FINANCIAL MILESTONES SERIES

Budgeting

KEEPING YOUR CASH FLOW IN THE GREEN

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WEALTH MANAGEMENT

Financial success is like a slow cooker; it takes time to get your finances just right. Fundamentally, successful people don't win at life because they have a magic pill or top-secret information, they work at it for years. Successful people reach their financial goals by taking small, intentional steps toward their goals every day. To accomplish this, a budget is the best way to ensure your money is being allocated to its best and highest use. Morgan Housel in The Psychology of Money writes, "Many people can create wealth, but very few can maintain it". In this paper, we will show you how to properly budget your expenses and maintain financial prosperity in the long run.

Building a Budget

You've finally made it to payday and feel like a king, right until you see the bills pile on. How can you even consider saving for retirement when it feels like all your money is gone just as soon as you get it? Trust us when we say you're not alone, and we are here to help. The first step in breaking the paycheck-to-paycheck cycle is developing a budget. We recommend using the Zero-Based Budgeting approach as a guide.

1. **List Your Income:** This includes every recurring check coming into your household. We recommend earning extra cash on the side if lack of revenue is a primary stressor in your life.

2. **List Your Cash Outflows:** List everything you may spend money on including savings, donations, debt payments, and variable and fixed expenses. Start with your four wall expenses (food, utilities, transportation, and housing), then the other essentials, and finally the fun stuff like movie night. Here is a good template to start with.

3. **Don't Forget About Lump-Sum Expenses:** The average shopper spends almost $1,000 on Christmas gifts every year, and everyone complains about how expensive Christmas can be. Did they not know Christmas was going to come this year? No... Christmas comes every

year, so plan for it. Planning for these types of expenses is known as lump sum expenses, as they don't occur every month. Other examples include car breakdowns, home repairs, and pet emergencies. Here is a link to Dave Ramsey's form for lump sum expenses to help you get started. These irregular expenses will get converted to monthly numbers and then translated to your monthly budget form so they are accounted for.

4. **Subtract Expenses from Income:** Ideally, this is equal to zero (remember you've already planned for your saving and donating). If it results in a negative number, it's time to look for a solution. In the short run, look for where you can cut expenses, how to earn some side income, and adapt your lifestyle. As for long-term solutions, look for higher-paying jobs and lower-cost living areas.

5. **Track Your Monthly Expenses and Make the Next Budget:** Now that the plan of attack is made, record exactly where you are spending your money throughout the month to make planning in the future more seamless. Your budget should become more precise month after month.

What Next?

Now that you have a solid budget in place, you will be directing where your money is really going—and for many, a significant portion might be flowing toward debt payments. If managing debt feels like a never-ending uphill battle, you're not alone. Understanding the nature of your debt and how to handle it is the next crucial step in securing your financial future.

Taking on debt can limit your spending power significantly. It's important to differentiate between the kind of debt someone can take on. "Good debt" is issued by assets that appreciate over time with interest rates and alternative costs that don't outweigh the value the asset brings. Examples of good debt are home loans, student loans (for an advantageous degree), or business loans.

Bad Debt

On the contrary, "Bad Debt" arises when you borrow at high interest rates without financial benefit. If the debt arrangement won't add value to your net worth or is secured by depreciating assets, such as a vehicle, it is considered bad debt. Tying up considerable capital in bad debt leads to a lack of funding for saving and investing for the future. Examples of bad debt are credit card debt, auto loans, payday loans, or any other form of loan on an underperforming asset. While

it may be the case that taking on bad debt is mandatory, it is best to avoid it at all costs. If you take on bad debt, it should be your first priority to get out of it as soon as possible.

Getting Out of Debt

Personal debt is a massive problem in America. It recently hit an all-time high of $17.5 trillion, or roughly $66,700 per person. On average, an American will spend 10% of their income on debt payments, making saving nearly impossible. With that being said, paying off your debt is critical. With many techniques available, we subscribe to the debt snowball repayment method, created by David Ramsey. This technique entails attacking the debt with the smallest balance first, ignoring interest rates, which will immediately free up cashflows to go elsewhere. The impact of debt is both mentally and physically destructive, so removing payments as soon as possible is extremely beneficial.

What If Budgeting Isn't Working?

If you can't manage to end up positive month after month, it's okay. Budgeting is hard and saving money is never the most fun way to go about things. Consider registering for a seminar built to help with these problems, like Financial Peace University.

Prioritization of Savings

If you've gotten to the point where you have excess cash after your budgeting and debt repayment, you're crushing it! While spending this excess cash on fun trips and expensive clothes sounds fun, it's best to take a proactive approach to preserving your financial success. Below is the order of where you should allocate your excess funds.

Excess Fund Allocation

1. Create an emergency to cover 3–6 months of expenses
2. Reach the maximum match in your 401(k)
3. Maximize the match in your Health Savings Account
4. Hit the contribution limits in your 401(k)
5. Maximize alternative retirement accounts
6. Invest the remaining into a non-retirement account

About Morgan Rosel Wealth Management

At Morgan Rosel, you don't have to press 0 to speak to a representative. We just pick up. We're stubbornly committed to bringing the human element back to financial planning and investment management. That means promptly answering your questions, thoroughly understanding your goals, and expertly implementing a strategy based on your best interests. We know that earning your trust requires producing exceptional results and continually exceeding your expectations. And that is just what we'll do. Because we're in your corner.

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