

DO YOU NEED A BUDGET?

THE MONEY MARATHON BY ED DOUGLAS CFP®

Budgeting can be a difficult and unpleasant task for many people. However, according to a recent Gallop Poll, nearly 40% of households with income in excess of \$40,000 prepare a detailed monthly budget each month.

The main reason to budget is to prioritize a person's or couple's spending in advance to make sure that money (a limited resource) is spent on the most important priorities. Additionally, budgeting allows people to track their progress toward reaching their financial goals, like saving for retirement or saving for their children's college education.

People without budgets, much too frequently, tend to impulse spend on items they think they want at the time, only to run out of money for the items that are really more important - like saving or important expenses such as the house payment or the utility bill. A budget allows a person to decide in advance how his money will be spent as opposed to living without a budget and allowing money to spend itself (which leads the person to be short at the end of the month and to wonder what happened).

For a budget to work for a couple, both parties need to agree on how the money is spent and then communicate in advance every time there is a change that would go over the budgeted category. When one category needs to be exceeded, a decision needs to be made as to what other budget category will be lowered to make the budget balance. The first time a couple establishes a budget, they will need to have brief meetings with each other, or mid-course corrections, to decide how to adjust their budget as conditions or unexpected events occur. In the first month of a budget, a couple might have 17 to 20 budget meetings or discussions. Fortunately, it gets easier with fewer meetings in each successive month.

If an ongoing budget is more than a person or couple wants to do, I would encourage couples to try to do a budget for at least one month. This will stave off budget burnout and should allow a person to see where his money is going. Once a budget has been set, I would encourage the person to compare his budget with the average of others (see below). If that person's budgeted category exceeds what others spend, he can then examine more closely to see why his expenses are larger. This process can be eye opening and lead to adjustments in behavior that will lower expenses. In today's fast-paced world, I find that many couples spend much more than they realize eating out.

Eating out is fun; but it can really add up and be a budget buster that doesn't allow them to meet their financial goals.

When I do financial planning for people who do not have budgets (the majority), I usually just ask them how much money is left over each month. I can usually verify this by seeing how much they have added to savings or investments for an entire year, or conversely, if they are short each month, how much their debt has increased.

Here are some comparisons from my book, *The Money Marathon: 7 Simple Steps to Financial Freedom*, for a person to compare what they are spending against averages of others. (It should be noted that both saving and charitable giving numbers below are not averages but instead are my recommendations which are both higher than the national averages.) I encourage everyone to do a budget at least once and preferably every so often as circumstances change. A good budget will help a person make the necessary changes to reach his financial goals. If a person decides to maintain a monthly budget, this process can be made easier with some online programs like Mint.com.

Charitable Giving 10 %
Housing 20-35%
Utilities 5-10%
Food 10-15%
Transportation 5-15%
Medical 5-10%
Clothing 2-5%
Invest/Savings 10-20%
Consumer Debt 5-10%
Personal/Recreation 5-10%

Budgeting is like a road map. A person wouldn't set out in his car for a destination without knowing how to get there. And yet, without a budget, people are doing just that with their money. Consider making a budget, at least once, so that the destination (your financial future) and the way to get there will be set. You will be glad you did.

Remember every investor's situation is unique, and it is important to review your specific situation with a financial professional.

Ed Douglas is a Certified Financial Planner/Consultant, Chairman Emeritus of Citizens Bancshares and author of three books, *Making a Million With Only \$2000-Every Young Person Can Do It*, *The Money Marathon: 7 Simple Steps to Financial Freedom* and his latest book, *25 Truths: Life Principles of the Happiest and Most Successful Among Us*, available at www.eddouglas.com and on Amazon. Ed can be contacted for financial planning services or seminars based on his books at ed@eddouglas.com or 660-646-2066 or at his office at 601 Locust.