

PAY ATTENTION TO MONEY

One purpose of learning about personal finance is to manage your money instead of letting money manage you.

It's totally appropriate to have money, but many people let money have *them*. For these people, worries about money take up an inordinate amount of time and emotional energy.

To get past those worries, pay attention. This means knowing down to the penny how much money you earn, spend, and invest. With this knowledge you can make moment-to-moment choices about finances that align with your values.

As you start managing the details of your money life, you can also start waving goodbye to many money worries. You might even discover—as have some people interested in voluntary simplicity—that you can live on one-half your income or even less.

The same three-step cycle that helps you pay attention to your time can also help you pay attention to your money. Those steps—monitor, plan, and revise—are explained next.

Monitor

If you want to manage money effectively, then begin by telling the truth. Discover exactly how much money you spend and make every month. Befriend the data.

The important thing is not how much money you *earn*—it's how much you truly *need* to live the life of your dreams. And that might be far less than you imagine at first. Solutions begin to appear when you practice honesty about your current income and expenses—whatever they are.

Create specific categories for keeping track of how much you spend and earn each month. Track your expenses in categories such as housing, groceries, restaurants, entertainment, gifts, and interest payments. Also record your income in categories—for example, wages, salaries, tips, inheritances, interest payments from bonds, stock dividends, and capital gains.

As you gain skill in monitoring income and expenses, watch the fog roll out of your money life. There's power in knowing the details.

Plan

For many people, the phrase “mastery of money” means learning fabulous and fool-proof ways to increase their income. This is the “more money in” school of thought about personal finance.

Increasing income might seem to offer a final solution to money worries, at least for a while. But people often discover that their expenses increase to meet—or even exceed—their increased income. Hello again, debt city.

An alternative is to practice the “less money out” school of thought by reducing or eliminating expenses that contribute little or nothing to your purpose, values, and goals.



It's not rocket science. If you spend less while maintaining a steady income, you'll have more money on hand. You can even remain fulfilled and satisfied with your life as your spending decreases. A pared-down lifestyle offers many potential joys: fewer possessions to maintain, fewer loan payments with crippling interest charges, and less pressure to work at a job that pays well but scores high on the misery index. Add to that the pleasure of having a comfortable cushion of cash savings, and you just might sleep better, too.

One way to spend less money is to develop a plan for spending your money, also called a budget. Create one budget for the short-term (usually the next month) and another one for the long-term (a year or more from now). Determine in advance how much money you'll want for major, periodic expenses such as insurance premiums or income taxes. Budget for the routine expenses—things like housing, food, and clothing. Also budget for unexpected expenses, such as prescription medications or car repairs.

Once you predict in advance how much money you need, you can begin setting that amount aside. Budgets offer one way to avoid unpleasant surprises.

Revise

If you're determined to revise your spending habits, you'll find plenty of ways to do so. Remember that changing money habits is an ongoing process, so give it time. In addition to budgeting, you can experiment with the following strategies.

Weed out expenses that fail the “values test.” Clarify exactly what you want to gain from working and having money to spend. Each month, review what you earn and spend. Get the specific figures. Then ask *Does money flow in and out of my life in ways that are consistent with my values? Does the way I earn and spend money allow me time for the activities I consider most worthwhile?*

Go after the big fish first. If you want to make a real dent in your expenses, look to the big-ticket items. Notice what you spend the most money on each month. Many people write their biggest checks for car payments and rent or mortgage payments.

See what you can do to reduce these expenses. If you own two cars, consider getting along with one. You can use public transportation, take cabs, walk, ride a bike, or even rent a car when you're in a crunch.

When looking for a place to live, consider a more modest house or apartment. Shy away from major urban areas where housing costs border on astronomical. Rent, share a house, or buy a duplex and rent half.

Pay yourself first. You are as valuable as your car, your house, and all the other things you pay for each month. So pay yourself each month, and do it first.

Another name for the money you pay yourself is savings. This is the money you invest in your future.



