

THE BASICS OF PERSONAL MONEY MANAGEMENT
or What Living Within Your Means, Means!
By Ken Farber

During the past year I have had the honor of both building a friendship and working with Joan Sotkin. I was deeply honored when she invited me to write a series of articles designed to reveal some very simple techniques - building blocks of thought and function -- to assist you in creating the practical skills you can utilize to create your financial success. To start with, let's define what we mean by financial success.

From childhood through death, we are presented with many a portrait of what financial success is. From the images of self made millionaires to television commercials that show a retiree in his mid-thirties throwing darts to determine where he should take his next trip, we are presented with illusion after illusion of financial independence. Let me provide you with a simpler, more down to earth definition of financial success:

You can sleep comfortably at night without worrying how you are going to pay your bills tomorrow because you are aware and in control of you financial position.

A few things you will notice about this definition:

- * It does not represent anything about how much money you might have.
- * It does not represent anything about how much money you might earn.
- * It does not represent anything about how many possessions you own or desire.

What it does do is state that financial success, like any other arena of success, is measured relative to an individual's happiness. I know many people with all the apparent trappings -- house, cars, expensive toys -- who are not happy and others who live from month to month earning modest salaries yet feeling confident, focused and in control.

When was the last time you were able to make a good and balanced decision when you were stressed out? Take your time. Really think about it. . . .

OK -- I am guessing you arrived at the same destination I did -- never! Stress leads to more stress, our psychological equivalent of chasing our own tails. And adding to the problem, more and more of us are having our tails chased by the landlords, credit card companies, banks and people we owe. I invite you to embark on a journey with me to build the tools to end this circle of stress and frustration, and begin to walk a path based on education, aims and efforts.

Save Yourself!

Earlier in this article, I spoke of the images of success we are presented with from the time we are children. We are the Queens and Kings of the consumer economy. From being taught as children that if someone loves me they will buy me a gift, to the inundation of ads we see on TV, we are trained that we can buy our way to happiness.

This process leads too many of us down a road of living hand to mouth, or even worse, into a circle of debt and unending stress. Let me share one example with you.

When I was in college, I had a good friend approach me asking for advice. Scott had a single credit card, was working part time at the local Sears store while attending school and had not made any payments on his card balance for several months. He had over-extended his credit card debt to the point where he could not maintain the payments and was notified that his bank cancelled his card privileges.

Clearly Scott's spending habits had gotten out of hand, and in speaking with him, I realized that he did not understand the concept of savings. Here's a bit of the conversation.

Ken: "Scott, why did you keep using your credit card even after you were not able to make monthly payments?"

Scott: "I needed a new sweater, and I found one on sale! I saved 40% by buying that sweater now."

Ken: "But you did not have the money to spend."

Scott: "That is why I used the credit card."

Ken: "If you did not have the money to make a payment on the credit card, and then you used the credit card to spend more money, how would you expect to be able to pay off the now even higher balance on the card?"

Scott: "But the sweater was on sale. Again, I saved 40%!"

Feeling like we were in a circular discussion, I presented an example in the form of a question:

Ken: "Scott - if you go shopping and find a camera that regularly sells for \$100 and it is now on sale for 50% off, how much money did you save?"

Scott: "That's easy: I saved \$50!"

Ken: "I am sorry to disagree, but you did not save anything. You SPENT \$50!"

At this point I asked Scott to hand me the cancelled credit card. When he did, I picked up a scissor and was about to cut the useless card in two. He grabbed the card from its peril shouting, "WHAT DO YOU THINK YOU ARE DOING?"

Ken: "Scott, this will help stop your debt from increasing, and you can't use the card anyway. The bank is asking for it back and won't allow any more charges on it!"

Scott: "I don't care! You can't cut my card in two, I need it."

His reaction amazed me and has always stayed with me. (Sure, I was an accounting major and he was studying marketing, but this went deeper than that.) It was then that I began exploring personal money management in a new way.

So, now that we have a very basic definition of financial success, and have realized that spending and saving money are two diametrically different events, I invite you to share in reading my upcoming articles that will discuss some very simple and practical applications of everyday money management.

You can always find something else to chase your tail over!

