SECRET #12 - FINANCIAL MANAGEMENT

"Success in business requires training
and discipline and hard work. But if
you're not frightened by these things,
the opportunities are just as great today
as they ever were."

David Rockefeller

It is an accepted fact that a significant percentage of all marriages and relationships that break up are a result of money issues. Why is that? It is my theory that in all relationships there is a coming together of two individuals with two different ideologies, teachings and or backgrounds. The success of a marriage or other relationship is based upon how well we mesh and accept the ideologies of the other person in our lives. It is the coming together through negotiation of these ideologies into one common belief that both parties can accept that leads to marital or relationship bliss.

This process also needs to happen around money and the broader topic of **FINANCIAL MANAGEMENT**. This topic also includes investments and other assets you may have.

The greatest tool that I have seen for money management is a budget. Why a budget? A budget forces you to address the issue and highlight the financial management philosophy you may have. Everything you learned about money will come out when you go through the processing of what is to be spent, on what and when. If your thoughts on these questions are different than that of your partner, you will need to address how they will be resolved? If you do not negotiate these what is the result? Unfortunately, the answer for a lot of people is that they are not aware of what is going on around their money management. I am sure you have never thought of a budget as an aid to your success or as a marital aid but it is exactly that.

Sitting down and negotiating the various elements of the budget allows you to see where there is common ground and where there is not. If one of you is a free spender and the other is a spendthrift how can this possibly work? It can if you can find a happy and negotiated ground that both parties agree to.

The most important element of a budget is that it allows you to know where you stand financially, even before it happens. As an example, you are an employee of a company. Your income is fixed at “x” dollars per month. When you do your budget you find out that your total spending and commitments are “y” dollars per month, which is greater than the “x” amount. This means you are spending more than you make. This is impossible to do unless you have some sort of other savings or investments. So what happens we put ourselves into debt covering the shortfall. Then one day we do not have enough money to cover the debt and we are in financial difficulty. Then we get the annoying collection phone calls, we cannot pay our taxes and the next thing we know we may be in a marital break up or in personal bankruptcy.

Wouldn’t it be better to know ahead of time that this shortfall existed? A budget allows you to do this. The reality is that if there is a shortfall you have two choices. Spend less or earn more. The spend less can look like not spending on certain items at this time by delaying expenditures, going somewhere cheaper to shop, using coupons and so on. Earning more could look like asking for a raise, changing positions or companies or getting an additional part-time job. Either way you will be in control of your financial destiny.

So what is a budget? A budget is a detailing of all the money coming in from all the various sources and a listing of all the money being spent. The difference between the two is either a surplus or a deficit. A surplus is usually preferred as it means that you will be able to accumulate these surpluses into savings or future expenditures. Deficits are not all bad if they represent conscious choices in spending and can be covered by savings or borrowings that you know you have the ability to repay. A sample budget is included on the exercise page at the end of this secret.

In the above paragraph the topic of savings was introduced. Most people have difficulty developing savings. This is because they have “save to spend accounts” and not “save to save” or “save to invest accounts”. How is it possible to accumulate funds for car replacement, home purchases, college educations and retirement when you operate a save to spend account? There are many money saving techniques and Robert T. Kiyosaki the author of “Rich Dad Poor Dad” and “The Cashflow Quadrant” has produced excellent material on the topic of cash flow and savings accumulation techniques.

Having been a financial planner at one stage of my life the simplest technique that I know is the “pay yourself first method.” This looks like taking a pre-determined percentage of your earnings and placing that amount into a true savings vehicle. This vehicle may look like a savings account, guaranteed investment certificate, mutual fund, etc. For example, let us say you took 10% of your paycheque and put it in one of these savings vehicles. If you subsequently had a monthly shortfall in your budget you would have funds to cover that shortfall.

In addition, when you required funds for large ticket items like appliances, furniture, vehicles or a down payment on a home you would have these funds. Wouldn't it feel better to know that if you needed it the money would be there? And hey it would probably allow your partner to have a sense of financial security, which may even keep you in marital or relationship bliss.

If the above technique does not work for you or is too complicated, how about the money jar, take the change from you pocket or purse at the end of each day and put it in a money jar. The secret here is not to use the money in the jar for every day purposes but to accumulate and deposit the funds into a bank account on a periodic basis. When you have enough in the jar then move the money into a interest earning bank account or investment.

Are you aware that by putting only a few dollars away at an early age that you can become a millionaire? This is a little known fact, that if we all knew when we were kids or teens we may have started earlier to accumulate long-term savings. The secret that allows this to happen is the "time value of money". Money actually has a cost associated with it. When you go to the bank and borrow money they charge you interest. In fact if you do not pay them there is interest on interest. This concept of interest on interest is called compounding. It is this concept that can make you a millionaire.

This is a simple example of how this concept works. Let us say you have $100 to invest and the bank pays you 5% interest. At the end of one year you would have $105, the five dollars being the interest that you earned. The following year you start with an account balance of $105 and again receive 5% interest. At the end of the second year you would earn $5.25 interest and have an account balance of $110.25. Notice how you did not add any more money to the account but it still grew. This is the magic of compound interest.

