The Stan Clark Financial Team's

PERSPECTIVES

An excerpt from "Perspectives" - Volume 7 - Issue 4

Financial Planning

To start putting money away, first get back to the basics

By Meghan Jones, Administrative Assistant

Last month, Sales Assistant Johnny Lyall introduced us to the concept of preparing for our future selves. Johnny discussed the importance of saving, and some of the vehicles available for achieving that, and other goals.

In this issue, I'm going to look at how we can reach the point where we are indeed able to start putting money away. To do this, we first need to get back to the basics! We need to set up a budget and learn to monitor our spending. Welcome to adulthood!

Budgeting may have a bad reputation in the gen-y world – but that bad rep is undeserved. Contrary to popular belief, budgeting doesn't have to be time-consuming, restrictive and a task that's always on the to-do list for tomorrow. Far from it, in fact. When implemented correctly, using a budget not only puts you in a position of control, but can help you reach your financial goals with ease. It can even help you plan for the occasional splurge – guilt-free!

The basic concept of creating a budget is simple: Spend less than you make. The first step in setting yourself up for financial success is to take a look at where your money is currently going. That is, to track your spending. You can start by creating a few categories:

- After-tax income: monthly income earned after taxes
- Needs: rent, utilities, car payment, phone bill, basic groceries, debt, etc.
- Wants: eating out, shopping, vacations, etc.
- Savings: retirement, emergency fund*, savings for future purchases (such as a down payment on a house).

**Many experts recommend having enough cash on hand to cover six months' worth of expenses if you suddenly lose your income or have an emergency.*

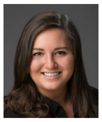
Once you have established your categories, there are a few simple guidelines to put into effect. No more than 50% of your after-tax income should be spent on needs.

No more than 20% of your after-tax income should be spent on wants and at least 30% of your after-tax income should be saved.

If this information is completely alien to you, or your budget needs a few tweaks, here's where prioritization comes into play. Take some time to reflect on your monthly purchases. Become aware of what is costing you the most after your needs and savings are taken care of. What are you spending the majority of your money on in your wants section? Prioritize those purchases. Anything that is low on this list should be scrapped to make room for what is highest. For example, maybe you have a few birthday dinners that require your attendance this month. However, those daily lunch runs are bringing you down. Consider taking your own lunch to work, creating a more flexible budget to celebrate your friends and planning for that future purchase!

Now that you have a concrete budget plan in place, it's time to make the budget as easy to execute as possible. This could simply involve setting up separate savings accounts for each of your goals, keeping cash in jars on your kitchen counter or setting up automatic withdrawals so you won't have the opportunity or temptation to spend. Out of sight, out of mind.

We recognize that sticking to a budget can be a difficult task and that our 50/20/30 guidelines won't work for everyone. The key is to categorize your expenses on a monthly basis so you can see exactly where your money is going. If your savings targets are too aggressive or you're spending too much at Starbucks, you may find that some months require readjustments. But by sticking to your monthly sum realistically, you will be well on your way to reaching your personal financial goals. All that's left to do is relax and start planning that vacation. ■



Meghan Jones is an Administrative Assistant for the Stan Clark Financial Team

CIBC Wood Gundy | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca