

# TAKING CONTROL OF YOUR FINANCES



If you want to take control of your finances, you have to be realistic about your income and expenditures, purely looking at them in black and white. The first step to taking total control of your finances is to assess your current financial situation. To start this, you need to jot down all your monthly income and expenditures. This gives you a clear picture of how much inflow you receive and your spending situation. Make sure you include all the purchases you make on debit and credit cards, even small amounts like twenty pence, because smaller amounts have a way of mounting up quickly. Also include the bills you pay by cheque or direct debit. You need to update this record every day and total the amounts at the end of the month.

You must check whether you have bad patterns in your spending habits. For example, do you withdraw a huge amount of money from your account on payday and spend it unnecessarily? Is your spending worse on weekdays or weekends? Do you spend a lot on Friday night out with friends and colleagues, or does this all happen during your lunch hour, when you visit the shops and end up with

bags of shopping? Nobody wants to waste money, but we do it unknowingly or without proper planning. Keeping a spending diary will help you identify your spending weaknesses and measure what they really cost.

By building on your spending diary, you are ready to take a broader look at your personal money flow. You will need all your bank statements and credit card bills for the last year. Get a calculator. Gather any unpaid bills and your latest statements from your savings, mortgage, and pension providers. Fill in the income and expenditure statement on the last pages of this book. If your income varies from month to month, add up last year's total and divide by twelve months.

Do not forget to include anyone you share finances with—for example, your wife, husband, or significant other.

## WHY ARE PEOPLE ALWAYS BROKE?



Everybody is born talented, but not all people use their talents to their benefit. Many people cannot identify their talents, and so they go on in life doing menial jobs with incomes that barely get them through the month.

Even when they can't afford it, people buy brand-new cars on credit that lose value as soon as they leave the dealership. Some of you buy a Louis Vuitton bag at £1,000–5,000 when your rent is due and you have no house of your own. Too many people carry too much debt and don't live within their means. Instead, they try to impress people who don't even like them or care what they do. Pampering yourself is good, but do not indulge too much in it. Don't worry about getting your hair and nails done at the expense of your kids' educations or your investments for old age. Building funds for your pension is key.

People do not budget. They simply spend, living from pay cheque to pay cheque. When you do a written budget, it makes you live within your means. A written budget, when properly laid out, will make you think that you've got a pay increase or have been promoted with a better income.

When you are faithful with the little, you will be given more to manage, so write out your budget and stick to it. You will make progress with your finances when you start budgeting. When you have a written budget and stick to it in a disciplined way, you will have excess funds to clear your debt if you have any.

People don't pay their bills on time simply because of poor organisation or not developing a simple strategy to cater to those bills. The best advice is to not make it complicated. Simply write it down in a notebook and pay it immediately. Or you can put it on direct debit for funds to go out when your account is in credit. Prioritise your bills and communicate with creditors you're not able to pay so that they are aware of your situation. Some companies send monthly reports to credit reference bureaus, and these are the ones you want to quickly honour. The consequences of not paying can damage your credit score and credibility.

A lot of things are purchased with the hope of getting money in the future to settle the bills. No one can predict the future, so never buy things you cannot afford now. Don't buy things on credit cards either. Failure to honour your payment will destroy your credit ratings with the credit reference agencies. Bad credit will make potential mortgage lenders deny you good home or car loans. Even if they are willing to help, they will offer this assistance with high interest rates. Don't stay broke by overspending and not saving for future life events because this could depress you.

When you are responsible with your credit, your children will copy your lifestyle. This will help them in their adult lives to avoid debt and be disciplined.

Too many credit cards will lead to bad credit because the availability of funds will overwhelm you. You'll be more likely to misuse the cards, negatively affecting your credit score. A bad credit score can wreak havoc in many areas of your life. With bad credit, you will not qualify for new credit such as loans and mortgages. It can prevent you from getting a job or even make you lose your job because some employers, especially in the financial industries, do annual credit checks on their employees. The status of your credit report gives the lender a view of how dependable you could be in the future. With a bad credit score, you may not be able to rent a home. It can also prevent you from getting homeowners' insurance.

Most people do not have an emergency fund and resort to borrowing when the inevitable happens. Life is full of surprises, and that is why you need an emergency fund. You need to save between six to eight months of your monthly expenses. Start today with what you can afford and build it up to 15 per cent of your monthly income. A helpful tip is to take advantage of automatic deposit.

Use emergency funds only for true emergencies, like health, essential expenses, and home and car loans. When used, replenish the account so it will be available for your next emergency.

### *Things to Remember*

Broke people are not givers because they are highly in debt and cannot afford to give.

People do not have written goals. Work with and constantly refer to your goals. Make sure you are on track.