LET'S GET STARTED:

MONEY MANAGEMENT 101

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Dedication

This book is dedicated to the men and women who have stopped dreaming because of their current financial situation. To those who feel trapped by their circumstances and their future seems dark. To those who feel like there is no way out of the financial bondage they are experiencing.

There is hope for tomorrow. It is never too late to learn how to manage your money and to turn your money life around. This book is filled with practical, easy to follow information, and simple tips to help you to begin to master your finances.

As you follow these principles you will see things begin to change for you. It will not happen overnight. It will take patience, consistency, and commitment. Nevertheless, in time you will be able to dream again. Your future is bright. Let's Get Started! All the best!

Introduction

I began my journey into Retail Banking more than 25 years ago when I entered the Management Training Program of a Community Bank in Chicago. I was excited about the prospect of learning about banking and one day becoming a Branch Manager. 18 months later I became an Assistant Branch Manager and about 18 months after that I became a Branch Manager. A few years later I began to notice something that I had not expected. I witnessed the same thing over and over again. So many people did not know how to manage their money. They were amassing NSF fees because they were spending without managing their checking accounts. They were applying for loans and credit cards and being declined because they did know how to manage credit. They were also not able to open checking accounts because they mismanaged checking accounts and still owed balances on accounts they had previously opened and had been closed. They had never been taught how to manage their money. Unfortunately, but sometimes intentionally, they were being taken advantage of by the financial services industry instead of taking advantage of the financial services industry and the products and services that it offers. While continuing to work in banking, I decided to begin to empower individuals and families by educating them on finances and how to manage their money. I no longer work in banking, but I continue to educate and to empower. This has become my purpose and my mission. I truly believe that learning how to manage your money can change your life. This is just the beginning.

All of us manage money but many of us would like to know how to manage it better. We want to learn how to have control over our money instead of our money having control over us. We have several questions about what we need to do to turn our money life around. A lot of us think the answer to our money problems is more money. I want to propose that the answer for many of us is not more money. The answer is learning how to manage the money we already have.

This is easier said than done. Mainly because many of us do not know how to manage the money we have because we have never been taught how to do so. Fortunately, many students in middle school and high school now have the benefit of taking courses in school related to Personal Finance and Money Management. Still, many of us (including me) were never taught about money management from our parents, in high school, or college. Many people have advanced degrees but were never taught how to manage their money. They received educations, learned crafts and skills, but never learned the very necessary skills of managing their money and as a result are failing this very important subject.

I have put together some information in this book to give you an introduction that will hopefully help you to gain a basic understanding of personal finance and lead to you being more successful on your financial journey. There is enough information here to make a major impact in your financial life.

The first thing we need to do is to change the way we think. This is definitely easier said than done but needs to be done. The quote below is one of my favorites, and I use it often in financial seminars.

"Change is hard because people overestimate the value of what they have and underestimate the value of what they may gain by giving that up." James Belasco and Ralph Stayer – Flight of the Buffalo

People know they need to spend less and save more to reach their financial goals, but they overestimate the value of their current lifestyle even though they know they want a change in their financial situation. They underestimate the value of what they may gain by spending less and saving more so they continue their current lifestyle (and behaviors) and there is no change.

Goals

If you don't know where you are going, then you are probably not going to get there. If you were driving your car but did not have a destination in mind, you would be driving around in circles or just driving from place to place. The same thing applies to money. If you do not have goals, then you will spend your money without accomplishing much. You may acquire a lot of "stuff" but a lot of it may be considered useless.

Goals are like a plan. If you have a plan, then you are more likely to accomplish what you set out to do. There is an old adage that says, "People don't plan to fail, they fail to plan." I like to say that people don't plan to retire broke, they fail to plan for retirement. In a lot of cases people don't plan to graduate with tens of thousands of dollars in student loans; they fail to plan to finance their college education. I believe that you are less likely to fail if you have a plan.

We are going to discuss four different types of goals: Short Term, Mid Term, Long Term, and S.M.A.R.T. Goals.

Short-Term Goals are goals up to 12 months.

You may have a goal in mind that you want to achieve in the next 12 months. It may be to save a certain amount of money to attend an event, to go on vacation, or to purchase an outfit. These are all examples of Short-Term Goals.

Mid-Term Goals are 1 Year – 5 Years.

There are some things we desire that are going to take a little more planning than is required for our Short-Term Goals. Unfortunately, some people try to achieve these goals without doing the necessary planning and they end up not achieving their goals or they achieve their goals but at a very high cost. Sometimes they use money allocated for bills such as the rent, mortgage and/or car payment to get things and end up in a big financial bind. Examples of Mid Term Goals could be the purchase of a car, the purchase of a house, going on an extravagant vacation, or attending school to get a degree or an advanced degree. None of these purchases or goals should be taken lightly.

