lost here and there all adds up!"

One quick and easy way to save money is to make sure you have the best deal on your utilities. When you successfully reduce any bill, the next months direct debit will obviously be that bit lower, so why not redirect the saving into a deposit account rather than lose the opportunity. This is money that you didn't have in the previous month, so you shouldn't miss it, and it will be a real achievement if you can put the funds to work building up financial muscle for any leaner times ahead.

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Tony Harris -
ContractorFinancials

Credit cards debt

Figures show that some 1.29 million people have unsecured debts of more than £20,000.

If you don't clear your credit card balance in full every month, there are still a handful of 0% deals around for you exploit - but watch out for arrangement fees. You should try to make a concerted effort to try to pay off the debt, before the interest-free period ends, and start thinking twice before using your credit card on further day to day spending. The average standard rate on purchases has increased from 16.72% to 17.01%.

Are you paying as little as possible for your mortgage?

As borrowing becomes trickier, going to a broker can make good sense and it's no surprise that enquiries to the UK's Independent Financial Advisers are up 50%. Whilst they can't magic great rates out of the air, they can help hunt out the best schemes for your circumstances.

"It's a really fast-moving market right now, where tracking down the best deal takes time and those good rates that are around are being withdrawn with very little notice, " Harris points out.

Harris explains: "Borrowers with mortgage schemes due to end in the next 4 to 5 months, who have relatively small amounts of equity in their property, could benefit from looking at options now, securing current deals ahead of any further tightening of lending criteria."

Also, says Harris, "You could also explore the merits of adding a flexible mortgage to your financial armoury. These schemes allow over/underpayments and payment holidays to pre-empt potentially lower earnings or times between contracts."

Get the most from your savings!

There is one group that are clear winners from the credit crunch.....the savers!

While standard variable mortgage rates might be at a nine-year high, savings accounts have broken through the 7% interest barrier. That's because banks want to get as much money through their front doors as they can to repair the damage caused by the freezing of the interbank funding regime.

As Northern Rock proved though, banks can, and do get into problems. So if you are worried about the possibility of bank difficulties do not invest more than £35,000 with any one institution as this is the maximum covered by the depositors compensation scheme.

Switch current accounts to interest bearing schemes and move ongoing balances to deposit accounts. Banks are desperate for capital so shop around for deposit rates even if the cheque account remains on the High Street. Aim to build an emergency fund as a buffer against any future slowdown in contracts - for this purpose you can use Cash ISAs to benefit from tax-free interest

You could also explore fixed rate bonds ahead of further potential interest rate cuts.

Don't put all your investment eggs in one basket



"Too many investors are solely focused on one asset class," Harris warns. "Diversification is the key to a solid investment strategy regardless of whether we're in times of stability or volatility, so keep a level head and make sure your investments are giving you the widest possible exposure to a variety of different world stock markets and that you have exposure to commercial property, bonds and also gilts."

"You should try to ensure that whatever happens to one particular part of your portfolio, you will have other investments that will counter the effects and level out any volatility."

So, don't bury your head in the sand and keep a careful eye on your finances. Being proactive rather than reactive in terms of your financial security is the key to looking forward to a great summer and beyond!

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Tony Harris is MD of ContractorFinancials, recognised as the specialist independent financial adviser for Contractors.

ContractorFinancials offer jargon free and timely mortgage, pension, insurance and investment solutions tailored to the unique needs of Contractors. [Read Full Profile...](#)

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