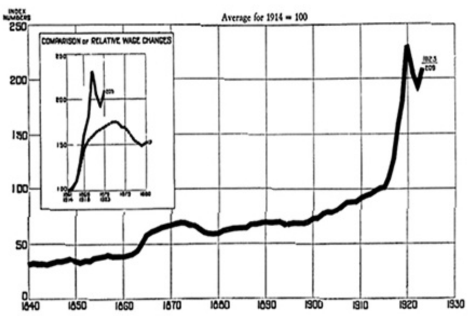
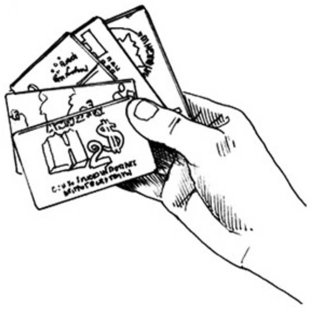


INCREASING YOUR INCOME THROUGH INVESTING AND WORKING SIDE GIGS CAN MAKE BUDGETING EASIER.

A CRASH COURSE IN BUDGETING

CHIPPING AWAY AT DEBT SUCH AS CREDIT CARD BILLS AND STUDENT LOANS CAN HELP YOU GAIN CONTROL OF YOUR FINANCIAL FUTURE.



BUDGETING 101

FROM **GETTING OUT OF DEBT** AND **TRACKING EXPENSES** TO **SETTING FINANCIAL GOALS** AND **BUILDING YOUR SAVINGS,** YOUR ESSENTIAL GUIDE TO **BUDGETING**

START AN EMERGENCY FUND! A LARGE UNEXPECTED COST SUCH AS A CAR REPAIR OR A MEDICAL BILL CAN WIPE OUT YOUR SAVINGS.

ONE OF THE BEST WAYS TO START BUDGETING IS TO TRACK YOUR EXPENSES AND CREATE A SPENDING PLAN.

TECHNOLOGY CAN BE YOUR BEST FRIEND WHEN IT COMES TO SAVING PRECIOUS DOLLARS. BUDGETING APPS AND COMPUTER SOFTWARE CAN HELP YOU PRIORITIZE EXPENSES AND KEEP YOUR SPENDING IN CHECK.

MICHELE CAGAN, CPA

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INTRODUCTION

If the word *budget* makes you cringe, you're reading the right book. Old-style personal financial advice equates budgeting with constant expense tracking, deep cost-cutting (mostly of all the fun stuff), and a lot of math. It sounds boring and frustrating, and no one (including me) wants to do it.

The truth is that budgeting doesn't mean sacrifice; it means choice. A budget is a plan for your money that will let you take control of your finances so that you can have all of the things that you want, whatever they are. You can gear your budget toward the life you want, whether that includes ironclad financial security, the freedom to ditch your job and travel the world, or resources to buy your dream house and start a family.

Budgeting is about designing a road map to financial security and prosperity. Sometimes that path includes cutting back on expenses (especially the ones that aren't bringing you any benefits); other times it creates space for major life changes (like buying a house). It's a way to tap into your resources wisely and transform them into future wealth.

More than all of that, it's a way to take the anxiety out of money management: instead of stressing over every bill that comes in, for example, you'll already have figured out exactly how to pay it. You'll have a plan for eliminating the debt that's been keeping you up at night. You won't have to worry about whether or not you'll have enough money to fund your retirement. That financial confidence will help you overcome the challenges that have been keeping you from getting ahead and accumulating a healthy nest egg.

To get to the financial destination you want, though, you need to know where you're starting from. You'll use that information to set a course that will help you reach your goals. Your budget will act as the GPS, giving you directions and rerouting you when detours pop up so you can get wherever you want to go.