Long-Term Goals are more than 5 Years.

Depending on your financial situation, some Mid-Term Goals for some should actually be Long Term Goals for others. If you have a mountain of debt, it may be wise to decrease or to eliminate your debt before purchasing that home, pursuing that advanced degree, or going on that extravagant vacation. Most people have dreams of retiring from working someday. If you do not have a goal to retire and an action plan to reach your goal, then it may remain a dream. Retirement for many people is more than five years away. Unfortunately, many people see it as something that is just going to happen in the future and never make financial plans to retire. They continue to spend but do not save anything for retirement. Retirement is a major Long-Term Goal that most people can identify with. However, if you do not make it a goal to retire then you may end up working well into your golden years. Not because you want to do so but because you have to in order to survive.

S.M.A.R.T. Goals

S.M.A.R.T. is an acronym for setting goals. S – Specific, M – Measurable, A – Achievable, R – Relevant, T – Timely. Many people have good intentions when they make goals but they set themselves up for failure because they do not make S.M.A.R.T. Goals. Very popular goals are: I am going to start saving this year or I am going to decrease my debt this year. These are honorable goals but are very general. Therefore, the likelihood of achieving them is very minimal. Examples of S.M.A.R.T. Goals for these are: By December 31st I am going to save $500 by saving $50 per month and by December 31st I am going to decrease my debt by $1,000 making an additional payment of $100 on the debt with the highest interest rate. Both of these goals are Specific ($500 and $1,000), Measurable ($500 and $1000), Achievable ($500 and $1,000 by December 31st), Relevant ($50 per month and $100 per month will help you to reach your goal depending on when you start), and Timely (by December 31st). The chances of reaching these goals are greatly increased by making S.M.A.R.T. Goals. Feel free to use these S.M.A.R.T. Goals.

Action Plan:

Use the Planner on the next page to make a S.M.A.R.T. Goal related to one or more of your financial goals.

SMART Goal Planner

Today's Date: _______________ Start Date: _______________Date Achieved: ______________

Goal: ____

Verify that your goal is SMART Specific: What exactly will you accomplish? _____________________

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Measurable: How will you know when you have reached this goal? _____________________________

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Achievable: Is achieving this goal realistic with effort and commitment? Have you the resources to achie ve this goal? If not, how will you get them? ____

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Relevant: Why is this goal significant to your life? ____

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Timely: When will this goal be achieved? ____

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Budgeting

Budgeting can be considered a controversial topic. This is mainly because of how people feel about the topic. Over the years I have noticed people wincing and/or cringing when I mentioned budgeting. If I asked, “Do you have a budget?”, sometimes the response was, “No, and I don’t want one. I don’t want to be restricted and feel like I can’t spend anything.” I have used “Spending Plan” in place of “Budget” to make people feel better about the topic.

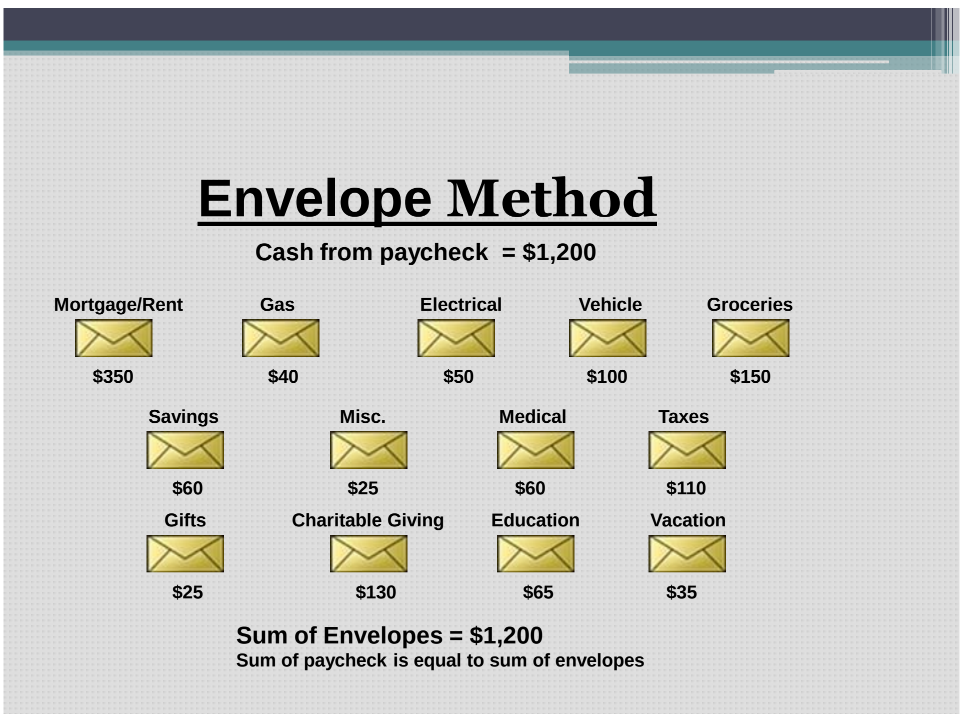
A budget is a very important tool in Money Management. It is like a road map or GPS to help you to reach your goals. Goals help you to identify what you want to do and a budget helps you to see how you are going to reach your goals. Also, a budget helps you to see where your money is going by identifying your income (the money coming in) and your expenses (the money going out). I have talked to several people who have good incomes but do not know where their money is going. Once you identify your income and expenses, you can determine whether you have a surplus (more income than expenses) or a deficit (more expenses than income) at the end of the month. This information can help you make wise decisions about your Money Management.