THE BASICS OF PERSONAL MONEY MANAGEMENT - Part 2

Starting on the Path

By Ken Farber

In the previous article we defined financial success as the ability to "sleep comfortably at night without worrying how you are going to pay your bills tomorrow because you are aware and in control of your financial position." One of the gifts of being human is that we are all able to construct a vision, to dream of how we would like our lives to be. To share a quote with you all from a favorite book of mine - *Illusions: The Adventures of a Reluctant Messiah* by Richard Bach:

"You are never given a wish without also being given the power to make it true. You may have to work for it, however."

This quote has long been a motivation to me, and I have a consulting practice that I named VIA Consulting. VIA stands for Vision Into Action and the focus of my work has been to help people to define their aims and then identify and apply the efforts it will take to make those dreams a reality.

Let's now embark on building and utilizing some simple tools that will help you progress towards financial success and security.

As schoolchildren we learn the fact that two points determine a line, and that the shortest path between two points is a straight line. Place two dots anywhere on a page, lay a ruler down so you can see both those points, and you draw your line. To start on our journey, I am going to assume that we have the common theme to our financial dreams as defined above -- to be in control of our finances, not overcome with debt, and can rest easily at night without undue worry. Our dream represents a point out in the future at which we desire to arrive.

If we know where we want to go, we now need to know where we are before we can get there -- our starting point! One amazing quality about these points on the path to our dreams is that as we could not draw a line without having the starting point as a reference, neither could we reach our dreams if we were not where we are today.

You will not reach the end point, financial security on the first step. Your job is to identify the first attainable point between you and your aim and take that step. From this new point of accomplishment, not only will you be able to better see your goal, but you can also perceive how far you have come from your starting point. We can look ahead and look back simultaneously and know where we are. This is going to be an exercise of self-awareness as well as the path to financial security.

In college I majored in accounting because I wanted to strengthen a weakness. Like many of us, I was never one for numbers and had spent most of my life trying to avoid them. What I had seen early on was that in business, as in the rest of life, everyone can do a job. Yet I found it was those who understood the numbers that support the business to be the most successful. We are going to use a very simple accounting trick to discover a bit about who and where we are now.

I suggest you buy a small notebook that is small enough to carry with you yet sturdy enough to be your constant companion for just one month. During that month, your task is to track every cent that you spend. Sounds simple, and it really is.

Include the basics like:

Rent or Mortgage

Groceries

Medical

Insurance Payments

Tuition if you are in school

Taxes

Loan Payments

Bus Fare and/or Car Payments

In addition to what you record your as your basic monthly expenses, track EVERY additional cent you spend. To make this exercise most fun and most useful, keep your notebook with your wallet and anytime you open your wallet or even take a quarter out of your pocket to buy some candy or a newspaper, record that expense.

No matter what tool you use to record your spending, the most important part of this exercise is to not judge yourself at any point for anything you spend money on. Don't change any of your habits, merely observe and record what you spend as though you were observing someone else. Just be gentle and honest with yourself, for building the clearest picture possible of your starting point will serve to help you reach your dream sooner than you might imagine.

Have fun. Be a consistent and objective observer, and let's meet back here in January and see what our next step on the path Financial Security is.

THE BASICS OF MONEY MANAGEMENT - Part 3

Taking a Look at Your Money Flow

By Ken Farber

For a quick review, in the first of our series we defined financial success as the ability to "...sleep comfortably at night without worrying how you are going to pay

your bills tomorrow because you are aware and in control of your financial position."

The second article in this series introduced the fact that in order for you to achieve a goal, you need an accurate and unbiased picture of where you are now. In order to gain that view, I recommended that you track all our expenditures -- every cent -- over the course of a month.

No matter how many times I have coached people through this exercise, the results are always amazing! Becoming aware of exactly how you have spent your money over the course of a set period of time is always a surprise. Whether you found that you spent \$151.00 on cigarettes and \$10.26 to cover up the smell or realized that buying that small bag of chips with lunch everyday cost you \$21.65 per month, the outcome is the same.

How many times have you heard someone (including yourself) say "I don't know where the money goes!" Following last month's exercise, you now know! The real key is what you do with this information now that you have it.

Categorize Your Expenses

The next step in this exercise is to separate the expenses you recorded into two separate categories.

