

SPENDING

In our abundant society filled with consumer goods (and advertising promoting those products), it's easy to let spending get away from us. Things that were considered luxuries even just a few years ago, like cell phones, are necessities to most people. Your basic challenge in getting your spending under control is to be able to distinguish your wants from your needs.

Needs vs. Wants

To separate the wants from the needs, ask yourself "Do I have anything else that will do the job?" If you do, it's probably just a 'want.' For example, a new car would be terrific, but your 13-year old car is running just fine.

Follow this simple rule to help you further separate needs and wants: Needs are paid for with cash; Wants are paid for with credit. Things that are needed are easily handled within your budget, but the things you want generally require plastic assistance.

Different Approach to Spending

It's easy to have no money left at the end of the month even if you have a good income. When it comes to building financial security, what you earn actually matters much less in the long run than what you keep. To make sure there always the money you need to invest, take a different approach to spending.

- Assess where you spend. Commit to tracking all your purchases for one month. It can be a chore, but the results will be eye-opening--you'll know once and for all where your money is really going. If you're like many people, you spend far more on small purchases--like the daily latte--than you ever would have imagined.
- Find the money. With your better knowledge of where you're actually spending, you'll be set to find that "extra" money you'll use for investing. It's not likely to be \$100 all in one place, but a few painless bucks here and there.
- Set priorities. This is when you get down to the details of deciding what you really need and what you really want. A secure retirement is a need. A new car every year isn't. Arrive at a clear understanding of how you define each. This definition will guide your everyday spending decisions.
- Create a spending plan. List your fixed expenses (your needs, like paying the mortgage and saving for retirement) and discretionary spending (your wants, like that new DVD).
- Shift spending as needed. If you want more money for one thing, you'll need to spend less somewhere else. If there's not enough to fund your needs, shift money from your wants.

The Bottom Line

Smart spending can lead to big savings, and big savings will lead to financial security in the form of a solid investment portfolio. The right steps to guide your spending will ensure that you have the money you need to invest for the long term.