



Helping You Make Wise Financial Decisions

Jennifer J. Cole, CFA, MBA, CFP®  
ON AN HOURLY, FEE-ONLY BASIS

# It All Starts with a Budget

*Financial Planning's Foundation*

A cornerstone of effective financial planning is creating a spending plan and sticking to it. Wherever you are in life, you need to know what your expenses are and why, and whether your spending and saving patterns fit your goals. This data mining requires time and effort on your part, but it pays off.

Here are the steps:

- ❖ **Determine what is important for you, for both the near term and long term.**  
Visualize your big picture and the details in it.
- ❖ **Collect your data.**  
Gather your bank and credit card statements and any other documents that show your recent income and spending. Twelve months is ideal. If using fewer months, be sure to include expenditures that are seasonal -- like heating-- and items that might be paid just once or twice in a year -- such as car insurance and real estate taxes.
- ❖ **Create a summary that lists the annual or monthly amounts by category.**  
You can do this with pen and paper, an Excel spreadsheet, or an online budgeting program such as Mint.com, YouNeedaBudget.com, or Quicken.com. Name the general categories and each type of expense in ways that have meaning to you.
- ❖ **Determine your recent spending and savings habits.**  
Study the numbers. What surprises you? Are you spending more than you can afford? Do your spending and saving habits reflect your long-term priorities? What spending has brought you the most joy?
- ❖ **Create your targets for income, spending and saving.**  
Determine the total amount you should make, spend, and save each month, by category. If you are using this budget to plan for a pending retirement or other life transition, be sure to adjust the amounts that will change. Some categories will increase; others will go down.
- ❖ **Keep track.**  
Compare your actual income, spending, and savings to your targets. Adjust your behavior to meet your plan, or change your budget to meet reality, or some of both.

*-- continued --*

❖ **Assess if you are spending more than your financial reality allows.**

If you are borrowing to cover bills, not saving as much as you should, or going through your retirement resources faster than planned, simply tweaking your budget won't do the trick. You will have to make some major decisions about ways to really reduce your spending, boost your income, or both. Appropriate actions can include downsizing your home, recognizing and cutting unimportant spending, taking on a second job, working part-time in retirement, or postponing retirement.

❖ **Go on a spending diet, if needed.**

Use a small notebook to write down everything you spend, as you spend it. The act of writing it down may cause you to think twice before opening your wallet. And it will help you discover where the "missing money" goes!

❖ **Become more mindful and deliberate with your savings and spending.**

Going through the above steps may help you develop a feel for when your spending is in line with your budget such that, eventually, you won't need to keep such close track. Perhaps your ongoing basic spending levels will become very predictable -- and well within your means -- and you'll just need to keep track of big, infrequent expenditures and the bigger picture math.



*Live well, well within your means, for a sustainable lifestyle. – Jen Cole*

