

Budgeting

THE ULTIMATE GUIDE



WealthAdviser



Before you get started

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Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear **Reader**

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library



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Introduction

Are you controlling your finances or are they controlling you? It is a sad fact that far too many Australians are forced to admit to the latter option. They will also very quickly tell you that it is not a good place to be! If your finances are out of control you are likely to experience some, or all, of the following on a regular basis:

- An inability to meet long term financial goals
- Increasing indebtedness
- Relational conflict
- Being forced to make unwise financial decisions (e.g. taking out 'payday loans')

There is a simple way to avoid the problems mentioned above. It involves taking a firm grip over your financial situation by drawing up, and following, a personal budget. At this point many people will protest by questioning how the concepts 'simple' and 'budget' can possibly be used in the same breath! The purpose of this eBook is to answer this objection by showing you how to simplify and streamline your own personal budget.

The main topics that will be covered in this guide are:

- Basic budgeting principles
- Budgeting methods and tools
- Setting financial priorities
- Making your budget work for you
- Planning for the long term

We trust that you will find the information presented here helpful and that it will make a meaningful contribution to your long term financial peace-of-mind.



Basic principles

Before we delve into the nitty-gritty of budgeting it would be good to remind ourselves of some of the very basic principles of personal financial management. Doing so may seem slightly redundant but it is important to revisit some foundational financial truths every now and then. In light of this, it is our belief that every personal budget should be built on the following core principles:

- Always spend less than you earn: This may seem like a complete no-brainer, but the disregarding of this rule sits at the heart of most budget related woes. It would perhaps be possible to live beyond your means for a few months or even years, but this kind of lifestyle will exact its toll sooner or later. Usually in the form of crushing financial difficulties. The basic function of a budget is to ensure that you do not cross the line into spending money that you do not have.
- Avoid unsecured debt as far as possible: It is totally unrealistic, for most people at least, to think that you will be able to go through life without ever taking on any debt. The important thing to remember is that not all debts have been created equal.

Some kinds of debt (e.g. mortgages) can have positive effects on our long term financial health as it helps us to secure capital assets. However there are other kinds of debt (e.g. high interest unsecured loans, credit card debts and pay-day loans) that are almost guaranteed to keep your personal budget from balancing.

- Make the most of what you have: One of the most common financial mistakes that people who are not in debt make is to simply assume that a lack of debt will automatically translate into a secure financial future. Nothing can be further from the truth! You will still have to take care of your money with long term investment goals in mind. Not doing so is akin to simply leaving your cash in a box under the bed!

Be prepared for emergencies: Even the best laid plans of men and mice can go awry and there are usually some financial implications when they do! You should do your best to protect yourself against unforeseen circumstances by taking out adequate insurance and the creation of a 'rainy day fund'.

Budgeting Methods and Tools

Someone once made the very cynical remark that: "A budget is a mathematical confirmation of your worst suspicions!" This may be a bit of an exaggeration, but it does underline two basic facts about budgets: a) They have a tendency to uncover unwelcome truths and; b) You will have to crunch a few numbers to get to these truths.

Let us briefly consider the first of the basic facts mentioned above before we move on to the actual process of drawing up a budget. It is precisely because they are quite certain that they will not like what they see that some people shy away from personal budgeting. This is obviously a highly counterproductive, and even dangerous, position to take. We would like to encourage you to go into the process of budgeting with a readiness to be brutally honest with yourself about your financial situation. This means, at the very least, that you should record your expenses

as they are now and not as you hope they will become in the future. Doing so will give you a clear, if perhaps disturbing, picture on which your further actions can be based.

Now for the process of budgeting itself: At its most basic, budgeting is simply the process of comparing your income with your expenditure in order to be able to prudently manage your finances. This means that one of the fundamental building blocks of a good budget will be an accurate picture of both of these areas (income and expenditure). Remember: A budget is only as good as the information that it is based on!

What follows is a basic budgeting model. There are, of course, other approaches but it is perhaps better to try walking before flying! Keeping it very simple initially will safeguard you from the feeling that the whole process is just too complex and should therefore not be attempted!



Determine your total monthly income

This may, again, sound like a no-brainer. Surely everybody knows how much they earn every month!? Apparently not - many people, especially those who get paid on a weekly or bi-weekly basis or who have multiple sources of income, do not have a clear idea of what they have to work with each month.

