

You Need A Budget – A Review

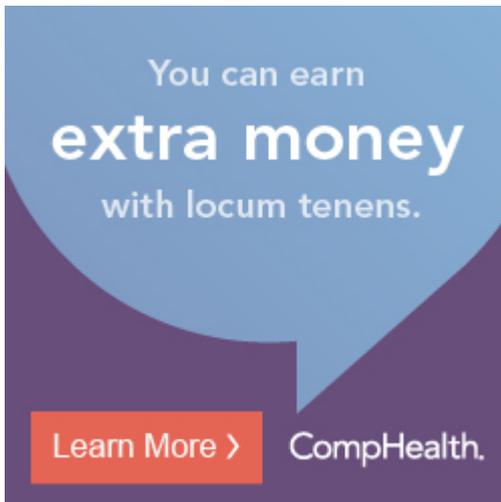


Jay- the author of this post

[Editor's Note: This is a guest post from Jay, a regular reader. I am often asked for recommendations, in this case it was a recommendation for personal finance software. I responded that all I use is Excel but then listed several popular programs others have found helpful. I then suggested (as I often do, usually without a positive response) that he send me a guest post about his experience, which he gladly did. We have no financial relationship, however, the owner of YNAB bought me (and Mr. Money Mustache) a really nice dinner a couple of years ago and the company is local to me.]

Spend money on what you want. Save on everything else. This is my mantra.

Budgeting is the less glamorous sibling of saving. Savings allows for a penchant for fantasy and to pull out the oft-hidden magic 8 ball. After all these years of living in poverty, who wouldn't want to finally project their hard earned income and turn it into millions eventually (at least in their minds)? This is a mentality I also share; I believe it is a healthy one after all. How else can we convince ourselves to save and not burn through cash? Unfortunately, savings requires the utilization of its less glamorous sibling: budgeting.



Why Budgeting is Scary

The problem with budgeting is that it has caused me years of anxiety and guilt. So all I've ever had was a vague idea of where my money was going- and I almost always spent more than I should have. There are two reasons budgeting scares people away, anxiety and guilt.

Anxiety

Budgeting can cause anxiety. It's not that we hate being constrained. Ultimately we all have an absolute constraint- the limit of how much money and credit we actually have. However, many of us have a preset tolerance. Maybe we won't spend more than we have, or we use only cash, or only one credit card. Budgeting doesn't deal with this. It deals with other constraints we create- mainly the week to week spending we allot ourselves. Setting aside X amount of dollars for food or gas causes anxiety because after allocating our funds for different categories we have no money left. What happens if I spend more money for food than anticipated? These types of questions lead to problems with proper budgeting- i.e. the rigidity of budgeting limits fluidity. As a result, having a budget is all but a Sisyphean disaster to many with constant juggling of funds and mentally removing cash from one area of spending to cover another area of over-spending.

Guilt

A lot of times, in addition to the anxieties of fitting a budget, even when we have to 'break' our preset budgets with good reason we feel a sense of guilt. I think this is because of how we've been conditioned to think about budgeting. Taking money out of an allotted budget is tantamount to greed, such as blowing the budget due to eating out too much. Thoughts like "I can't hold a budget whats the point" or "Look how lazy I am, I can't take the time to cook" may cross our minds. Worse, we may just think budgeting doesn't work. After all, whats the point of budgeting if we can't stick to it?

You Are Not Alone

I know I'm not alone. Many people I know, including attending physicians, describe budgeting as a difficult thing- especially because of all their expenses as doctors. Spending money is easy, but keeping track is not. Who has the time to detail every latte they spend money on at the hospital cafe, the various monthly bills from cable to internet, the cost of their children, etc etc. The more money they have to spend the more there is to keep track of. I can sympathize with this philosophy. Sort of. But the reality is that budgeting need not be a challenge. That's what I want to talk about today.



Most people think about budgeting as some sort of high moral ground. They don't really look at it as a sound investment vehicle as they should. Budgeting may be a morally right thing to do- living within your means etc. But beyond that basic

concept there's not much morality to it. It is not immoral to spend on toys and fun outings. It's your hard earned money- do as you please. But budgeting allows you to compare, in real dollars, on paper or a spreadsheet, whether investing that money for retirement (or any other goal) is more important than spending it on movies or eating out. Thus, in real dollars, it forces you to look at where your money goes and recognize how quickly you can realize your dreams of retirement.

To help me budget I've looked into a variety of software, including Mint, Personal Capital, and You Need A Budget.

Issues with Mint and Personal Capital

These companies are not nefarious bankers stealing your cash, but they do feed into poor behavioral psychology. If you are not familiar, these software products allow you to link all your accounts with the software. Thus your investment, credit card, and bank accounts all go into one aggregate and the net amount is displayed for you. This is, at first glance, an amazing way to save money. After all you can see where it's going and not have to worry about juggling all the different bills you have. But there is a catch. This is not, contrary to what many will say, a budgeting tool.