Next, let us say that you wanted to send your child to college ten years from today. By starting today and letting compound interest go to work for you, you will not have to go to work to pay for all the tuition. The compound interest accumulated would pay part of the cost. Compound interest is one of the secrets that successful people use to their advantage. Ultimately, it would be nice to one day not have to go to work because the interest on your savings is enough to replace your wage and cover your expenses. The goal of most people is to reach a stage in life where our retirement income is earned by not working. The biggest tip I can give you is to start financial management now.

There is a book by Suze Orman called the "Nine Steps to Financial Freedom" and subtitled *"Practical & Spiritual Steps So You Can Stop Worrying"*, which could also be a resource to assist you on your way to creating greater financial successes. Remember in Secret #2 – Positivity we spoke of the programming we receive in our childhood and how most of our belief system is in place by an early age, well the first chapter of Suze Orman's book is entitled, "Seeing How Your Past Holds The Key To Your Financial Future." Do not let your childhood beliefs hijack where you want to go by impeding sound financial judgement and management.

You would not go on a trip to some place you have never been before without a map? Yet this is what a lot of people do when it comes to their financial management. So what is the equivalent of a road map in financial management? It is called a **FINANCIAL PLAN**. A financial plan allows you to look at all the events of your life and plan for the financial implication of these. A financial plan looks at how you are going to pay for things like the costs of education, your own or that of your children. It will allow you to target things, like when you can afford your own home or how much money you will need for retirement. It will also guide you in your investment choices as to type and timing.

Most financial plans also have cash flow statements included with them as well as protection plan analysis to ensure that your plan is completed in case you were disabled or due to death. There are two types of financial planners. Those that are paid a fee to complete the financial plan and those who provide the plan free of charge with the anticipation that they will earn a commission on their investment recommendations later. Neither is better than the other. It is highly recommended that you investigate the credentials and the reputation of the person you ultimately use to guide you through the financial planning process. Have people you know recommend who they use and check out their performance levels.

As discussed in Secret #10 - Education and Training this is one area where educating yourself on who to trust with your money recommendations is a wise choice. In addition, I highly recommend that you be educated on the various types of investments and the risk/ reward profile these investments have and what your risk tolerance levels are. Do not simply rely on any one person or organization to do all of your work, educate yourself. Diversification is one of the keys to investment success and I recommend highly that you have a diversified portfolio right from the start.

EXERCISE: I

Below you will find a 1.) Sample budget outlay and 2.) Blank budget form. Use the blank budget form to formulate your own budget categories. Complete a monthly budget for you and your family. Begin by estimating what your monthly income and expenditures may be for the very first month. Take a guess as to what these numbers may be, it is difficult to know how much you actually spend if you have not previously tracked this information. Be okay with it being not entirely accurate in the first month. At the end of the month compare those estimates to the actual amounts spent. I guarantee you will find surprises. Most people including myself typically underestimate how much we spend. This results in our spending more than we think and a potential for a shortfall at the end of the month.

You can keep track of your actual expenditures in the following way. First keep a record of all cheques paid in the record booklet the bank provides. Secondly, retain your credit card statements and related receipts. Because of the nature of my work, I staple the receipts for each month’s statement to the back of that statement just in case I am ever income tax audited or I require the receipt(s) as proof of payment for warranty purposes. For cash payments most merchants will give you a cash register receipt. Keep these until you get home and then put them in an envelope marked for that month. At the end of that month you can total the receipts by type of expenditure and voila you have your cash expenditure total by categories. If you lose a receipt do not sweat it, the budget is only a guide not a detailed accounting.

Once you have all the expenditures totalled, compare that total to the total income and see if you have a surplus or a deficit. The following month use the previous one to complete a more accurate budget forecast. After a while you will: a) Know where you are spending your money b) Get better at making budget forecasts for the coming month and c) Work towards surpluses instead of deficits. Also at this point you will be dealing with factual data that is based on what and how you actually spend your money. Now you can make conscious choices on how to spend your financial resources.

Budget Worksheet (Sample)		
Monthly Incomes and Expenditures **Income**	**Budgeted Amount**	**Actual Amount**
1. Income family member #1		
2. Income family member #1		
3. Interest or Investment Income		
4. Pension Income		
Total Family Income		
Expenditures		
Housing Expenses		
Mortgage or Rent Payment		
Property Taxes		
Home Maintenance and Repairs		
Heat – Gas, Oil, Electricity		
Hydro		
Water		
Other housing expenses		
Living Expenses		
Groceries		
Clothing		
Auto Expenses		
Entertainment – movies, eating out		
Major Expenditures		
Appliance Purchase; Automobile Repairs; etc.		
Total Expenditures		
Surplus (if income exceeds expenses) **Deficit** (if expenses exceed income)		

Budget Worksheet for the month of __________________		
Income	**Budgeted Amount**	**Actual Amount**
Total Family Income		
Expenditures		
Total Expenditures		
Surplus or (Deficit)		