

Budget Like A Maestro



The key to managing your personal finances successfully is a mix of disciplined investing, sound financial structure and good planning. One of the keys to planning is developing a

personal budget.

Now no one finds budgeting exciting. It may be dull, but it is well worth your time and effort. You don't have to spend hours slaving away on creating a budgeting masterpiece but half an hour here and there will put you in a powerful position; to understanding where your money is going, compared to where it should be going.

Where To Start

Budgeting usually starts with an empty Excel spreadsheet and a haphazard pile of receipts and a frustrated look on your face. Fear not, this is a situation won't last. By adopting the three stages of successful budgeting you will soon be transforming your personal finances:

1. Understand your money and how you are spending it
2. Make tough decisions about prioritizing your spending
3. Budget with a lifestyle in mind

1. Understand Your Money And How You Are Spending It

This budgeting stage is about understanding where your money is going. You need to build up a detailed picture of your earning, your spending habits and what you spend your money on.

It may be a bit of a grind but once you have put these hard yards in, it's all downhill from here. Here are three things you need to do to really understand where your money comes from and where it goes:

- Actually read over your bank statement for the past six months: If you take advantage of electronic banking, simply download your last six months of transactions and drop them into an Excel sheet. Allocate them to key categories such as mortgage payments, credit cards, insurance, utilities and groceries. Do the same for your income streams. All up this should only take around an hour, tops
- Keep all your bills and receipts for six months and separate them into different categories: Capture any outgoings paid by cash that isn't captured through your electronic banking statements
- Record all your income and spending either on an Excel spreadsheet or using a personal finance budgeting tool to create a monthly budget. If you don't have a digital budgeting tool check out some of the free ones online or buy one of the templates available. Most successful budgets break down expenses into three categories: 1) fixed, 2) changeable: spending you can negotiate and 3) variable: spending you can quickly change like food, movies etc

Once you have a handle on your income and your spending habits you can progress to the fun part and start making decisions on how you prioritise your spending based on your budgeting insights.

PROJECTED MONTHLY INCOME		ACTUAL MONTHLY INCOME	
Income 1	€ 2,500.00	Income 1	€ 2,500.00
Extra income	€ 500.00	Extra income	€ 500.00
Total monthly income	€ 3,000.00	Total monthly income	€ 3,000.00

Category	Projected Cost	Actual Cost	Difference
HOUSING	€ 1,500.00	€ 1,400.00	€ 100.00
Mortgage or rent	€ 60.00	€ 100.00	€ (40.00)
Phone	€ 50.00	€ 60.00	€ (10.00)
Electricity	€ 200.00	€ 180.00	€ 20.00
Gas	€ 50.00	€ 48.00	€ 2.00
Water and sewer			€ -
Cable			€ -
Waste removal			€ -
Maintenance or repairs			€ -
Total		€ 1,788.00	

2. Make Tough Decisions About Prioritizing Your Spending

Stage one sets the scene for your budget. Stage two is all about making decisions on where you spend your income. These decisions will hopefully put you on a path toward achieving your desired lifestyle without drowning you in debt.

This stage is not about denying you life's simple pleasures. It's about making informed decisions on where your hard-earned cash goes and ensuring you enjoy the biggest bang for your buck.

The key to success is to reduce wasteful spending. Replace some products or services with cheaper options once you understand the true cost of these items and lastly, reducing your consumption to sustainable levels.

Research shows the biggest areas of waste found in personal finance budgets is:

- Food and drink
- Insurance and
- Entertainment

Cutting down on food waste is not only good for your wallet; it is good for the planet. If you find yourself spending a lot on takeaway meals, substitute home-cooked ones instead. Try taking your lunch to work rather than always buying it each day.

Insurance is a prudent investment, particularly if you have a family. However, it is easy to find yourself overpaying for insurance. Make an inventory the insurance you carry. Check how much your current premiums are, assess their benefits and shop around for a better deal. Prime candidates for this are house and car insurance.

We all love having fun (well, most of us!). However, that fun costs. Check what you are paying for cable and see how much you are using. Can you trade down to a cheaper plan or change providers? How much do you spend on movies, a show or the theatre? How often are you eating out and how much are spending on wine and spirits each month?

Tweaking your entertainment costs will not only save you money, it will ensure you are getting the best value for your entertainment dollar.

3. Budget With A Lifestyle In Mind

Most people confuse budgeting with money or spending. In reality, a budget is simply a guide to help you make informed decisions about where to direct your spending to ensure you enjoy the most benefit from it.

One good example of a lifestyle goal is travel. If travel is your passion, create a separate budget for your next trip and make sure your spending decisions are based on helping you fund your trip.

Similarly, if wine or fine dining is your passion, these are areas you can budget for in your planning. Budgeting is all about ensuring you see the overall picture, enabling you to make decisions about what matters most in your life.

Do the maths. If you want that big overseas trip, the money for it needs to come from somewhere and we're not talking about your credit card here! It's up to you to determine what you really want from your life.

Think of your budget as simply a roadmap to help you navigate your way there. Once you've clarified what aspects of your lifestyle you want to prioritise structure them into three areas:

- a) Things that add meaning and joy to your life
- b) Experiences you wish to explore later in life but that can wait right now and
- c) Pleasurable trinkets or experiences you would like but which are optional.



Prioritising Your Preferred Lifestyle

Once you have this list of lifestyle preferences, you can review your budget spreadsheets with fresh eyes.

Remember to make sure your list reflects your priorities. If your existence is empty and meaningless without your annual overseas trip, make sure you budget for that and can live with being strapped for money in between trips. You can always cut out or reduce your spending in one area that is less important to you to ensure your budget balances.

Money Makes Money

When you get serious about managing your personal finances, one outcome of better budgeting is you end up with more money to manage. Savvy saving and investing can help you increase the income line at the top of your budget, opening the door to more options in your preferred lifestyle

Final Observation

Successful budgeting is a simple way of keeping track of how you are earning money and how you are spending it. It's not magic or voodoo economics but an accurate budget is a great way to bring discipline into your personal finances. Always remember a budget is simply designed to help you achieve and sustain your desired lifestyle and to ensure that lifestyle stays within your means without encumbering you with loads of debt. Always put yourself in a position where you understand your money and you have information at your fingertips to base your financial decision making on. Earning more than you spend maybe unfashionable but is the path to a low-stress life!

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