If you wait until the end of the month to set aside your savings, you might end up with only pocket change to spare. Instead, pay yourself as soon as you get your paycheck. Right up front, before you have a chance to spend it, put 10 percent (or more) of your take-home pay into an insured savings account or another safe place. Save this money first, and you may not even miss it.

Consider saving enough to have a comfortable cushion—six months' worth of your regular income. That way you can stay in charge of your money even if you lose your job; face a major, unexpected expense; or just want to take some time off.

After you've got a cushion, save for education, retirement, and other long-term financial goals.

Put on a lid on plastic. To keep your spending in line, use credit cards only as a substitute for carrying cash. Don't use them as a substitute for *having* the cash in the first place. If you pay for something with a credit card, set aside the same amount in cash. Then pay off the balance on your credit card each month.

If you have large credit card balances, remember that many banks offer "bill payer" loans. These are loans that you can use to consolidate all your debts and pay off your credit cards, often at a lower interest rate. Applying for these loans can be a wonderful reminder to curtail your credit card purchases in the future.

Buy it for less. You might be able to save hundreds of dollars on a sound system or thousands of dollars on a car by shopping around. Keep a lookout for sales, price wars, discount stores, coupons, and estate sales. If you're sending children to college, consider a public school over a private one. These are just a few examples of trimming your expenses with little extra effort and still getting the things you want.

Get the same benefit for less. Before plunking down your hard-earned cash, ask *What benefit will spending this money get me?* Go beneath the obvious payoff to the hidden benefit.

Say that you're attracted to a posh new car on the salesroom floor. Ask yourself *What's the benefit of owning this item?* The obvious answer is that you get a car to drive. Behind that payoff, however, is the true benefit, which is having access to a reliable source of transportation.

With that answer, you can brainstorm other ways to get the same benefit without buying that car. Going for a less expensive new car, a late-model used car, or a bus ride might deliver the benefit you're really after.

Don't buy it yet. If you're a procrastinator, use this habit as a tool to avoid spending. Keep putting off the purchase, and you might discover yourself living the life of your dreams without that precious item.



If this doesn't work for you, experiment with a cooling-off period before major purchases. Consider allowing one hour of waiting time for every ten dollars of purchase price. It's amazing how frivolous that new pair of pants might seem five hours from now.

Leave your cash in the bank. One way to spend less is to have less money in your pocket. Keep \$100 dollars of spare cash in your billfold, and you're likely to spend it all over the next few days or weeks. Put a \$20 bill in its place, and you might discover yourself skipping that extra ice-cream cone or twice-weekly dose of burgers and fries at Cow Kingdom.

Fix things yourself. Over the course of a year, bills for plumbers, carpenters, and mechanics can add up to hundreds or thousands of dollars.

Of course, it's often wise to hire out household jobs that go beyond your current skills. Another option is to increase your skills and learn to fix things yourself. You may not be able to do a full-fledged tune-up on your car, but you could learn to change the oil, rotate the tires, or replace the battery. That might save you the going rate for parts and labor at your local garage.

Look for the hidden expenses in eating. Many people would be amazed to find out what they spend on fast food and pizza during the year. Those extra doses of fat, calories, and cholesterol can drain your pockets with lightning speed.

You can avoid such unnecessary food expenses by cooking for yourself, shopping for food *after* you eat, bagging your own lunch, and avoiding snacks. The benefits of changing these habits are likely to show up in improved health as well as in decreased spending.



Match your values and money

Begin this journal entry by gathering at least 100 blank 3x5 cards. On these cards, write expenses that you incurred during the last month. List one expense on each card—for example, "Rent: \$600."

Next, create a list of your fundamental values. List these values on 3x5 cards also, one value per card. Examples of values include health, happiness, contribution, fun, integrity, and so on.

Now sort your cards. See if you can pair every expense card with a value card. For example, the \$15 you spent on a health club membership last month could fit with the value of health. You might have to set up a miscellaneous stack of cards for expenses that do not fit under any of your values.

Afterward, in the space below complete the following sentences:

In comparing my values and expenses, I discovered that I ...

To bring my future spending more in line with my values, I intend to ...