Chapter 1
Budgeting Basics

Most people have the wrong idea about budgets. They think they're all about eating no-brand ramen noodles in the dark to save money and keeping endlessly detailed records of every penny spent. The real point of a budget is to make sure you're never in a position where ramen noodles are all you can afford to eat or you're praying your power doesn't get shut off because you couldn't pay the bill.

In this chapter, we'll expose budgeting myths, take a look at budget reality, and reveal the best way to make this personalized money plan work for you. With this powerful tool, you'll be able to build wealth, meet and exceed your goals, and be ready whenever unexpected financial setbacks occur.

WHAT BUDGETING IS (AND ISN'T)

A Money Plan . . . Not a Magic Potion

The right budget is a game plan for your money that assigns specific jobs to every dollar, whether that job is to pay the electric bill, buy this week's groceries, or beef up your 401(k) account. That plan helps you direct cash toward your financial goals, from paying cash for your next car to funding a destination wedding to enjoying a stress-free retirement. A budget lets you decide ahead of time what you want to do with your money instead of spending randomly in ways that undermine your plans and leave you with a mountain of debt.

What budgeting won't do is magically and instantly solve all of your money problems. It's not a quick fix or a perfect formula. But with time and focus it can move you out of a monthly money crunch and toward financial freedom and prosperity.

A Small Leather Bag

The word *budget* comes to us from fifteenth-century France, where a *bougette* was a little leather bag or pouch that was used to carry money (sort of like a wallet). After a hundred years or so, the word morphed into *budget* and began to refer to the money inside the pouch.

Bottom line: a budget tailored to your life—as opposed to your life tailored to a budget—can help you spend consciously, dig out of debt, and build substantial wealth.

BUSTING BUDGET MYTHS

There are many misconceptions about budgets floating around, and they keep a lot of people from taking control of their money. Don’t let these myths get in the way of your financial future. We’ll knock down these false obstacles so you can feel good about creating your money plan.

- **Myth: Budgets are for other people.** Truth: Everyone can benefit from a budget. Paying attention to your finances is the best way to avoid crippling debt and build lasting wealth.
- **Myth: Budgets are too stressful.** Truth: Running out of money every month before your bills are paid, being stuck in debt, and having little or no savings causes anxiety. Budgeting so you can manage your money better will reduce your stress.
- **Myth: Budgets need to be highly detailed.** Truth: That’s up to you. You can zoom in and look at each separate line item or zoom out and look at high-level income and expense buckets.
- **Myth: Budgets mean cutting back on fun.** Truth: You won’t feel cutbacks in a budget that’s right for you. Yes, you may end up trimming some expenses, but that’s your choice—and it’s not the only way to reach your financial goals. Budgeting doesn’t mean restricting spending; it means spending money on the right things.
- **Myth: Going over budget blows up everything.** Truth: Going over budget is like eating a donut when you’re on a diet. Sure, it’s a mistake, but it doesn’t erase everything else you’ve been doing. Budgets are flexible, and they grow and change to reflect your needs. Give yourself a break, and do what you can to get back on track.
- **Myth: Budgets are time hogs.** Truth: You can make your budget as time-consuming as you want, including not at all. If you can’t (or don’t want to) spend time budgeting, work with an app that automatically tracks and updates for you and even lets you set up alerts to keep you from going over budget.

Here’s the real deal: creating your first budget takes a little work and some time, even if you’re going fully automated with an app. Once that’s done, following the budget takes nothing but some thought and commitment. Even if you’re not totally ready to stick to a budget, make it anyway. You’ll be surprised how much easier it is to deal with your money.

RICH PEOPLE ALWAYS BUDGET

Making a lot of money and having a lot of money aren't the same thing. The people you might think are rich because of their giant mansions and stable of sports cars often face the same money struggles as people living paycheck to paycheck. Their lives are focused on conspicuous consumption, and they're often deep in debt to finance their "rich" lifestyle.

The Royal Budget

Back in the nineteenth century, only the very rich used household budgets. In fact, some of the earliest historical mentions came from diaries of the royal households of Europe. Kings and princes tracked their holdings and their spending to make sure their wealth wouldn't decline.

