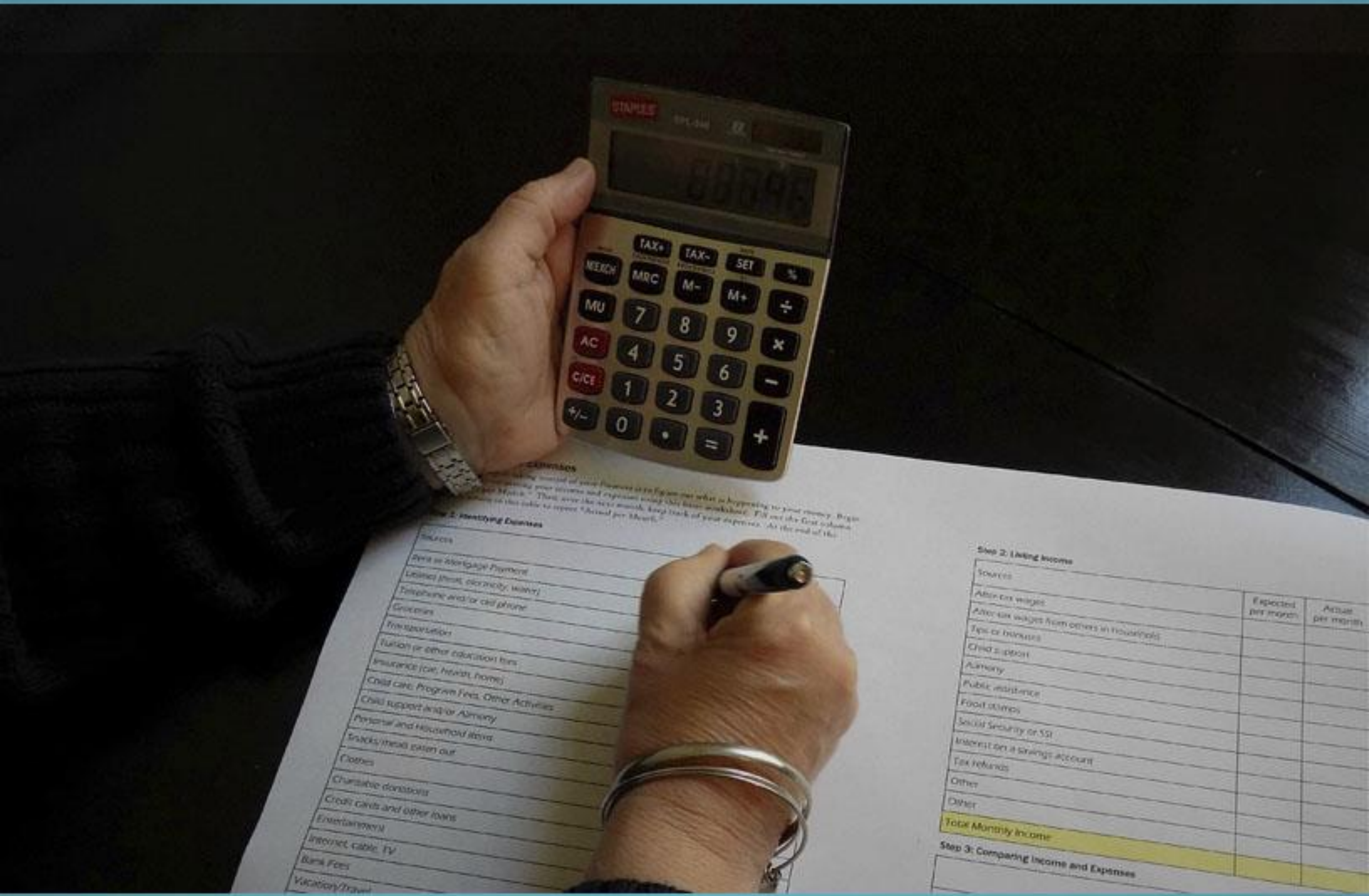
MONEY MANAGEMENT MADE EASY



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Why Money Management Is Important and What It All Boils Down To

Many people grow up without knowing how to manage their money. That lack of knowledge and confidence leads to a lot of confusion and a sense of overwhelm. They find themselves living paycheck to paycheck and hoping it all works out. Yet money management is something that anybody can do. You don't need a college education. You don't need to know anything other than that managing your money is about controlling your money and knowing where your money is going.