The following formulae can be used to help you determine how much you earn on a monthly basis:

Monthly Salary Calculation			
I get paid...	Multiply by	Divide by	Monthly total
Every week	52	12	
Every fortnight	26	12	
Twice a month	24	12	
Every three weeks	17.34	12	

The table below can be used in case you have multiple sources of income:

Type of income	Amount received each period
Salary or wage (after tax)	\$
Pension or government payment	\$
Child support or other income	\$
Regular interest from bank deposits	\$
Regular income from investments (such as rent from an investment property, distributions from a managed fund, or dividends from shares)	\$
Other	\$
Total income for this period	\$

Determine your total monthly expenditure

The next step in the budgeting process is to get a very clear picture of how much you spend each month. This can sometimes be difficult as most of us have expenses that vary from month to month. The biggest reason why this is difficult however, is the fact that most of us do not keep track of our expenditure on a regular basis. Therefore, it may be necessary to carefully monitor your expenses for one to three months before you can complete this exercise. Some of the ways in which you can do this are:

Keep an expenses journal: Keep a little book with you in which you make a note of every single time you spend any money, no exceptions. Tallying this up after one to three months' elapse should give you a very clear picture of how you spend your money.

Add up receipts: If you think that you will forget to add expenses to a journal you should make use of the 'paperwork' that comes with (or is available for) almost all financial transactions. Make sure that you ask for a receipt for even the most mundane transactions (e.g. buying a newspaper or a coffee), If you regularly use the internet to buy things, or for bill payments, you should also print out all relevant receipts. Do this for one to three months. Gather all these pieces of paper together, add any statements that you may have received in the mail, and get out your calculator. You should have an accurate picture of your expenditure at the end of this process.

Your next step should be to take the information that you have gained about your expenditures and enter it onto a form like the one below. This should help you to clearly see some of your spending patterns. It will also provide you with the opportunity to spot opportunities for streamlining your finances later on.



Household expenses		Education	
Rent	\$	School fees	\$
Repairs	\$	University fees	\$
Gas	\$	Tuition	\$
Electricity	\$	Books and uniforms	\$
Water	\$	Camps and excursions	\$
Telephone	\$		\$
Cable/broadband	\$		\$
Cable/TV	\$	Other expenses	
Furniture	\$	Child care	\$
Appliances	\$	Pet care	\$
Groceries	\$	Gifts and donations	\$
	\$	Hobbies and sports	\$
	\$	Audio and visual	\$
Transport expenses		Subscriptions	\$
Car	\$	Movies	\$
Registration	\$	Restaurants/eating out	\$
Parking	\$	Alcohol/cigarettes	\$
Fuel	\$		\$
Repairs/maintenance	\$		\$
Public transport	\$	Savings	
	\$	Personal superannuation contributions	\$
	\$	Regular savings account installments	\$
Personal expenses		Regular installments into investments	\$
Clothes and shoes	\$	Christmas clubs etc	\$
Hair and beauty	\$	Holiday savings	\$
Sundries	\$	Money for emergencies	\$
	\$		\$
	\$		\$
Medical expenses		Debt repayments	
Doctor	\$	Mortgage	\$
Chemist	\$	Car loan	\$
Dentist	\$	HECS payments	\$
Specialists	\$	Credit cards	\$
	\$	Personal loan	\$
	\$	Store cards	\$
Insurance		Lay-bys	\$
Home & contents	\$		\$
Car	\$		\$
Health	\$		\$
Income protection	\$		\$
Life	\$		\$
	\$	Total spending for this period	\$



Evaluate your position

After going through the two steps outlined above you will be left with two totals: One for income and one for expenditure. You can do a very basic financial health check by subtracting one from the other:

Income minus Expenses = ?

If you are left with:

- **A positive amount:** You are living within your means. You should investigate ways in which you can get the greatest possible benefit from the money you have left over each month.
- **A zero sum:** Your budget is balanced but you could be in a dangerous position if you are not saving or setting money aside for emergencies.
- **A negative amount:** You are living beyond your means. You will have to radically adjust your budget to bring it into line with your income.

