

## Personal Financial Planning Part I

How does your piggy bank look? Hopefully better than the one above. This is the first article in a series on personal financial planning designed to help your piggy grow very large. We will focus on the three objectives of financial planning, which are:

- Controlling your daily financial affairs to enable you to do the things that bring you satisfaction and enjoyment. This can be achieved through budgeting and reviewing expenses to see where money can be saved.
- Achieving a long-term financial goal. This is the main reward for most people. Common goals are getting out of debt, buying a home, sending children to college, or taking that dream vacation. This is the one that you should focus on to stay motivated to follow your plan. This is your dream, following a sound money plan will get you there the fastest. Again, budgeting is your best tool for success.
- Building a safety net to prevent financial disasters caused by tragic unforeseen circumstances. This can be achieved through budgeting, building an emergency savings, making sure you have adequate insurance and making sure you are adequately funding your retirement. We never know when the unthinkable will happen, so we must plan to protect our families and our wealth.

Reviewing the list above, you may have noticed a theme. Budgeting is the tool that is involved in achieving all three objectives. I know what you are thinking, oh no, he wants me to budget! The word budget makes many people cringe. Common thinking is that a budget restricts you from having the things you want; however, a budget merely refocuses you on the things that are most important to you. A good budget will allow you to indulge now and then, but it will also tell you when you may be jeopardizing your dream on things that are less meaningful. The budget is the most important tool for personal financial planning. Let's look at what it takes to implement a successful budget.

One of the top reasons, if not THE top reason, so many people fail at budgeting is attitude. If you think of it as a penny-pinching sacrifice instead of a means for achieving your financial goals and dreams, how long are you likely to stick with it? It's like the difference between going on a diet and eating healthily. One is negative and restrictive; the other is positive and allows you to indulge now and then and still achieve your goals. Many people refuse to budget because of budgeting's negative connotation. If you're one of them, try thinking of it as a "spending plan" instead of a "budget." Once you've attempted to budget and failed, the bad feelings associated with any type of failure can keep you from trying again. Don't give up!

Why does budgeting matter? Money is a tool that enables you to reach your goals in life, but until you know where your money goes, you can't make conscious decisions about how to use this tool effectively. A budget shows you exactly where your money goes and provides a spending plan that lets you save for the things that are important to you: a new house, a new car, a comfortable retirement, a college education, travel, or whatever your particular goals and dreams happen to be.

There are several universal budgeting concepts that every successful budget will include, but one of the most important features of a successful budget is customization to your needs. Don't try to force your lifestyle and personal situation into a generic, one-size-fits-all budget. If a simpler approach makes it easier to stay committed, then go for simplicity. If you stick with a realistic, effective budget long enough, the rewards will keep you motivated; in the meantime, do whatever it takes to keep yourself going.

One important aspect of a successful, long-term relationship is working towards common goals, and a budget is a means of achieving them. Couples who can't come to an agreement about savings towards common goals should sit down and talk calmly and rationally and come to a compromise to resolve this disconnect in their relationship.

If you still can't figure out why your budget isn't working, consider the psychological factors at work. What does money mean to you? Do you use it for reasons other than its obvious purpose? Do you use it as a self-esteem booster, to make yourself feel worthwhile? Do you enjoy the heady rush of making a new purchase? Do you use it as a sign of power or control in a relationship?

If you jump into budgeting without a positive attitude about it, chances are high that you'll give up before you've seen the difference a budget or spending plan can make in your life. The secret is to work on your attitude first. Sit down with your family and decide what your ultimate money goal is. Is it being debt free? Sending your child to Harvard? Having that dream house? Traveling around the world? Make a concrete goal and include a realistic time frame for getting there. Then each month when you review your financial success and see that you are making real progress toward your ultimate goal, you will stay motivated to follow your spending plan and that is the key to financial success. Then when the county fair arrives, your piggy just may win the blue ribbon. Next article will cover the actual budget process.