There are three pillars to easy money management.

1. Know What You Have Coming In

The first thing you want to know is how much money you have coming in. We're talking about your income and any additional sources of profit. For example, you may have money coming in from your tax returns. You may have money coming in from interest on your savings accounts or investments. And you may have income from royalties, affiliate sales, and part-time income.

2. Know What You Have Going Out

The second fundamental component of money management, and you might be able to guess it, is to know what you have going out. Here we are talking about your expenses. This means everything from your rent and gas money, to your phone bill and the money that you spend on entertainment.

It's important to know how you spend your money. Ultimately, that gives you the information to make the best decisions for you and your financial goals.

3. Your Financial Goals

The third main component of money management is your financial goals. These goals can be as fundamental as making sure that you're able to pay your bills every month. Larger-scale goals are things like:

- Saving to buy a car
- Saving for an emergency
- Saving for a vacation
- Retirement savings

So the three fundamental components of money management are to know what you have coming in, know what you have going out, and know what you want to save for. That's not too complicated, right? It's pretty basic and you definitely don't need a college education to understand those concepts. Nor do you need an education on how to set up systems to support you with those three components of money management. We're going to talk about systems in the next chapter.

The Foundation of Good Money Management

If money management is about saving, knowing what money you have coming, and what money you have going out, the best way to achieve those three fundamentals is to set up systems. Systems are basically a series of steps that you perform for processes that you repeat often.

An example of a system might be something simple like making a pot of coffee. When you make coffee you repeat the same steps over and over again. You gather your equipment including your coffee, scoop, paper filter and coffee machine. You place the filter in the coffee basket. You fill the filter with three scoops of coffee. You fill the water receptacle with six cups of water. You place the coffee pot under the basket and push start.

It’s a simple and repeatable system. You can apply the same organization to repeatable financial processes like saving, budgeting, and paying bills.

Setting Up Reliable Systems

Systems support you to:

- Automatically save - You can set up a system using your bank technology to deduct money from your checking account on a regular basis. The money can be placed in your savings accounts and retirement accounts to support you to achieve your savings goals.

- Control your money - You can use technology and systems to transfer all of your income and expenses automatically to a budgeting tool. You can review your budget once a week or once a month to see where you stand in terms of your spending and your earning. That information takes us to the next step where systems can support you, and that is to make educated decisions.

- Make smart money decisions - Imagine you are standing in a furniture store and you’re getting ready to buy a couch. You don’t know how much you’ve spent this month. With a budget and systems in place, all you have to do is review your accounts and see where you stand. Systems help you make smart financial decisions, stay out of debt and save more money.

- Earn more - Ultimately, system support you to earn more. Whether you're earning more in interest or you're earning more in income, systems can support you to leverage your money from all directions.

- Investing now - There's another component to good money management and that is to start investing your money today. Don’t wait.

“Waiting until the last minute to get smarter with our money is one of the worst things we can ever do. Every year we wait to get started with investing and saving puts a huge dent in our long-term financial plans.” - Ramit Sethi

What Are Your Expenses?

We're now going to go through the fundamentals that we talked about as they relate to managing your money. And that first fundamental or pillar of easy money management is to understand your expenses.

Make a List

The first step in determining what your expenses are, is to just sit down at the kitchen table with a piece of paper and a pencil and to make a list of your expenses. Brainstorm all of the ways that your money goes out of your accounts and out of your pocket every single day.

Think about what you spend each day, week, month and even what your quarterly expenses are. For example, you may have quarterly expenses like a homeowner's association or quarterly taxes.

Estimate Your Expenses

The second step is to go ahead and look at that list and write down an estimate. What do you think you spend for each category? You don’t have to go digging through old statements; just take a good guess and move on to the next step.

Prioritize That List

The third thing you want to do when you're looking at your list of expenses is to prioritize the expenses in terms of wants and needs. For example, your rent may be a need, but if you spend a hundred dollars a month on socks that may be a want.

