

THE BASICS OF BUDGETING

Financial You

Personal Finance Education from LPL



THE BASICS OF BUDGETING

For many people, the idea of budgeting can be challenging. Days are taken up with work, friends, family and the energy and activities required just to manage your life. There never seems to be enough time to focus on finances.

However, budgeting is really the foundation of everything in our financial lives. Developing a budget can do more than track your spending and savings. It can help you work toward your financial goals.



6 STEPS FOR CREATING A REALISTIC BUDGET

The following steps can help you build a budget that works for your life, so you can focus more attention on working toward your financial goals.

STEP 1: START WITH YOUR GOALS

Take the time to think about your financial goals and actually write them down. They can be as simple as building up an emergency fund, saving for a new car or home, starting a college education fund for a child, or vowing to increase your retirement savings by 1% a year. Make sure the goals are measurable, so include the actual dollar amounts and time frames for reaching the goals. Here are two examples of measurable financial goals:

- “Have a \$1,000 emergency fund built up by April 1.”
- “Pay off \$5,000 credit card debt in 18 months.”

Divide the dollar amount by the number of months in your time frame to figure out your monthly goal. If your goal is to build up a \$1,000 emergency fund in 6 months, your monthly goal is \$1,000 divided by 6, which equals a \$167 monthly contribution to the fund.

STEP 2: KNOW YOUR INCOME

Before you can establish a budget, you have to know exactly how much money you have coming in every month from your employer and other sources. Make sure to include only the money you actually receive (for example, the exact amount of your net paycheck, not your gross pay before taxes and other deductions).



STEP 3: TOTAL YOUR MONTHLY EXPENSES

You can't budget until you know how much money you're spending each month. When figuring out your monthly expense number, be sure to include the following:

- Groceries
- Rent or Mortgage
- Car loan payment
- Cable/Broadcast provider payment
- Credit card payment(s)
- Cell phone service
- Student loan payment
- Entertainment and eating out

Also remember to include occasional expenses such as doctor and dentist visits as well as car and other insurance payments. It's also important to look through past bank and credit card statements to get a realistic picture of your spending.

STEP 4: CREATE A REALISTIC BUDGET

To take your first stab at a budget, add your monthly expenses from Step 3 to the monthly goals you calculated in Step 1. Then, subtract that total from your monthly income calculated in Step 2. If the balance is positive, you've created a budget that works for your current lifestyle. Here's an example:

Monthly income (from Step 2)	\$3,000
Monthly living expenses (from Step 3)	-\$2,100
Monthly financial goals (from Step 1)	-\$750
<hr/>	
Total left over	\$150

If the balance is negative, you have some more work to do. That leads us to Step 5.

KEEP YOUR FINANCIAL GOALS TOP OF MIND

Whether it's retirement, education funding, saving for a major purchase or other financial goals, LPL's financial professionals can work with you to determine an appropriate strategy to address your goals and how long it may take to achieve them.

LPL's Client Goals planning tool helps you track your financial goals online each time you log into your account. Your personalized Client Goals dashboard contains clear, easy-to-understand data and graphics, including colorful progress charts to help you visualize success for each financial goal. In addition, your financial professional can distribute progress reports directly to you on an ongoing basis.

As your goals and plans change, your financial services professional can quickly and easily make adjustments within the tool. You can be confident that what you are viewing always reflects your current situation, allowing you to stay focused on what matters most right now.

STEP 5: REVISIT YOUR GOALS AND EXPENSES

If the first swipe at your budget came out negative, rework the numbers and try again. For example, you can revisit expenses and decide which ones are top priority and need to stay in your budget and which you can do without. You can also consider changing the amount of time needed to meet your financial goals. Or you can figure out a way to increase your income.

STEP 6: STAY CONNECTED

Budgeting isn't a one-and-done exercise. To help you move forward in your budgeting process, check out www.americasaves.org. The site features lots of money-saving ideas, as well as other tips on setting financial goals and making a plan to pursue them.



FOUR WAYS TO MOVE FORWARD

Here are four ways to build the momentum you need to help you move forward in your budgeting process:

BUILD AN EMERGENCY FUND

Probably the most important rule of budgeting is to have an emergency fund to help when something unexpected comes up, such as a car, refrigerator or dishwasher breaking down. Here are the key features of an emergency fund:

- Aim to have 3-6 months of living expenses saved
- Keep separate from your checking account
- No (or very low transaction fees)
- Easy access
- No penalties for withdrawals
- Interest earnings on the balance

PAY YOURSELF FIRST

Besides building an emergency fund, your next most important rule with budgeting is to make sure you are contributing to a retirement savings account. Whether it's a plan offered through your employer or an Individual Retirement Account (IRA), make sure you pay yourself first through an automatic payroll deduction via your employer or through an automatic monthly transfer of funds from a personal bank account (in the case of an IRA).

STOP EATING OUT SO MUCH

Occasionally treating yourself to an evening at a brewpub with friends is totally fine, but the savings can really add up if you start cooking at home more. Strive to plan out a weekly dinner menu and make sure you make enough for lunch leftovers. Before you head out to the grocery store, make a shopping list. Only buy the items on the list!