The first is Necessities -- expenditures that are a must for your daily existence:

- * Groceries
- * Rent
- * Water
- * Heat
- * Basic Clothing
- * Basic Phone

The second category of expenditures is Discretionary Spending -- any expense for something other than a Necessity:

- * Restaurants
- * Entertainment - CD's, Video rentals, Baseball tickets, Cable TV
- * Equipment - Radios, DVD, Software, games etc
- * Subscriptions - Magazines, Newspapers
- * Cleaning Service
- * Health Club payments
- * Etc., Etc, Etc.

Now that you have segregated your expenses, let's take a look at some essential financial concepts that will build our understanding and prepare you for the next step on the path.

Liquid Assets and Cash Flow

You have probably heard the terms "Liquid Assets" and "Cash Flow." Let's take a moment and look at what these terms mean.

A liquid asset is defined as a form of property that is easily and cheaply turned into cash. Marketable securities, such as stock, are considered liquid assets. But, it is easy to see from this definition that cash itself is the most liquid of assets.

A simple definition of Cash Flow is the movement of money, such as in and out of a bank account or investment portfolio. Like the ebb and flow of the tides, the money comes in, the money goes out again.

Try this: Reach into a bowl of water and try to pick some up. Even if you are clever and cup some into the palm of your hand, it quickly runs through your fingers and out of your grasp. This is one of the properties of a liquid. Isn't this the relationship we often have with money as well?

We receive our paycheck or bring in money through a business, then pay the rent, buy food, go to the cinema, and wonder where our money goes. The trick is to control the flow, and one of the ways we do this is to create a container for our liquid assets so that we can collect and conserve what flows our way! This is necessary aspect of good money management that is practiced by both individuals and corporations, both large and small.

Before we create our financial container, which we will discuss next month, I have one more exercise to suggest. This builds on the results of tracking your expenditures over the past month.

As you track your expenditures again for the current month, observing each and every dollar that you spend, start to assess the value of each of these items in your life. This part of the exercise will pertain to both the Discretionary Expenditures and what you defined as Necessities over this last month.

Ask yourself these questions:

- * How much does my dwelling or the car I drive really mean to me?
- * Does owning that new portable stereo or wearing that new dress help me achieve my life aims?
- * Do I derive a sense of satisfaction from my things?
- * Do they lend balance and support to my goals in some productive way?
- * How do my things affect my debt level?
- * What are the leaks in my liquid cash system?
- * Where is money flowing out of my life towards something that does not further my aims of financial success?

Each time you spend some money, gently observe and explore your valuation for what you receive in return. Notice your emotions at the time of your purchase as well as when you utilize the particular item or experience, and record your

thoughts in your notebook. You can organize your thoughts relative to Necessities and Discretionary Expenditures, making them easier to read and review when we meet again, in next month's installment.

Till then, enjoy, learn and prosper!

Basic Money Management - Part 4 Constructing a Simple Spending Plan by Ken Farber

If you followed the instructions in the first three parts of this series you have divided your expenses into Necessities and Discretionary Expenses. You have also explored how you value each of these. Now we will take all this information and create a vehicle that you can use to change your future!

How to Construct a Simple Spending Plan

A spending plan serves as our boat - a secure vessel designed to prevent leaks and keep us afloat economically, emotionally and psychologically.

Your spending plan is simply a document that lists your projected income and expenses over a period of time. That's it -- there's nothing very mysterious or complicated at all.

As a basic format for your spending plan, write in bold letters the word **REVENUE** at the top of the page. Below that list all of your sources of income and the specific monthly amounts. For example:

- Salary
- Tips
- Guaranteed commissions or bonuses.
- Alimony
- Social Security
- Any other monies that come to you on a predictable
- basis with respect to both time and amount.

List the amounts on both a monthly and annual basis.

Below the sources of revenue, put another bold heading labeled **EXPENSES**. Under this heading we are going to put two subheadings.

The first subheading should be Necessities. These are expenditures that are a must for your daily existence. Your list of monthly expenses may include:

- Rent/Mortgage Payment: \$1200.00
- Groceries: 400.00
- Water: 42.50
- Heat: 65.00
- Basic Phone: 20.00
- Prescribed medications: 45.00
- Health Insurance you and family: 350.00 Etc.

The second subheading will be Discretionary Spending -- any expenditure for something that is not a Necessity. My experience would lead me to believe that

when you recorded your expenses over the past two months, you were very surprised by how much of your money was spent on discretionary items. This list may include items such as:

- Dining out
- Movies/Video rentals
- Cable TV
- Cigarettes
- Software
- Games
- Subscriptions - Magazines, Newspapers
- Cleaning Service
- Health Club payments
- Etc.