Track It for a Month

The next step is to track your expenses for a month. Write down what you spend. Keep your receipts, keep a journal, and use a mobile app or some sort of simple system to track how much you spend.

Assess Your List of Expenses

Now go back to your list and your estimated expenses and start writing down the actual amount of money that you spent. This evaluation will give you the information that you need to create systems to manage your money quickly and easily. However, before we can talk about systems, we have to talk about the other side of the financial coin - your income.

What Is Your Income?

Obviously if you spend some time tracking your expenses, the next logical step is to take a look at your income. That’s what we're going to do now.

Make a List

Make a list of all of the sources of income that you have coming in. Again, don't forget about income tax returns, financial gifts, interest on investments, royalties and so on. Keep in mind all of the small sources of income that you have because they do add up. Ultimately, this information may help you brainstorm new ways of increasing your income.

Now when we were looking at expenses, we estimated the expenses and prioritized them. You’re not going to do that with your income because chances are you pretty much know how much you're bringing in. If you need to, you can go back and look at your last paycheck or last year’s tax return. What you can do instead is begin brainstorming how to bring in a bit more money and income.

For example, you could invest a little bit more money in the stock market or you might start a new business. The bottom line with your income is that you want to go ahead and make sure you have all of it recorded and that you're ready to move on to the next step, which is to set your financial goals.

Your Goals

Financial goals is one area of money management where a lot of people fall short. They either have a goal of basically making it month-to-month, or they don't have any goals at all. In the end, they may end up in significant financial stress or debt. Income, expenses and goals are the pillars of easy money management and it really doesn't have to be any more complicated than that.

Find a Quiet Place

The first step to getting your financial goals in order is to walk to a quiet place with a pen and paper and just brainstorm your financial goals without distractions. What do you want to achieve? Here are a few ideas to consider:

- Pay off that debt
- Create an emergency savings plan
- save for college, for yourself or for your children
- Save for retirement
- Save for big expenses like a new car, a house, or a vacation

Think about all of the different ways that you would like to spend the money that you're earning. We'll talk about leveraging that money later, but right now let's focus on two traps that many people fall into when setting savings goals.

The Two Savings Goals Traps to Avoid

It's important when you're brainstorming savings goals not to get caught up in two different traps. The first trap is that you just don't think that it's possible to save money. We're telling you right now that saving money is a possibility.

The second trap that people fall into is they create large savings goals but they don't really have the income to back it up. Saving for a million-dollar house isn't a realistic goal if you're only making $25,000 a year. You want to think about what's possible and also what's relevant to your life now.

The time frame for the goal is important. If you're making $25,000 a year and you want to save a million for retirement that is possible. Try to find a good balance.

So we've talked about setting goals. We've talked about income and we talked about expenses. The next part of what makes money management super easy, beyond these three pillars of money management, is to create systems that support each one of those pillars. We'll focus on that next.

Technology and Your Systems

Technology can be an important part of your money management systems. At this point you have savings goals. You have a list of your income and you have a list of your expenses. It's time to put those three pieces of information to work for you, and the best way to do that is to create systems to support you.

Here's a quick example of a financial system that you may be familiar with…

Once a month your bank sends you a statement. They can send you an e-statement or they can mail you a statement. If you're using accounting software like Quicken, that digital statement can be imported right into your accounting system. It can be done automatically at the end of each month.

You can then use this information to budget and to make decisions about your saving, investing, and spending. This is a very simple example but it's also quite effective. Let's work through the different areas of money management and talk about the technologies that may be available to you.

Bank Account

The first area that we'll look at, and we've already discussed it a little bit, is your bank account.

- Automatic bill pay - Set up automatic billing through your bank account to pay for things like your mortgage, your rent, your car payment, your utilities and just about anything else. Setting up automatic payments is one way that you can gain control over your money and make it very simple to manage.

- Tax accounting - You can sync your bank account statements to your accounting software or even your tax accounting software. It makes year-end accounting and quarterly tax payments easy and efficient.

- Money transfers - A third thing is you can set up automatically is instant transfers. For example, if you have a savings account with a different bank, you can transfer money from one account to the other from your mobile phone or your computer.

- Instant deposit - Another thing that many bank accounts offer are the instant deposits. You simply take a picture of your endorsed check and it's instantly deposited into your bank account.