Make budgeting a regular discipline

You now have all the fundamentals in place for regular budgeting. Use the methods above on a monthly basis to estimate what your income and expenditure is likely to be, then keep track of your actual income and expenditure on a daily basis. There are many ways you can do this, some of them are:

Keep a journal: This is perhaps the simplest form of keeping track of your budget. Enter all your budgeted amounts in a note book before the beginning of every month and subtract actual spending in every specific category from the totals. Any potential 'overspends' will quickly be identified.

Use software: There are many excellent computer programs available to help you with the process of budgeting. A good example is Quicken Personal. More information on this can be found at:

<http://home.quicken.com.au/Pages/ProductDetails.aspx?pcode=9&pcatid=7>

Use 'envelope budgeting': This is perhaps quite a 'radical' solution but it is also one that can be very effective if you are in serious financial difficulties and have to stick to your budget at all costs. It involves keeping as much as possible of the money you will need for your monthly expenses in cash. Prepare an envelope for every budget item and place the money allocated to that item in it. Take the envelope along when you go shopping, when you go to pay your bills etc. This may seem like a huge hassle but many people have reported that physically seeing how much they have available to spend made a real psychological difference and helped them to reform their financial habits.

Source: Australian Bankers Association available

Plan for the Future

Your budget is an excellent tool to help you plan for the future. One way to do this is to set clear savings goals and to then incorporate them into the budget. Goals can range from short to long term, for example:

Short term: Save for a holiday

Medium term: Buy a new car, save a deposit for a new home

Long term: Achieve long term investment growth, prepare for retirement

Clearly identifying your financial goals will act as a great motivator to make some

savings to help you to achieve them. When it comes to medium and long term financial goals it is highly recommended that you consult a professional financial advisor to help you make the best possible decisions.

While we are on the subject of goals: One of your most important goals should be to be as well prepared as possible for emergencies. You should therefore make sure that you create room in your budget for the creation of a contingency fund and for adequate insurance.



Doing the most with what you've got

The budgeting process does not stop with getting an accurate picture of your finances; ideally it should also involve some clear thinking about how you can improve your financial position through using your income wisely and making savings wherever possible. This is obviously a very wide topic that cannot be adequately addressed in a short eBook like this. However, you would do well to follow the following tried and trusted principles:

“Pay yourself first”:

This is a method on which the financial security of thousands of people has been built. Make sure that there is room in your budget for a monthly amount (your ‘pay’) that you save or invest without exception.

Identify possible savings:

Go through your budget with a fine toothed comb and look for places where you could perhaps make savings. This can involve major decisions (e.g. making do with just one car) to relatively minor ones (e.g. not buying a cup of coffee at Starbucks every afternoon – this can save hundreds of dollars by the way!) It is quite likely that you will find a lot of ‘fat’ that you can cut out without too much inconvenience or changes to your lifestyle.

‘Declare war’ on your mortgage:

Mortgage payments are likely to be your biggest expenditure and the sooner you can get rid of it the better. You will be amazed at the huge difference that even small overpayments on your mortgage can make in the long run so do your best to make them as often as possible.

Resolve to save any extra cash:

It would be a good idea to make it a firm policy that you will not ‘splurge’ whenever you come into extra cash but that it would rather be used to help you to achieve your long term financial goals.

Get rid of high interest credit:

If you are in debt it is obviously in your best interest to get out of it as soon as possible. Plan a strategy to pay off all credit, starting with the loans that attract the highest rates of interest (this will most likely be your credit cards). If you have serious debt problems it might be a good idea to consolidate all your debt into a single loan. It is highly recommended that you get professional financial advice before you attempt debt consolidation or if you require an urgent debt management plan.

Make your money work for you:

If you are in the position to save some money (and careful budgeting should get you there eventually) it would be more than worth your while to make sure that your savings produce the best possible returns. This is where the expertise and experience of a competent financial adviser can prove invaluable. It may seem a bit of a hassle to go over your finances with someone else but it could be one of the best decisions that you will ever make.



The bottom line

There are many reasons that people give for not budgeting. We hope that at least some of them (e.g. that it is too complex or that it has limited value) have been addressed in this eBook. We also sincerely hope that the practical steps that we suggested will be of great help to you as you work toward gaining ever greater control over your personal financial situation. We are convinced that you will be amazed at the difference that a bit of focussed attention will make to your long term financial prospects.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.



Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day _____

Date _____

Time _____ am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email _____

Your Details

Title _____

First name _____

Last name _____

Mobile _____