People who are in great financial shape—regardless of their income—got there (and stay there) by budgeting. In fact, you'd be hard-pressed to find an individual with a high net worth who didn't know exactly where his or her money was going. That doesn't mean wealthy people count pennies and track lattes; it just means that they have a plan for their money and are following it. They focus more on saving and investing than on spending to make sure they never go over budget.

THE TRUTH ABOUT TRACKING

If you wonder why there's never enough money to get you through the month, there's a simple way to find out: track your spending. Knowing exactly what you're spending money on is the best way to sniff out mindless money habits (and we all have them).

You'll probably be surprised when you see your spending laid out in front of you, but at least you'll have a crystal-clear picture of where your money really went and not just where you thought it went. For example, you might think you spend $400 a month on groceries when you're really spending $600. If you only budget for that $400 estimate, you're destined to have a budget failure. This will also capture things you didn't even realize you were spending—or overspending—money on, like an old subscription you never thought to cancel.

To track your money, write down or digitally capture every dollar you spend for one month. Include everything, from your $1,800 mortgage payment to the $4 coffee you grabbed on your way into work. Here, savings counts as an expense, so remember to include any money you put into a savings or retirement account (unless it was taken out of your paycheck—don't include that). Record each expense regardless of whether you pay by cash, check, debit or credit card, automatic payment, or online transfer.

Now you can see where your money is really going and where you're unintentionally overspending. With that information laid out in front of you, you can decide whether you want to redirect some of that cash in your budget. And that's the beauty of budgeting: it gives you the power to choose what you want to do with your money instead of reacting after it's already gone.

BREAK OUT OF THE PAYCHECK-TO-PAYCHECK CYCLE

One of the main benefits budgeting brings is busting you out of damaging financial cycles, like living paycheck to paycheck. Millions of people—including high earners—live paycheck to paycheck every month, meaning they have no money other than their upcoming take-home pay to count on. That situation makes it impossible to save money and build wealth, and it traps you exactly where you are whether you like it or not. You can't change jobs or move to a new city, for example, when you're always biting your nails waiting for that next paycheck.

If you're stuck in this situation, you're probably turning to credit cards to cover some of your monthly expenses, which makes it even harder to cover next month's bills. You are always one emergency away from financial disaster. That constant financial struggle can wreak havoc on your plans and your stress levels. Budgeting can change that.

The way out of the paycheck-to-paycheck problem is to acknowledge it and make some hard *temporary* changes to your spending. Breaking out of this destructive cycle is difficult, but creating and sticking to a budget will help get you out of it. Once you're free, there will be room in your budget to build substantial savings, and from there you can turn toward accumulating wealth.

USING YOUR BUDGET TO CREATE WEALTH

Your Very Own "Get Rich" Scheme

The real purpose of a budget is to help you take control of your finances and create personal wealth. That's why multinational corporations and millionaires (and billionaires) alike use them as blueprints to bring in more income and build bigger fortunes. The trick is in how they put their money to work, using shrewd investment strategies to grow that money faster.

This budget focus comes after you've paid off all of your debt (other than an affordable mortgage) and have a good handle on spending less than you earn. That's because you'll almost always pay more interest on debt than you will earn by investing—a net loss to your overall finances. Once you're debt-free, you can divert some or all of those retired loan payments toward the future.

Saving and Investing Are Not the Same

People use the terms *saving* and *investing* interchangeably, but they're not the same thing. Saving means accumulating cash in a secure space where there's no risk of loss; it's money you can count on 100 percent. Investing involves buying something with the hope that it will increase in value and accepting the possibility that it might decrease in value or even become completely worthless.

Accumulating money is just the first part of the plan, and you can build up a tidy nest egg with pure savings. But if you also carefully invest some of your money, you can begin to build serious wealth.

