

## *Financially Speaking*

With Trisha Arndt, CFP®

### A Spending Discipline Can Help you Make Sense of your Dollars and Cents

I recently had the good fortune of meeting with a very nice local couple that had been referred to me by an associate of mine. We had a nice phone conversation and I sent them a packet of materials including a list of things to put together prior to our meeting.

Most of what I ask people to bring with them when meeting me for the first time involves gathering copies of things like tax returns, pay stubs, employer benefit information and investment statements. But there is one item that I often ask for that seems to be both the item that causes the most apprehension and also the exercise that is the most eye opening for a client to prepare.

What is it? A statement of monthly cash flow. In other words I ask people to figure out how and where they spend their money.

I think the apprehension related to this exercise is due in large part to a fear that I am going to try to impose the dreaded B word on them – put them on a budget. In fact in most cases I have no intention of trying to exert influence over how people spend their money. I don't need to. For most people I meet with simply performing the exercise of putting down on paper where their money is being spent is enough for them to make those decisions on their own.

You see, people tend to spend what they have. If there is money in the checkbook come Friday evening then going out to dinner is on the agenda. If they get paid every other week and they receive three pay checks in one month then it is time to splurge on some clothes or the new iPhone. Prior to meeting with me I find that most people have never taken the time to figure out how much they are really spending and what they are spending the money on.

That was the case with the couple I just met with as well. They are contemplating retirement this year and wanted an analysis of whether they were financially in the position to do so. Having seen some older relatives who had been forced to live on a very restrictive fixed income they were very concerned about quality of life and not feeling that they would have to live on a restrictive budget.

They are certainly not alone in feeling that way. I don't think many people want to feel that they have to pre-schedule every penny that they ever get to spend. It is that idea of budgeting that I think fuels the negative connotations that are associated with the word. So, I've coined my own phrase for how a cash flow should be managed (though I can't say for certain that I'm the only one who uses it) – I call it having a spending discipline.

It's really quite simple if you bowl it down to the basics.

First, figure out what you are currently spending. Not just the monthly bills that come from your checking account but all of the other items that occur like cash you spend to go out to dinner or to a movie and anything that you use a credit card for (hopefully being paid off each month). Don't forget to add in any items that happen periodically like insurance, property taxes or vehicle maintenance.

To really do a thorough job I recommend carrying around a small notebook for at least a month and logging what you spend. You'll be amazed at how quickly those lunches out, bottles of soda and scratch lottery tickets add up.

Once you feel confident that you have an accurate accounting of what you spend, separate those expenditures into two categories – essential and discretionary. Essential expenditures are the things that you can't do without like your mortgage, utilities, insurance, groceries and retirement contributions. Discretionary expenditures include everything that you could do without – meals out, entertainment, golf, vacations, gifts, etc.

Next determine how much money you have coming in each month. Subtract your essential expenses from that and you will have the amount that is available for discretionary spending. For example, if your take home pay totals \$4000 a month and your essential expenditures average \$3200 a month then you have \$800 a month available for discretionary spending.

Now that you know the number, developing a spending discipline isn't hard. You know what you can afford to spend so, if you're like most, you'll think harder before each purchase. And, you'll hopefully advance to the point where you start banking ahead some of your discretionary money for bigger wants like a vacation or a new TV. Want to take a \$3000 trip next year? Set \$250 of your discretionary money aside in an account each month and you'll have the cash to do it.

Ultimately having a spending discipline can help you both avoid accumulating unnecessary debt and better enjoy the extras that you do because you'll know you can truly afford them.

Have a financial question or a topic that you'd like to see a column on? Email me at [Trisha@wealthstrategies.biz](mailto:Trisha@wealthstrategies.biz).

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