



## **Starting A Budget (Your future self will thank you!)**

*By Janie Monroe, CFP®*

Budgeting is planning how to allocate your money for current and future use. It is a skill that is not exclusive to finance. Many of us are already masters at budgeting our time, energy, and other essential resources. Then why is it so hard to budget our money? One of the main reasons is the presumed complexity. Like many things in life, income and expenses are not always predictable. Take the day ahead for example. You have 24 hours and most of us know how we'll spend it. If you have extra time you can do things that make you happy now or something that might make you better in the future. If you need more time, you'll cut less important things out. The same thought process applies to budgeting your money.

Here are some easy steps you can take to start a financial budget:

### **Step 1. Determine Your Income**

You probably won't have a hard time figuring out your income if you have one job with a steady paycheck. It gets a bit tricky when you have many sources of income like multiple jobs, income-producing investments, gifts from family, or maybe even a small business. Include it all! It is important to look at your "net income" when building a budget. This is your income after deductions for taxes, retirement contributions, and employer provided insurance plans.

### **Step 2. Understand Your Expenses**

Now this is the part that makes everyone sweat! Be sure to understand how much you're spending and on what categories. Start with your bank statements to see how much is going out and to where. There are also some great online tools that'll connect to your bank accounts and credit cards, and automatically track and categorize the transactions. But be wary - free online tools may sell your data (they have to get paid somehow). Credit cards also often provide an annual report of spending by category. You will need to look back 12 months so you can understand the irregularities - some months have higher outflows than others.

### **Step 3. Compare Your Income and Expenses**

Which one is higher? If your expenses are higher than your income you have two choices:

Option 1) Increase your income: This is easier said than done, but reevaluate your sources of income and determine if you are capable of growing your future earnings.

Option 2) Decrease your spending: Be honest with yourself. Determine what expenses you can reduce or cut out completely. Start with the low hanging fruit like dining out, shopping, and entertainment. Also, negotiate or shop around for expenses like insurance, automobiles, and professional services. Finally, if you're making debt payments, consider refinancing to take advantage of lower interest rates on credit cards, student loans, auto loans, and mortgages. Look out for bank fees, finance charges for paying in installments instead of lump sum (like car insurance), and subscriptions fees you don't use anymore.



If your income is higher than your expenses, then you're in good shape and should start saving for the future. Build up an emergency savings account, save for a future goal like a home down payment or retirement, and make extra payments towards debt.

#### **Step 4. Set Limits and Keep Track**

Create spending limits for each expense category and try to stay within those boundaries. Take a half an hour every two weeks to review your progress. You will find yourself overspending if you don't do this. Use your budget as a guideline to steer you in the right direction. As your life changes, so should your budget.

#### **Conclusion**

A budget is a tool to help you have a healthy financial life. Your future self will thank you. If you're struggling with creating and sticking to a budget don't give up. The resources available are endless, but you should talk to a financial planner if you're completely lost.

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