Let’s look at the different parts of a budget. First there is income. Income can be your wages or salary, business income, earnings from investments, or bonuses or gifts. Next, we look at expenses. This list is more extensive than income because there are so many things you can spend your money on. Here are some examples: Charitable giving; mortgage, rent, and utilities; car payment and fuel; clothing, personal care and grooming; groceries, dining out, entertainment and vacations; insurance, etc.

If you do not have enough income to meet your expenses or you want to save more of your income, then you may want to review your expenses to see where you can cut back. Some expenses are fixed such as mortgage/rent, car payment, and insurance. Other expenses are variable and can change such as groceries, dining out, and entertainment. You may want to start with your variable expenses to see if you can decrease them to free up some money for savings and goals. During this exercise, you may find yourself looking at your needs vs. your wants. This can help you to decrease some of your expenses. You may decide that having cable is a need but then realize that having all of the extra channels that you do not even watch is not only a want but is costing you more than $60 extra per month. See what you can do to decrease your expenses to free up extra money. You many surprise yourself. Also, you can consider increasing your income so you can have extra money for savings and your goals. If you choose this option, please use the extra money to make up a deficit, to save more money, or to go toward your goals. Many times when people make more money they just spend it. It disappears before they realize they have it. Hopefully, a budget can help you to avoid that disappearing act.

Sometimes when you are making a budget it will be important to track your variable expenses for a week or so. This can be useful because a lot of people have no idea how much money they spend on eating out, including buying coffee and/or snacks. Write down the date, each item purchased that day, and the amount of each item. Total the amount of the items at the end of each day or at the end of the week. This has proven to be an eye opening exercise for many people. They did not realize how much they spent on unnecessary items (wants). They actually “found” money for savings and their goals.

There is a popular way to budget that has been very successful for many people. It is called the Envelope Method. It is illustrated below. People have found that using cash has been very effective for them. After you get paid, you withdraw cash from your bank account and put it into envelopes that are marked with your expenses. When the bills are due or the money is needed for the allocated expense, you take it out of the envelope and pay the bill or pay for the expense. When the envelope is empty, then you cannot use money for that expense until you get paid again. You cannot borrow money from another envelope. If the money is not spent, then it can accumulate for your goals and/or go into your savings account. There is also software available to allow you to do this electronically.



Action Plan:

Use the Weekly Spending Tracker on the next page to track your spending for the next two weeks. Track everything you spend including your bills, meals, giving, gas, snacks, entertainment, etc. Whether you pay cash, pay online, withdraw money from an ATM, or swipe your Debit Card to make a purchase make sure you record it on the Weekly Spending Tracker to get an idea of where your money is going.

Weekly Spending Tracker

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Item:	Item:	Item:	Item:	Item:	Item:	Item:
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Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:
Item:	Item:	Item:	Item:	Item:	Item:	Item:
Cost:	Cost:	Cost:	Cost:	Cost:	Cost:	Cost:

Saving

I think everyone would agree that saving is important but statistics show that "More than half of Americans have less than $1,000 in savings." Saving is an important part of reaching your financial goals. Many of the things we want require us to save because most of us cannot just purchase what we want or we do not have sufficient funds to finance our retirements. It is definitely to our advantage to start saving earlier rather than later or while we are younger than when we get older. However, I believe it is not too late to start saving. I have seen retirees who have never saved in their lives learn to save $200 per month and live a more comfortable lifestyle than they would have lived without saving.