FOCUS FIRST ON SAVING

When you're consciously directing your dollars, you can send them exactly where you want them to go. By purposefully putting more money into saving, rather than spending on things you don't really need, you'll see your wealth grow consistently. As Warren Buffett says, "Do not save what is left after spending; instead spend what is left after saving." In time, this strategy will lead to substantially more financial freedom and opportunity.

Saving guarantees that you'll have money when you need it. Every dollar you put into savings is a dollar you will definitely get back. In exchange for that security, the interest you'll earn on savings is generally pretty low; it's the trade-off for guaranteed safety.

With a focus on savings, you'll be able to build up some cash reserves, including enough cash to begin investing with. Once you've taken advantage of employer-based retirement savings (more on that in Chapter 3), you can begin to build savings to meet your goals, from creating an emergency fund to saving for a down payment on a house. Tools like the Qapital app are designed for exactly that: helping you automatically direct your money toward specific goals based on your settings. For example, you can direct the Qapital app to round up to the nearest dollar every time you spend money, with the rounding amount moved into the target savings account.

START INVESTING YOUR MONEY

Most people's first experience with investing comes when they have to pick 401(k) funds at work. If you don't know much about investing, getting started can seem intimidating. Figuring out how to choose among millions of investments can be so daunting that it makes you choose no investment at all. And if you've lived through a sharp market downturn (stock or housing, for example), the fear of losses can keep you from seizing potentially profitable opportunities. That's why it's important to only invest money you can afford (but don't expect) to lose and to understand every investment you make. A good way to wade into investing is to start with exchange-traded funds (ETFs) or index mutual funds; both offer you the chance to hold an entire portfolio of investments in a single share, and they're among the most cost-effective (low-fee) investment options.

Investing versus Trading

Investing is a long-term proposition, where you buy an asset (like a stock or a house) that has the potential to grow substantially over time. Trading is more like gambling, where you try to guess what's going to happen on any given day—and you'll usually guess wrong. Investing is about building wealth. Trading is about the thrill of the ride.

If you're itching to start investing but don't have a sizeable stash to contribute all at once, take advantage of beginner investing platforms, such as Swell Investing or apps like Acorns that let you consistently automatically funnel very small amounts of money ($1 here, $5 there) into investing. This strategy is called microinvesting. Those small amounts very quickly grow into substantial portfolios that will help you reach your financial goals in no time.

Build an Empire of Assets

The key to true wealth is putting your money to work for you. Practically speaking, that means spending money on income-producing assets that will supply cash and continue to grow in value over time. The most common assets used to build wealth include:

- Stocks
- Bonds
- Real estate

Of course, as with any investment, there's always the risk of declining value or even total loss. Carefully choosing and diversifying assets (holding several different kinds) can greatly reduce the risk that you'll lose everything and increase your opportunities for long-term financial income and growth.

SETTING YOUR FINANCIAL GOALS

How to Get Everything You Want

To create a budget that will help you meet your goals, you first have to figure out what your goals are and define them. This step will help you see and measure your progress, allowing you to make any necessary adjustments along the way. The key here is to think SMART:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**ealistic
- **T**ime-oriented

Framing your goals this way gives you a much better shot at reaching them and continuing forward financially.

Start by coming up with three SMART goals, and make sure to write them down. According to research, the simple act of writing down your goals makes you much more likely to achieve them.

GET SPECIFIC

When you're thinking about your goals, make them crystal clear. Saying "I want to be rich," for example, won't get you there. But add some specifics to that idea, like "I want to have $1 million in my retirement account," and you're already starting on your way.

Think about the things you want to do with your money, and add explicit details to turn those general ideas into specific goals with definite dollar amounts. Here are some examples of transforming ideas into goals:

- “A car” becomes “Buy a used Subaru Outback for $8,000.”
- “A vacation” becomes “Take a two-week trip to the Italian Riviera next summer for $3,500 by staying in an Airbnb.”
- “Retire early” becomes “Create a $1,500,000 nest egg so I can stop working by the time I hit 50.”