There are many different ways to leverage technology to make it easier to manage your money, and the next area to consider creating technology-based systems for is your budget.

Your Budget Systems and Technology

There are two primary ways to use technology to create and use a budget. The first is to use a mobile application like Mint.com or some other budgeting app to stay on top of your accounts and spending. There are also many budgeting software programs that you can access. You can download or review your accounts on a daily basis to see where you stand.

There's also technology to help you manage your investments. Any financial institution that you open an investment account with will have their own software. Accounting software also tends to link with major financial institutions and investment firms.

Quicken is one that allows you to transfer all of your investment information into your accounting program. Then of course there are mobile applications that let you see what's going on with your accounts in real time.

Credit Card Spending and Debt

Managing your credit card debt and spending is always a good idea and technology can help. You can leverage text messaging technology to schedule alerts when a charge is made with your card.

Most financial institutions also offer a mobile app that allows you to access your card spending information at any point. And tools like Mint.com also aggregate all of your financial information to one location or point of reference. You can pull up your account on Mint.com and see what you've spent, what you owe and much more. Online interest calculators can also be useful to help you calculate interest rates, fees, and payment terms.

There are many different technologies that are available to help you manage your money and help you create efficient systems. As you review the different technologies, find ones that are safe and secure and protect your information from identity thieves.

Look at user reviews and make sure that the technology is easy to use and reliable. Finally, look for financial technology that is free.

Now that you have a good idea about the technology that's available to you and the different areas where you need systems, let's talk about actually creating the systems.

Create Your Systems

When we're talking about systems to make managing money quick and easy, there are three main areas to focus on right away.
They include:

- Automating your bill payments
- Automating savings and investments
- Create a budget

1. Automating Your Bill Payment Systems

Go back to your list of expenses and one by one automate the payments. There are two approaches. You can either set up the payments through your bank or through the company who sent the bill. For example, if you're paying by credit card, you can set up automatic payments through the credit card company.

Word of advice… keep your payday in mind when you set up payment dates. This helps you better manage your cash flow. For example, if you get paid on the 15th of the month, it may not be a great idea to pay all of your bills on the 14th.

Why not wait until after you’re paid so you can be completely sure you have the funds to cover your bills. This ensures that you’re never hit with late penalty payments or fees, and your credit rating stays positive.

2. Automating Your Savings and Investments

Go back to your savings goals and one by one automate your savings. For example, if you want to save a hundred dollars a month for retirement, head to your bank’s website and set up a recurring automatic transfer from your checking to your savings or investment accounts. Automate your savings so that you don't spend more than you have, and you achieve your savings goals.

3. Budgeting

There are some truly amazing online budgeting services. We’ve already mentioned Mint.com and that’s just one of the many top-rated budgeting technologies. Find a tool that serves you to track your expenses and report your information to you in real time. You want to be able know where you are financially right now so you can make informed financial decisions.

These three categories are the fundamental automated systems that you need to set up right away. Once they’re set up, you can begin to look at other areas where you can automate and streamline your financial management to make it as easy and as supportive as possible.

Keep in mind that simple systems make it easier to manage your money. This means you don’t stress about money, you achieve your financial goals, and you maximize your money.

Next, we’re going to talk about spending recommendations because it's very difficult to know how much you should be saving and how much you should be spending. These recommendations can help you make your own decisions. Use them as a guideline for your own financial expectations and money management needs.

Spending Recommendations

Earlier we suggested that you make a list of your expenses and a list of your income. You also took a look at your savings goals. All of those were created sort of without any guidelines. They were created in reference to your own spending and saving habits and desires.

We're now going to talk about some guidelines that will help you create a framework for your expenses so that you know how much you should be spending and how much you should be saving. These guidelines will give you some parameters to work with. Let's first talk about fixed costs.

Fixed Costs

Fixed costs are things like rent, utilities, and insurance. They generally take up a little bit more than half of your take-home pay. So for example, if you make $4000 a month, your fixed costs will probably be between $2000 a month and maybe $2500 a month. The guideline for fixed costs is to have them be between 50 to 60 percent of your monthly income.