It is important to have an Emergency Fund in case of unexpected events. I always say to "expect the unexpected." Something is going to happen. It may be a broken appliance, a car repair, an unexpected bill, a medical emergency, etc. If you do not have an Emergency Fund, then you will most likely end up spending money you have set aside for other bills. Then you will be short when those bills are due. You can get caught up in a vicious cycle of robbing Peter to pay Paul that could include Pay Day Loans and Overdraft Fees. Some say that you should have 3 – 6 months of expenses in your Emergency Fund. Others say you should have 6 – 12 months of expenses in your Emergency Fund in case you lose your job and need to pay your expenses. While I understand the reasoning behind these numbers, I also think they can seem very overwhelming to someone who may not have anything in their savings account. I think it is important to start where you are. If you do not have anything in your savings account, then I think you should start by saving $500 or $1,000. Either of those amounts would be very helpful in case of an emergency. When you get to $500 or $1,000 then keep saving to get to that 3 months or 6 months of expenses.

Another thing many people do not think about saving for is education. They opt for, or had to opt for, Student Loans instead. The need and benefit of Student Loans is evident – many would not have been able to attend college without them - but the debt is burdening and overwhelming graduates and others to the point that their dreams are becoming a distant memory. It would be great if grants and scholarships were available to everyone who wanted to go to college but that is not the case. Therefore, we need to think about saving for our children's and grandchildren's educations. It may be too late for us but not too late for them. There are different savings plans available that you can begin by saving as little as $25 per month.

Other reasons to save are for specific goals that we have. Sometimes people will spend a whole paycheck to purchase something they could have saved for. Christmas gifts are an example of this. Christmas is the same date every year, yet many people who give gifts do not save to buy gifts. Instead they borrow using credit cards, overdraw their checking accounts, or use money allocated for bills. If they started saving when Christmas was over, they could avoid these money challenging situations. Other goals people could save for are a down payment for a home or a vehicle, vacation, college, computer, big screen television, furniture, etc. Not only would you reduce or eliminate the interest payments, you would also save a lot of money by not having to finance many of these items. It usually costs three or four times or more to finance using rent to own options than it does to pay for an item up front. There is something to be said for delayed gratification.

One of the biggest savings goals we have is retirement. Many of our grandparents did not have to worry about saving for retirement because they had pensions and Social Security. Pensions are almost a thing of the past with about 20% or less of companies still offering it to their employees. Many also believe that Social Security will not be available in the next 25 – 30 years. These realities and possibilities make it necessary for everyone to make saving for retirement a priority. Many employees have retirement plans, such as a 401(k) or a 403(b), offered by their employers which they can contribute to and save for retirement. Traditional and Roth IRAs are also options for saving for retirement. Business owners can also contribute to 401(k)s and Roth IRAs as well to benefit them for their retirement.

Saving should be a part of your budget. Make it an expense that must be paid. In fact, you should "Pay Yourself First". This means you set aside a specific dollar amount or a percentage (5% or 10%) from each paycheck and put it into savings. We can be so concerned about paying everyone else that we forget to set aside money for ourselves, for our goals and for enjoyment. We can make this easy by automating it and having it come out of our paycheck before we even see it. We just have to make sure that we do not touch that money until we reach our goal or unless we need it for a specific purpose.

There are various ways you can save and various products you can use. You can save at home and use the traditional piggy bank or hide your money under your mattress. You will definitely have access to your money with these methods, but you will be forfeiting any interest you may gain and the safety of your money may be questionable. You can also save your money in financial institutions such as banks, credit unions and insurance companies. Or you can save and invest your money with the help of a financial advisor. You can save your money in a savings account, a certificate of deposit, a money market account, savings bonds, etc. Either of these options could work for you depending on the rate of return you would like on your money, how long you are planning to save, and how quickly you need to access your money when you need it. Generally speaking, all of these are pretty liquid (the availability of your money or assets) but savings accounts are the most liquid. You can access the money from a savings account whenever you want and without a penalty. Next is a money market account but there is usually a minimum amount you have to withdraw, usually $250 or $500. Next is a certificate of deposit, but you may be penalized if it has not reached maturity at the time of withdrawal so you will forfeit some or all of the interest you would have gained. Last are savings bonds because they have to be redeemed, and you will forfeit interest if you redeem them before their maturity date.

You should choose the products that best meet your needs and will help you to reach your financial goals. Whichever product you choose to use, make sure you understand it and ask questions if you are not sure of something. Get started today and begin to achieve your financial goals. The sooner you start the better.