

# Fundamentals of Money Management

## Getting Your Financial House in Order

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OPINION – To start your personal investment program, you must establish a reference point. This reference point begins with how much money you make and where it goes each month. Once you know this, you will know how much money you can save.

In a prior article of this series (<http://sacobserver.com/2013/06/robert-woods-how-to-determine-your-spending-personality/>), the process of a Spending Personality Assessment (SPA) is discussed. It is repeated in this article for your convenience. This is the most important step in getting your financial house in order.

### **Your Financial Personality**

You have your own unique personality. This personality is reflected in what you eat; how you dress; how you even decorate your room or house. This personality is also reflected in how you spend our money. Corporate America knows this all too well as they track what you buy, how often you buy it and how much you purchase. It's called, "Point of Sale" processing. Corporate American uses this information to send you "Junk Mail" that amazingly are the things you like to buy. Now, you must find out what they already know (your spending personality). You must begin to use this information to your advantage. As you will see below, the SPA exercise will identify **your needs from your wants**.

It is mandatory that you understand your spending personality, so you control it and not have it control you. Once you have a clear understanding of your spending habits, you will know how much you can save by investing for a brighter financial future without sacrificing the things you need to survive in today's economic world.

### **How I've done: SPA – A Very Important Process:**

**Step 1:** The first thing you must do is **prepare a projected budget** (see the sample provided below). If you are not budgeting, you will never achieve financial success. Follow the exercise and find out your SPA.

**A word of caution:** It takes discipline and a little effort, but when it is done correctly, it will be the first and last time you will ever need to do it.

**Step 2:** Collect your spending data

- Collect receipts for 45 days. Collect every receipt you get on every item you purchase no matter how small it is.
- Put them in an envelope or a paper bag. Keep the envelope or bag in your car, workplace and at home. You must get in the habit of collecting the receipts which normally takes about 15 days.
- You must collect data for 45 days because in the beginning you may forget a receipt. It takes about 45 days for you to accurately capture your spending habits.

Step 3: Spread all of the receipts out on a table and build an actual budget of your expenditures.

The budget may consist of the following:

- Household: Utilities including gas, electricity, garbage and water, telephone (both cell phone and land lines), internet subscriptions etc.
- Transportation: Gasoline, car care, maintenance etc.
- Food and Water: All groceries
- Health and Medical: Health care, dental and vision
- Insurance: Health, life, disability, homeowners and etc.
- Childcare: Including school expenses
- Credit Card Debts: Including credit cards and other debt
- Personal items: Soaps, dry cleaning, beverages (all types) and etc.
- Donations/Gifts: Including church and other charitable contributions
- Recreational: Entertainment, going out (club, movies), vacations
- Savings/investment: Including 401(k), stocks bonds and etc.
- Add items that do not fit into one of the categories (as needed).

Step 4: Analyze your spending information

- Organize your receipts based upon Step 3
- Analyze your purchasing habits.
- Separate the things you **need** from the things you **want** based upon what is most important for you to survive.
- **Needs:** things you need every day just to live (try to stay within your budget).
- **Wants:** things you would like to have such as Vacations, Christmas purchases and etc.

Step 5: Review and compare your projected monthly budget to your actual budget based on Step 3.

**Note:** you can prepare a budget by writing it out or putting it on a computer. You can also use a software program like Quicken, Microsoft Money or spreadsheet (Excel).

Step 6: Master your monthly budget (Need vs. Wants). This process has several hidden benefits:

- It will allow you to look at the things you absolutely need so you can.
  - Collect coupons for them.
  - Look for discounts on those items.
  - Look for those things on SALE.
- It will assist you in identifying and managing your debt (let's get rid of debt).
- It will allow to you prepare for future expenses.
- It will free up cash you waste so you can save more for your future.

Once you have mastered your monthly budget, you can begin to reduce any outstanding debt so you can save money for other things you want in life.

This is your first step to financial freedom. It is a big step so plan carefully and stick to it.

**Remember:** If you are not watching your money, someone else is and they will figure out a way to take it from you.

Our next article in this series will be on the "Fundamentals of Cash Management."

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