

Lesson 11

It's Decision Time

Most people make spending decisions based on the need, desire, or the emotion of the moment. Consequently, money is spent during the month with no thought given to when and how much. The result is usually very inefficient money management. Comments such as “I can’t get ahead”; “I feel like I’m on a treadmill and can’t get off”; “Will it ever end?”; and “It’s hard to keep my head above water” are commonplace. Maybe that used to be you. But now that you are operating on a budget, those spending decisions will take on a whole new look and those kinds of comments will be things of the past. Let me show you why.

Based on data you gathered by tracking expenses combined with your best estimates, you have assigned an amount for each spending area on the **Monthly Expense Tracker (MET)**. The budgeted amount for each area is the amount you anticipate will be needed for the month. You can spend less, and you hope you do, but you plan to not spend more. First, let’s take a single spending area (Grocery/Supercenter) to illustrate the thought process of operating on a budget. As you can see in **Figure 1**, \$550 is the monthly budgeted amount and the month has been compressed (days omitted) to save space and to make the illustration simpler.

Let’s walk through the month: on the 1st you went to your favorite supercenter and spent \$115; again on the 15th, you spent another \$186 (you’re recording those receipts each time and the balance at the bottom of the column is decreasing). Nine days later, on the 24th another \$212 was spent; then a quick trip the next day for things you forgot cost \$35. Your balance is \$2. Now the question: what happens if you need groceries on the 28th? In the old days (pre-budget) you would probably go to the store and get whatever you needed. But now, you have a plan. **You**

made the decision to limit your grocery/supercenter spending to \$550 per month. So you say to yourself, “I only have two bucks available. I think I’ll get creative and instead of going to the store, I’ll look in the pantry and see what I can come up with for dinner.” Your entire thought process has changed. You are beginning to **make spending decisions based on information**



rather than emotion. This mindset change is huge! The end result is that you stick with your plan, and you don’t overspend your budget. The next illustration will show you an option if your pantry was empty.

In **Figure 2**, we’ll add a few more spending areas of a typical MET with amounts assigned for illustration purposes. Once again, several days have been omitted for simplification and space consideration. Let’s use the “Transportation” area to walk through

Figure 1

Day	Grocery/ Supercenter
Budget Amount	\$550
1	\$115
6	
15	\$186
19	
24	\$212
25	\$35
31	
Balance	\$2

another decision process you will experience.

For example, it is the 25th of the month and you just put gas in your car. Gas prices have gone up. You know that you will need more than \$14 (the balance left for transportation) to make it to the 1st of next month.

You estimate that you'll need at least \$40. What do you do? Before the budget, you would have thought nothing about it - buy the gas and hope. But now you have information! You look at "Clothing", for example, and you see that your balance in that area is \$50. Why not make the decision to move \$26 from "Clothing" to "Transportation" to bring the Transportation balance up to \$40?

You decide to do that and your budget now looks like this (see **Figure 3**): The new allocation amounts are \$501 for Transportation and \$49 for Clothing with the corresponding new balances. **It is that simple.** Originally, you made a

conscious decision to establish your budgeted amounts at \$475 for Transportation and \$75 for Clothing. Life happened. You now make another conscious decision to offset a need in one spending area by reducing the planned spending in a different spending area. As in the previous illustration, **you just made a fact based decision rather than an emotional one. You avoided the mistake that most American consumers are making - they are making spending decisions based on the emotion of the moment, not based on information.** Of course, now you discipline yourself to limit any clothing expenses for the remainder of the month to the new clothing balance of \$24. Consequently, you don't overspend, and you don't create debt.

As you gain experience with your budget and you gather more data as the months go by, the budgeted amounts will become more accurate and there will be less need to adjust during the month. Just remember, if it is crunch time, **always offset excess spending in one area by reducing available spending in another area.**

The final illustration in today's lesson is extremely powerful. What follows probably reflects the single biggest mistake most American consumers are making. Let's use the "Miscellaneous" spending area for the illustration. It's the 25th of the month. You take a glance at your budget as you and your spouse walk out the door for a quick trip to the supercenter.

You notice in **Figure 4** the balance of \$11 in your miscellaneous

Figure 2

Day	Grocery/ Supercenter	Transportation	Eating out	Fun	Clothing
Budget Amount	\$550	\$475	\$100	\$100	\$75
1	\$115	\$250	\$30		
6		\$35		\$35	\$25
15	\$186	\$41	\$45		
19		\$110	\$12	\$42	
24	\$212				
25	35	\$25			
31					
Balance	\$2	\$14	\$13	\$23	\$50

Figure 3

Day	Grocery/ Supercenter	Transportation	Eating out	Fun	Clothing
Budget Amount	\$550	\$501	\$100	\$100	\$49
1	\$115	\$250	\$30		
6		\$35		\$35	\$25
15	\$186	\$41	\$45		
19		\$110	\$12	\$42	
24	\$212				
25	35	\$25			
31					
Balance	\$2	\$40	\$13	\$23	\$24

Figure 4

Day	Miscellaneous
Budget Amount	\$150
1	\$45
6	\$26
15	\$37
19	
24	\$31
25	
31	
Balance	\$11

allocation. You have your checkbook with you and since you balanced your account yesterday, you know you're "in the black" with a checking account balance of \$437. While your spouse is picking up a few grocery items, you happen to stroll through the electronics section and see the deal of the month: a new wireless headset with all of the bells and whistles, perfect for your afternoon jogs. Cost: \$49.95 – what a deal! You have a decision to make. You have \$437 in your checking account; surely you can handle a \$50 purchase. But you then remember the \$11 balance in your budget for miscellaneous expenses. And the headset is definitely a miscellaneous expense.

Don't miss this: when you look at your checking account balance, **you must remember** that those dollars have been allocated elsewhere in your budget. The \$437 funds all of the other spending areas for the rest of the month. If you reduce that number and an insurance premium is due, or a car oil change is required or some other necessary expense occurs, the money is not there and the potential for debt, late fees or increased stress increases exponentially. So, to continue today's theme of making fact based decisions, **make your spending decisions by referencing your budget; not by looking at your checking account balance.** The answer for you today is "No, I will not buy the headset." If you choose and want to wait until the beginning of the next month, then feel free to buy it then, but for today, the answer is "no".

I have counseled countless numbers of people that realized violating this rule was their biggest problem and the reason they were in so much debt. They were looking at the wrong number when they were spending money. That's why we build our budget – it gives us the correct information to make our decisions. It gives us the power and information to take control of our financial lives – finally!



REFLECTION: Think about the information based decision processes that have been discussed today. How frequently have you followed these guidelines in the past? How can you implement the power of a budgeted decision process in your family's finances? If you have kids, how can you explain this concept to them? Identify and prepare to discuss with your group the statement or concept that was most meaningful to you in this lesson. **Record your thoughts here:**



ACTION STEP: This action step is a simple one: Continue to develop your budget. Also, commit to updating your budget at least every other day (daily is even better) to ensure your balances for each spending area are current. Then refer to those balances when making your spending decisions. Continue tracking your daily expenses using the spending areas listed on page A-4.