When establishing your spending plan for these Discretionary expenditures, keep in mind your larger aims. Honestly ask yourself

- Am I happy with my current financial situation?
- Do I wake up and worry about how I am going to pay my bills?
- I would love to go back to school but how can I pay for it?
- How can I pay off my credit cards more rapidly and avoid large interest charges?
- Is this the neighborhood I want my children to grow up in?
- I would love to get a new car, but how I can afford it?

These are key questions to ask yourself when setting the amounts for your Discretionary Spending. It is the spending on these non-necessities that can be changed most easily, thereby freeing up money to apply to current needs and longer term aims. This is where our exercise in valuation comes into play.

Is watching Cable TV more important to me than furthering my education so I can qualify for a higher paying job?

Does spending \$150 a month on cigarettes make me feel better than if I applied that money to reducing my credit card balance?

If your goal is to pay off credit card debt or other loans and get out from under the stress that these create in your life, include these in your list of Necessities. Plan for it and pay it off. If your expenses are larger than your income, this is a critical situation, and I urge you to seriously reign in your expenditures and avoid going further into debt. If this is an ongoing problem, you may wish to seek a debt counselor.

One last suggestion for your spending plan: Add a line to your list of Necessities and call it Savings. Aim at paying yourself before any other bills, and consider

this money no longer available to you. This is the way to start that nest egg to finance your long term aims. It can also be a reserve for a true emergency (medical, for instance) that might occur.

Wouldn't it be cool if you could tell someone exactly when you would be able to pay them back -- or on what date you will make that investment or purchase that is part of your aim? Your spending plan puts that power to plan in your hands.

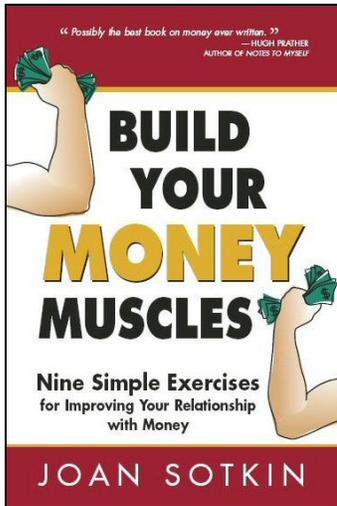
Now with a spending plan in hand, and hopefully putting your own savings first, you can plan for what you need and save for what you want -- new clothes, car, TV, house, etc. But remember this key: You earn first and then buy. Do not extend your credit and debt in a constant stressful spiral.

Buy what you can afford, stick to your spending plan -- Live within your means.

Joan's book, Build Your Money Muscles, has forms you can use to make the process of creating a spending plan easier

Ken Farber has enjoyed a successful business career in finance, accounting and Human Resources, holding positions as a corporate officer of public companies. Ken is now a private investor and instructor, teaching individuals nationwide how to protect their investments utilizing stock options.

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Build Your Money Muscles is Guaranteed to alter the way you deal with money!

“Possibly the best book on money ever written.”

—Hugh Prather, author of *Morning Notes*, *Shining Through*, and *The Little Book of Letting Go*

“An extremely valuable book for those who have issues with money. . . . I heartily recommend it.”

—Susan Jeffers, PhD, author of *Feel the Fear and Do It Anyway* and *Life is Huge!*

- **Understand the influences affecting your current financial situation**
- **Eliminate internal blocks to a healthy cash flow**
- **Overcome “financial vagueness syndrome”**
- **Reverse uncomfortable money feelings and self-defeating behaviors**
- **Make friends with money**
- **Create a new financial identity**
- **Enjoy lasting prosperity**

Build Your Money Muscles offers a revolutionary approach to financial health and security. Longtime prosperity guide and entrepreneur Joan Sotkin introduces a holistic approach to gaining financial strength and resilience. Includes easy-to-understand techniques for developing healthy money habits and changing the reader’s financial position once and for all.

“A step-by-step process to shore up your ability to attract and manage money healthfully.”

—Christine Northrup, MD, author of *Mother-Daughter Wisdom*, *The Wisdom of Menopause*, and *Women’s Bodies, Women’s Wisdom*

**For Information about Build Your Money Muscles
and Joan’s coaching,
visit www.ProspertyPlace.com**