FIND CHEAPER GAS AND ENTERTAINMENT

Consider using a good gas locator app, such as Gas Buddy, which helps you find the cheapest gas anywhere you are. To get the best discounts on local entertainment and attractions, consider Living Social or Groupon. And if you like concerts, consider getting a ticketing app, such as Ticketmaster or Live Nation. Becoming a member of these services can get you access to valuable presales and exclusive money offers.

BUDGETING “AP”TITUDE

Whether it's a New Year's resolution, a spring clean-up or a mid-summer or fall project, it's always a good time to look closely at what you need to do to improve your budget. If you need help getting organized, there are several budgeting apps available out there, such as:

- PocketGuard
- YNAB (You Need a Budget)
- Wally
- Goodbudget



USE YOUR NET WORTH TO BENCHMARK YOUR PROGRESS

As you get better with your budgeting, you'll find you have more money for investing and paying off debts. But just how much better are you getting with your budgeting?

Calculating your net worth is a good way to gauge your current financial health and your progress over time. It is simply taking the value of what you currently own (your assets) and subtracting what you currently owe (your debts). Just think of it as a snapshot that shows where you are financially at a given point in time.

Here's an example:

ASSETS (everything you own):		LIABILITIES (everything you owe):	
Savings and investments.....	\$15,000	Mortgage.....	\$256,000
House.....	\$325,000	Student loans.....	\$33,000
Retirement funds.....	\$35,000	Car loan.....	\$7,500
Car.....	\$15,000	Credit card debt.....	\$10,000
TOTAL ASSETS	\$390,000	TOTAL LIABILITIES	\$306,500

Total Assets (\$390,000) - Total Liabilities (\$306,500) = \$83,500 (Your Current Net Worth)

To help gauge the current value of your home, you can check out online resources such as Zillow, Redfin or Realtor.com. For your car, you can try Consumer Reports, Edmunds or Kelley Blue Book.

If you took a picture of your finances a year ago, today and a year in the future, you could probably see a trend. Assuming you are doing all the right things, your net worth should grow year by year. As you save and invest money, that money has the potential to grow (in a good year) and you continue to pay down your debts, including your home mortgage.

Your financial services professional at LPL Financial can be very valuable in helping you calculate your net worth and offer advice on how to build it up over time. In addition, there are several online net worth calculators that you can access for free, on sites such as NerdWallet, Simple Dollar, or Kiplinger.



NET WORTH WORKSHEET

As of (date): _____

ASSETS		Monthly amount	LIABILITIES		Monthly amount
Cash Equivalents			Mortgages		
Checking		\$ _____	Primary Home		\$ _____
Savings		\$ _____	Second Home		\$ _____
Money Market		\$ _____	Rental Properties		\$ _____
CDs		\$ _____	Total		\$ _____
Cash on Hand		\$ _____			
Total		\$ _____			
Physical Assets			Revolving Debts		
Primary Home		\$ _____	Visa		\$ _____
Second Home		\$ _____	Mastercard		\$ _____
Rental Properties		\$ _____	American Express		\$ _____
Furniture		\$ _____	Discover		\$ _____
Jewelry		\$ _____	Other Credit Cards		\$ _____
Collectibles		\$ _____	Total		\$ _____
Household Goods		\$ _____			
Clothing		\$ _____			
Automobile #1		\$ _____			
Automobile #2		\$ _____			
RVs, Boats, Etc.		\$ _____			
Other		\$ _____			
Total		\$ _____			
Long-Term Assets			Installment Debts		
401(k)s		\$ _____	Automobile #1		\$ _____
IRAs		\$ _____	Automobile #2		\$ _____
Brokerage Accounts		\$ _____	RVs, Boats, Etc.		\$ _____
Mutual Funds		\$ _____	Student Loans		\$ _____
Business Equity		\$ _____	Personal Loans		\$ _____
Cash Value Life Insurance		\$ _____	401(k) Loans		\$ _____
Other		\$ _____	Other		\$ _____
Total		\$ _____	Total		\$ _____
TOTAL ASSETS		\$ _____	TOTAL LIABILITIES		\$ _____

Total Assets - Total Liabilities = \$ _____

ABOUT LPL FINANCIAL

LPL Financial is a leader in the retail financial advice market and the nation's largest independent broker/dealer*. We serve independent financial professionals and financial institutions, providing them with the technology, research, clearing and compliance services, and practice management programs they need to create and grow thriving practices. LPL enables them to provide comprehensive guidance to millions of American families seeking wealth management, retirement planning, financial planning and asset management solutions.

LPL.com

*Based on total revenues, *Financial Planning* magazine June 1996-2022.

This material was prepared by LPL Financial, LLC.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. All investing includes risk including loss of principal.

Lumena Financial Strategies, Inc.
9635 Granite Ridge Drive, Suite 100
San Diego, CA 92123
(619) 295-9930 Phone
(619) 295-9947 Fax
(833) 597-9429 Toll Free
team@lumenafinancial.com
www.lumenafinancial.com



The Financial Consultants at Lumena Financial Strategies, Inc. are registered representatives with, and securities and advisory services offered through, LPL Financial, a registered investment advisor. Member FINRA/SIPC. LPL Financial and Lumena Financial Strategies, Inc. are separate entities.