

THE STAN CLARK FINANCIAL TEAM'S

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Financial & Estate Planning

BUDGETING BASICS, SMART GOALS – AND PAY YOURSELF FIRST!

By Tom Cowans, Wealth Advisor

Previously we've introduced the concept of preparing for your future self. We've discussed the importance of getting into the habit of saving early – and touched on some of the ways to do that. Now let's look at how to reach the point where you can indeed start putting money away.

First, back to the basics of saving: setting up a budget and learning to monitor spending. For some people, budgeting has a bad reputation – but that bad rep is undeserved. Contrary to popular belief, budgeting need not be time-consuming and restrictive, a task always pushed onto tomorrow's to-do list.

When implemented correctly, using a budget puts you in a position of control. Not only that, but budgeting can help you reach your financial goals with relative 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 look at where your money is going. That is, to track your spending. You can start by creating a few categories for your after-tax income:

- **50% on needs:** rent/mortgage, utilities, car payment, phone bill, groceries, debt, insurance, etc.
- **30% on savings:** retirement, emergency fund, savings for future purchases, e.g., a down payment on a house.
- **20% on wants:** eating out, shopping, vacations, etc.

If the above is new to you, and you realize your budget needs a few tweaks, this is where prioritization comes in. 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. How are you spending the majority of your money in your wants section? Prioritize those purchases. Anything low on the list should be scrapped to make room for what is highest. For example, maybe a few birthday dinners require your attendance this month. Meanwhile those daily lunch runs are sapping your cash supply. Consider taking your own lunch to work, thereby creating a more flexible budget for celebrating with your friends and/or planning for that future vacation.

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 monthly so you can see exactly where your money is going. If your savings targets are too aggressive or you're spending too much on wants, you may find that some months require adjustments. But by being realistic and sticking to your monthly sum, you'll be well on your way to reaching your personal financial goals.

To be effective, your budget should feel somewhat restrictive. We all like to indulge from time to time, but everything in moderation! If you can develop the habit of saving and being frugal, that will pay dividends in the long run. Think of the satisfaction in seeing your debt paid down

and your assets accumulating. Your future self will thank you for it.

Set SMART goals – and remember to pay yourself first!

Budgets are the essential foundation for helping to reach goals, both short- and long-term. Budgeting helps clear the fog away so that you realize exactly how much you are making after tax. You see where your money is going – and where your money should be going.

Okay, so you've identified your fixed and variable expenses. Now it's time to evaluate. Suppose the money coming in covers neither what is going out in expenses nor your savings goals. You have two options: Boost your income or lower your expenses. Here's where you may need to make some tough decisions and scale back on some of your spending.

First, create a **SMART** goal, one that is:

- **S**pecific
- **M**easurable
- **A**ttainable
- **R**ealistic
- **T**imely

Once you have a clear vision for yourself, saving becomes easier. Resisting purchases here and there won't be as challenging.

There are many ways to go about this. Say you are too easily tempted to spend your cash and could use some extra discipline. We recommend separating your monthly funds into separate "buckets" for each category of your spending. Then, if your funds for dining out are gone by the end of the month, you know it's time to crack open the cookbook and experiment.

Luckily, in today's world we have many resources literally at our fingertips. There are some wonderful apps out there to help you track your spending and input your savings goals. However, we do recommend carefully researching any of these apps before using them.

Here's a simple way to save. If your paycheque is sent to your chequing account each month, you can set up automatic monthly withdrawals to go into a separate savings account.

There are other, less direct ways to save. One we recommend is meal planning, then transferring those plans to a grocery list. So, when you go to the grocery store, you have that plan to adhere to. You're not roaming through the aisles and whim-buying a mix of things beyond what you need for the week's meals.

Another tip: At the grocery store, keep in mind the premium price put on brand-name products. Try no-name brands when you can.

What this all comes down to is that making conscious decisions now will set you up for success later. Those saved pennies add up! Even the

little decisions you make can affect how much money you will have for future purchases – right through to your retirement.

Last but not least, we have one basic rule for you: **Pay yourself first.** Saving should be the first priority on the list of where your money goes. Figure out what is reasonable for you and put that amount away each month automatically. Once you choose the budget plan that will work best for you, saving will be more straightforward.

Most important, you need to be realistic. Reward yourself! You may start out gung-ho and refrain from buying any fun things at all. That's going to be impossible to maintain. Treat yourself once in a while – it's the only way the light will stay bright at the end of the tunnel.

With these tips in mind, your savings will add up faster than you think.



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