Investments

Investments are things like your retirement accounts, your IRA and your 401k. They should generally be around 10 percent of your take-home pay. Again, if you’re looking at $4000 a month in income, you should generally be investing about $400 of that money for retirement. You can give or take a little bit here because this is just a guideline; however, it's always nice to save a little bit more if you can afford to.

Savings

Your savings is different from your investments. With savings you’re looking at your larger savings goals. We’re talking about things like a new car, a new house, a vacation, or your emergency savings account. Generally speaking, these are about 5 to 10 percent of your income. Continuing with the example, if you're making $4000 a month then you’re looking at saving about $200-$400 a month.

If you add it all up, this leaves a good chunk of your monthly income for spending money. It’s important to enjoy your money too.

Spending

Spending money includes things like dining out, going to the movies, buying new clothes and anything that is sort of above and beyond your other expenses. In theory this should be guilt-free spending. You’ve paid your bills. You’ve saved money for retirement and for your savings goals.

This is your money to have fun with and it's about 20 to 35 percent of your monthly pay. Based on the $4000 monthly income, that’s at least $800 a month that you can spend on fun stuff. That's not too bad, right?

Remember these are just guidelines. They are here to help provide a framework for you to use as you create your financial systems and begin to organize your money.

Next we'll talk about the big D word and that is Debt. We're going to offer four tips to help you better manage your debt.

What about Debt?

Nobody really likes to talk much about debt. The sad truth is that almost everybody has a little bit of debt. Mortgage debt, car payments, and college loans are all common forms of relatively acceptable debt. Credit card debt is where it can begin to get stressful and we'll focus on that type of debt. It grows over time and as interest accumulates, the debt can get out of hand.

It's really important to talk about debt as a component of money management, so we have four steps to work through.

1. Be Honest with Yourself

As you're exploring how to pay off your debt, the first step is to be honest about how much you owe. Sit down and open up all of your statements. Add up how much you have in debt right now.

2. Choose One Account

The next step is to choose one account to pay off first. Some people like to tackle the smallest balance first. Other people like to focus on the largest balance first. Or you might look at the card with the highest interest rate.

You decide where to focus your attention and which account you're going to pay off first. Keep in mind that you're going to continue paying the minimum balance on your other cards and debt. The one you focus on is going to get more attention because you're going to pay more than the minimum balance. (And you're going to stop using credit because you now have a working budget and an emergency savings account.)

3. Negotiate a Lower Interest Rate

The next step is to call that credit card company and negotiate a lower annual percentage rate or APR. Don't be afraid to do this. Even if you only knock off one or two percentage points, you're saving money each month. This is money that you can use to pay off your card more quickly.

4. Where's the Money Coming From?

Now take a look at your budget and decide where the extra money is going to come from. You may need to reduce some of your other expenses to find money for your debt payoff plan. You might reduce your cell phone data plan, carpool to save on gas, or start making your own coffee at home.

Look at your expenses and see where you can pull a little bit of money to pay towards your debt. Once that credit card is paid off, start the process over again. It’s really that simple.

A lot of what we've been talking about may require you to adopt some new financial habits. Let’s take a look at how you can smooth the transition.

Creating New Financial Habits

It's not enough to go through the motions of managing your money if the systems that you create don't support you. You know a system supports you if it’s easy to use, if you use it often, and if you’re achieving your goals.

1. Make Financial Systems Part of Your Routine

You’ll be better able to adopt new financial habits if you integrate them into your lifestyle. For example, Sunday night might be when you review your budget. The last day of the month may be when you review your savings goals. Make it part of your routine.

2. Assess Your Systems Regularly

Review your financial systems. Are they working for you? If not, why not? Be ready to adapt your systems and make them work for you. You might need to change when you pay your bills or the tool that you use to manage your budget. You’re in charge here; make it work for you.

3. Celebrate Your Success

As you begin to pay attention to your money and you start setting and achieving your financial goals, celebrate your success. Being in charge of your financial future and taking positive steps to embrace that is a big deal. You deserve a pat on the back.

You’re the only person who can make money decisions for yourself. What you do today does matter and what you save today will benefit you down the road. You don’t have to be a financial genius to manage your money. It can be a simple and easy process.