

Taking Control of Your Finances

Whether you are just starting out or nearing retirement, having a handle on your household finances can help you accomplish your goals. Research in behavioral finance has shown that we have trouble prioritizing long-term goals, such as retirement savings, over short-term wants, such as dining out. (Pompian, 2012) That is the psychological reason why budgeting is so challenging, but also why it is important. Done correctly a good budget can lead to financial freedom so here are some helpful hints to take control of your financial future.

First let's get rid of the term "budget," which has gotten a bad reputation, and think of it as a "spending plan." Prior to creating your spending plan you must first track ALL of your spending. This is not an easy task as it includes everything, even the small expenses. Many people make the mistake of only including their monthly bills and leave out the variable expenses, such as restaurants, entertainment, clothing, gas, etc. These expenses can vary dramatically from month to month so keep track of them for at least three months to give you a better idea. This doesn't have to be as time-consuming as it sounds. You can set aside an hour at month-end to examine that month's receipts or your bank or credit card may give you a spending report. During this tracking period try to pull all expenses from the same place, either all cash or all credit. Often people only count one or the other and end up forgetting to include something in the plan.

Second be sure to take into account those unexpected and irregular expenses in your spending plan. It is very important to incorporate quarterly, annual, or seemingly random expenses on a monthly basis such as car maintenance, school supplies, or holiday spending. Just because it isn't in the spending plan doesn't stop it from happening. A wedding gift, a car accident, or a vet bill are those "emergency" or "one-time" expenses that should be averaged into a monthly cost so they are included somewhere. In addition, make sure you set aside money for savings. Making savings, both long-term and short-term, automatic is a great way to ensure that you have the money available when you need it.

Third be honest and accurate with your current spending as it will go a long way in helping you create a realistic spending plan. No expense gets left out. When you are not sure where you are spending your money, you cannot figure out what needs to change to make progress toward your goals. Tracking spending includes categorizing it. This is where another issue can come up: not being consistent with what expense goes in each category. It doesn't so much matter if your wine club membership goes

Securities offered by Registered Representatives through Private Client Services, Member FINRA/SIPC. Advisory products and services offered by Investment Advisory Representatives through Wagner Planning, a Registered Investment Advisor. Private Client Services and Wagner Planning are unaffiliated entities.



under groceries, memberships, or healthcare as long as you continue to put it in that category every time and you know that it is under that classification. The category you choose should make sense to you.

Finally, don't fall into the trap of thinking your spending plan is set in stone. Make it flexible so that if you spend more at the grocery store you make up for it by spending less on eating out. Successful budgeting is an ongoing process that can take months of readjusting and practice in order to make it attainable. Your plan should be revisited often, especially when you find that you are off in a particular category on a regular basis or when something changes in your financial life, such as an increase in your car insurance or a refinance of your mortgage. Understand too that family finances are continually evolving as incomes, necessities, and priorities change.

Speaking of family, be sure to sure include everyone in the household in the spending plan. A budget won't work unless you work as a team to manage your expenses and partners communicate, not hiding any spending. Consider involving children in the plan. When you involve your children, you are helping them learn proper money management techniques early that will serve them well over their lifetime. And having everyone participate will help you keep each other accountable.

An accurate budget is more than just a guide for your current expenses. It is an important financial planning tool that can help you reach long-term goals you never dreamed were possible. Avoiding overspending and making sure you set aside each month for the future goes a long way. We all can use a little help from time to time so remember a Certified Financial Planner™ can be a great asset to support you in taking control of your finances.

Works Cited

Pompian, M. (2012). *Behavioral Finance and Wealth Management: How to Build Investment Strategies That Account for Investor Biases*. Hoboken: John Wiley & Sons, Inc.

This article was written by Sandra J. Wagner, CFP®. Sandra has been helping people with their finances since 2001.

She is a CERTIFIED FINANCIAL PLANNER™ professional and CEO of Wagner Planning.

Material presented is meant for general illustration purposes only, and should not be construed as tax, legal or investment advice. Always consult a qualified professional regarding your specific situation.

Securities offered by Registered Representatives through Private Client Services, Member FINRA/SIPC. Advisory products and services offered by Investment Advisory Representatives through Wagner Planning, a Registered Investment Advisor. Private Client Services and Wagner Planning are unaffiliated entities.

