

Whether You Call It a Budget or a Spending Plan, It's a Good Way to Start 2009

Granted, the New Year is a time for best intentions. People vow to stick to a diet, knuckle down at work, spend more quality time with people they care about, start scratching off that long list of key chores around the house, and of course, keep a closer watch on their pocketbook.

If you find you can do only one of these things, focus on that last item—making and sticking to a budget. It might help you handle the rest of those resolutions:

- Being in control of one's finances reduces stress. Stress can make people eat more and spend more.
- Having a spending plan in place means you'll have already prioritized the key activities, expenditures and projects you'll need to make for the year and the money you'll need to afford them.
- Spending less time worrying about money means you'll have more time to think about the people in your life.

Here are some ideas you may want to incorporate into that process.

Don't be afraid to ask for help: Do you know where you need to be? A financial planner can ask the right questions and develop a customized plan to figure out your starting point and where you'll finish based on your age, earnings potential and the new habits you'll develop.

Start tracking every dime you spend: Whether you do it with a pen and a notebook or a computer program, make a concerted effort to track your everyday spending. Physicians say overweight people should track every morsel of food they eat; with money, it's the same thing. Knowing where every penny goes gives a quick picture where certain pennies can be saved or invested.

Prioritize... When it comes to spending, there are needs and wants. Try this exercise. You can do this on a big 2009 desk calendar (or an electronic calendar that allows space for lots of notes to yourself). Mark down at the appropriate dates and times of the year items for which you *need* to spend and those for which you *want* to spend. What are needs? In part, food (not carryout or restaurant meals), monthly mortgage, tuition, auto or rent payments; monthly utilities; home, auto, life or disability insurance; retirement savings; property taxes and credit card payments. What are wants? Non-essential items like vacations, non-essential home improvement projects, restaurant meals (you can cook at home) or treats like clothing splurges or electronics. Compare these total expenditures to your total income. What will this crowded calendar tell you? That by attacking debt, making certain sacrifices and spending and saving smarter, you can eventually un-crowd that calendar and your financial life.

...then zero in each month: There has to be a living, breathing side to budgeting that accommodates change. Do this: Near the end of each month, make a list of the specific “needs” and “wants” you’ll face next month, and figure out how much money you’ll have for wants after needs are addressed. For example, if your car needs a necessary repair, that’s certainly going to boost the “needs” side of the page. If you find due to a one-time event (paying off a particular credit card, for example) that you have more to spend in the “wants” column, then it’s time to decide whether it’s time for a treat or to throw more into savings, investments or attacking any other debt.

Identify and plan for long-term goals: You need to think about the things you really want to do with your life and what those things will cost. Putting goals in writing gives them a formality and a starting point for the planning you must do. If these goals require saving, make sure you put those savings dates on the financial calendar you made.

Build failure and recovery into the plan: How many diets have evaporated with the words, “I blew it!” The fact is, with food or money; everyone goes off course at times. The important thing is to have a plan for corrective action – if you’re about to make an impulse purchase; implement a three-day spending rule. That means you should give yourself three days to check your budget and think through the purchase before you make it. If you can minimize the damage and get back on course, your progress will continue.

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