Adding these vivid details helps bring your goals to life, making them feel more like something you really can do. You can more clearly see where they stand now financially, how much more you’ll need to save, and how long it will take you to meet them.

TAKING MEASURE

Without a clear way to measure your progress, it’s easy to get frustrated and give up on your goals. When you make your goals measurable (“save $1,000 in my emergency fund”), you can see every step that takes you closer, and those steps feel like small victories.

Measuring also helps you stay motivated. Whether you carve your goal into a series of more quickly reachable minigoals (cheering every $100 on the way to $1,000) or make yourself a visual (like the color-in thermometer signs that charities use), active measuring will keep you on track and excited about hitting your targets.

That doesn’t mean you should check in every day. Measuring too often can be frustrating because the progress seems to move at a snail’s pace. Figure out reasonable check-in periods based on your budget so you can see significant changes. For example, if you’re saving $50 a month toward a $1,000 goal, checking in every three months will give you a better boost than checking in more often would.

ACHIEVABLE AND REALISTIC

In order to meet your goals, they have to be possible—and that means both achievable and realistic. If they’re not, you’ll fail to meet them, and that can quickly derail your motivation and undermine your financial future.

Here, achievable and realistic mean workable within your budget. While it’s not possible to save $30,000 in one year when you’re earning

$25,000, you can set an achievable goal of saving $1,000. Maybe putting away $100 a month wouldn't be realistic in your situation, but banking $85 is something you can do. Make sure the goals you set can fit into your budget without crowding out any necessities.

As you begin to bring in more money and work to control unnecessary spending, you'll free up even more space in your budget. That will allow you to set bigger goals that you'll have no trouble reaching.

SET A TIME FRAME

Time is another key factor in goal setting and tracking. For one thing, it sets the clock running, which will encourage you to get moving. In addition, the time frame may affect your goal-reaching strategy.

Let's start with the tracking point. It's harder to gauge an open-ended goal than one with a clear end point. With a clear time frame ("save $1,000 in four months"), you can easily see what you need to do to reach your goal (save $250 a month). Remove the time frame ("save $1,000"), though, and your goal seems less urgent and easier to ignore. Locking in a time frame also adds a motivation factor. Working to a deadline forces you to get the job done by regularly taking the steps you need to meet your goal.

The Scoop on IRAs

IRAs are individual retirement accounts, and there are two main types: traditional and Roth. Traditional IRAs give you a current tax deduction and let your money grow tax-deferred; you don't pay any taxes until you start pulling money out. Roth IRAs start with after-tax money (no deduction now), and let your money grow tax-*free*; you won't pay tax on any of the earnings or future withdrawals.

Then there's the path to reach your goal. For short-term goals, less than three years away (maybe buying a car or going to Mardi Gras), you want to keep your money somewhere completely risk-free, like a savings account. For longer-term goals, like saving for retirement or for your kids' college, you have more flexibility and more time to recover from potential setbacks. That gives you the opportunity to invest at least a portion of the money you're putting toward that goal and let compounding do part of the work to move you closer to meeting it.

BREAK GOALS DOWN INTO STEPS

Once you have your SMART goals written down, figure out what steps you need to take in order to meet them. Listing those steps offers you a framework to follow so you'll actually get started and stay on track.

For example, if your goal is to save $5,000 toward retirement this year, your steps might include things like "open a Roth IRA account" and "set up weekly automatic $100 transfers into the IRA." If your goal is to work on paying down your student loans, steps might include "verify my student loan balance" and "look into alternative repayment plans."

Cross off each step as you accomplish it and each minigoal as you meet it. That might sound silly, but studies show that the act of marking things as done releases positive brain chemicals, sort of like winning a prize. The more good feelings your brain associates with your goals, the more you'll want to keep going.