



CHAPTER 4

Budgeting

Budgeting to Save

Do you need a budget? The answer is yes if you want to save money and build up capital. Folks who do not budget their funds spend money first and worry about where it went later. We have all heard people say, “I just do not know where all of the money goes.” Wealthy people know where their money goes, down to the last dollar.

Do you know how much your family spends on food, clothing, entertainment, insurance, and so on per month? How about what you spend on these categories for a whole year?

This chapter can be used in conjunction with chapter 36. Chapter 36 explains using a balance sheet to determine your current financial net worth and an income statement to see how much money comes in and where it goes. If you do not have a budget yet, the place to begin is your income statement to identify the categories and the amount of spending you have done. Of course, you cannot have a budget without income. So it will be important to generate a steady stream of income as soon as possible until the day when your assets will provide enough income to support yourself. The first thing to determine is whether you are spending your money wisely and efficiently. Your income statement will give you that preliminary information. If you are spending more each month than you are bringing in, you’re headed in the direction of debt accrual and financial chaos.

I learned early on to save first, and then to pay the bills. This may sound contrary to common sense, especially when the money is gone before all the bills are paid! But I have been saving money in this manner my whole life and, even though, there are some months where there is more month than money, I was still saving. Somehow I was able to navigate the shortfall by prioritizing spending or cutting back somewhere. By having a budget and watching the spending, you can make adjustments before there is a problem. A Google search on how to budget will turn up numerous articles and budgeting tools for you to check out.

As you develop a budgeting plan, shortfall months tend to occur less frequently because you know how much money is allotted to each spending category and spend accordingly. If you do not have this information, you can easily overspend in one category,

which throws the entire budget out of whack. One important key to staying within the budget is having an emergency fund to handle those unplanned expenses. Things always come up—you just do not know when or what they will be. If you do not have money for the unexpected expense, you resort to putting it on a credit card. If you cannot pay that expense off in full when it comes due, you are moving backwards in your financial progress.

Needs Versus Wants

A very important part of maintaining a balanced budget and keeping on your financial track is understanding the difference between a need and a want. Needs are basic, such as food, shelter, water, and so on. Wants take needs to a different, and generally a much more expensive, level. For example, you may need a car to get to work and get around in general. (Some would argue that a car is a want, but certainly in Southern California I would beg to differ on that point. My opinion, for what it is worth, a car is a need.) You may be able to easily satisfy that need by buying a reliable used car. Or you could buy a new car like a Honda Civic or a Ford Escort. Or you could buy a \$250,000 Ferrari. You may *really want* a Ferrari, but you don't need one. (Actually, if a person is in a financial position to maintain growing wealth and can pay cash for a car like that, I do not have a problem with such a purchase, but let's be serious—it is not a need.) What I like to do is purchase a new car, such as a Honda or a Ford, and keep it for 10 years. Keeping a car for several years amortizes the initial depreciation quite well. In *The Millionaire Next Door*, the author points out that 37% of millionaires bought used cars and 25.2% kept their cars for four or more years. (Danko, 1996)

Food is another need, but eating out, while convenient and fun, is a waste of money. One of the easiest ways for college students to save money in their budget, is to cut down on eating out, and specifically fast food. Spending on fast food is one of college students' biggest wasteful practices. Some of my students were eating fast food every day. How about cutting back a few days per week and bringing your own PBJ (good old peanut butter and jelly sandwich). It will be a lot cheaper and probably better for you also. This would come under the food allowance category in your budget, which is a key target for a lot of people for saving fairly serious money if they are willing to make the adjustment.

I like to encourage students to get their money act together, but to do it in the least annoying way. I don't encourage eliminating things they enjoy completely, but there may be more frugal options that will give the same satisfaction. For instance, if you are taking someone out for dinner and a show, there may be a way to do it that gives the same result for less money. Instead of going out for dinner first and then taking in that movie, try reversing it. Go to the show first and then have a nice dinner. By doing that you can probably get the matinee rate on the movie and the cost of the dinner will be the same. You have the same result but will end up saving dollars on movie tickets. A little creative thinking will allow you to still do what you enjoy and get that budget in order as well.

As you see your net worth begin to move in the right direction, it becomes addicting to keep it going. Building the motivation to start budgeting is similar to what was said in Chapter 29 about goal setting and motivation: You just need to get started. An ever increasing salary is not the way to wealth. You need to understand money and have a game plan for saving and investing. Many people make a lot of money, but have no money. It really does not matter how much you make but how much you keep and use wisely.

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