It is passive. You are not going to determine how you want to spend your money or even if you should be cutting expenses. After all, whether you have a lot of money to spend, or because you have no time, that does take a lot of effort. Or so it seems. Thus Mint lulls you into a false sense of security. As long as you are saving x dollars and your total expenditure is less than your net income, why worry? I've had discussions with doctors I rotated with like my urologist who said after paying taxes, schools, interest and principal on his loans, mortgage etc all he had left was about 10k a year. Well I can bet he spends money on things he could totally save and cut costs on. I also don't think Mint would help him trim costs. Instead of being acutely aware of where all his money goes, he probably only has a vague sense of his expenses. As a

result he is left with far less than he would like each year. If he was more intimately aware of his weekly expenses I bet he would have a lot more cash available at the end of the year.

You Need a Budget (YNAB)

I am not the Excel kind of guy. If you know the ins and outs of it and can effectively utilize a spreadsheet to keep track of your budgeting and can apply a variety of effective budgeting techniques like a “zero budget philosophy,” then there is no need to read further. For the rest of us, YNAB is a real gem.

YNAB’s principles are easily found on their website- but understanding them takes a bit of research.

The Zero Dollar Philosophy.

First, put your dollars to work. Every dollar. The goal is to bring your monthly income to zero. Every dollar should have something to do. If you have left over just add it to your emergency fund. This is zero dollar philosophy.

Zero dollar philosophy really helps in the long run. When you know you plan to spend say 500 dollars on something for your birthday or someone else’s, you can plan ahead by adding a few dollars, each month, to that ledger. When the birthday comes, you’re not raiding your savings or food that month to splurge. Better yet, because it’s planned for, you won’t feel guilty.

Money is Fungible

Second, your budget is fluid. Even if you get a steady paycheck, and certain bills are a steady expense, like rent, most of your spending will change month to month or day to day. Fluid spending requires fluid budgeting. It takes away the rigidity of your life, reduces your spending anxiety, and allows you greater awareness of where your money is going.

Fluidity in budgeting might seem odd. After all, isn't budgeting and its very definition about keeping your spending habits restrained? Yes- but that's not how healthy budgeting works. For years I thought budgeting worked by forcing you to be constrained. Instead, I now realize, budgeting works when it brings you closer to your money. By seeing where it goes day to day you can learn pretty quickly which behaviors are essential and which aren't. Those intimate recognitions are what allow you to budget effectively. What doesn't work is telling yourself, "OK only X dollars go into entertainment," that leads to guilt. Also, budgeting this way allows you to create long term goals.

Say you've been thinking about that Macbook Pro for a while. And you want to save money for it. It's better to set aside a few hundred now than to wait till the last minute. More importantly, this type of savings for the future also allows you to see your month to month raids on your long term goals. Say you spend more on food and for some reason have to take money set aside for your laptop- you may realize ultimately that you need to find a better way to eat. This is the essence of saving.

Savings is Critical

Finally, it's essential to save for a rainy day. This affords you the option of putting what remains at the end of the year into your savings. Which brings me back to my first quote- "Spend money on what you want. Save on everything else." Fluid budgeting allows you to avoid the feeling of anxiety and guilt. By figuring out what you like, you can spend money on it. Go for what you want. But make sure that you are absolutely spending on the things you want. I like a Macbook Pro. So I went ahead and bought one. However, I saw no reason to keep my unlimited data plan so I switched to the cheapest one. It's not about who can spend the least or who can lead the cheapest life possible. Spending and saving shouldn't be a morality play. Its about being intelligent and using your

budgeting as an investment vehicle.



I recently read 'The Intelligent Investor,' and I want to paraphrase something he says in it that was inspirational for me to write this post. At the end of the day, only the things you control can truly lead to guaranteed returns in the future. Saving on taxes and limiting spending and earning an income all fall into this category. No matter what investment vehicles we intelligently use and however well we manage risk these investments do not offer us a guarantee, they merely offer us a reasonable return at a manageable risk. That risk will always be there. However, by saving your income through guilt free, anxiety-less mechanisms, you can have a larger income in the future that still results in minimal frustration and stress and maximizes your pleasure (spend on what you want) and your future earnings.

If you are daunted by budgeting because of anxieties, guilt, or general feeling that you can't keep and maintain a budget, then YNAB is a great place to start; its concepts are wonderful. If you want more information on the nuts and bolts of YNAB, take a look at [this review](#) or this video from YNAB. You can also learn more about [zero based budgeting here](#). (If the link doesn't work, Google "meet the father of zero based budgeting.")

Have you used financial software? Which do you prefer? Have

your tried You Need A Budget? Did your like or dislike it and why? Do you budget? Why or why not? Comment below!