

# Building a Better Budget

*“A budget is telling your money where to go instead of wondering where it went.” – John C. Maxwell*

For most people, budgeting is about as fun as a trip to the dentist. But using a budget doesn't have to be a chore, and it can have huge benefits. If you pick a budget that fits the way you live, it can help you meet your goals more quickly. The key? Don't think of a budget as a constraint. Real-life is a constraint; a budget helps you break free so that you can spend on what's important to you.

## *The First Rule of Budgeting*

**Don't worry about perfection.** A budget is a *target*. Your spending won't be perfect the first month. Or the second. Or the third. If you can't get your money into perfect balance, get as close as you can. Learn to make adjustments, and don't give up.

## *The Second Rule of Budgeting*

**The big stuff makes more difference than the small stuff.** Yes, you should clip coupons and shop at thrift stores. But you can save thousands of dollars at once by being smart when you buy a house or a car. Decrease your major expenses—like housing and transportation—and you'll have a lot more room in your budget for the fun stuff.

## *The Third Rule of Budgeting*

**Make plans based on your real life, not how you wish life would be.** Don't budget for *possible* salary increases and *ideal* spending habits. If you spend money on coffee every day, make that part of your budget. If you haven't received a raise at work, don't count that in your income. Budget for reality, not wishful thinking.

## *The Fourth Rule of Budgeting*

**Keep it simple.** If using your budget is a chore, you'll never follow through. Include only as much detail as you need. Find a way to track your spending that works the way you do.

When you use a budget, you'll need to make constant adjustments. But once you get the most important expenses figured out (your Must-Haves or Needs), you usually don't have to worry about them much. They stay pretty constant. The same is true for your Savings. And once these two areas are taken care of, you can spend everything else on Wants. Spending on fun stuff is less stressful when you know you can afford it.

Here are some other tips for building a better budget:

- **Think yearly.** Yearly budgets are more accurate because you'll remember irregular expenses, like Christmas gifts and property taxes. Create an annual budget first, then divide by 12 to get monthly numbers.
- **Target problem areas.** Do you buy a lot of music or spend too much on dining out? Add a “music” or “dining out” line to your budget. This will allow you to indulge yourself—within reason.
- **Track your spending.** If you don't record your spending, you can't know if you're sticking to your budget. Find a method that works for you: Use pen-and-paper, a spreadsheet, Quicken, Mint.com, PearBudget.com, etc.
- **Defeat debt first.** Think of saving and debt reduction as interchangeable. While you have debt, your main focus is to get rid of it—saving money is secondary. When the debt is gone, then you can save.
- **Make it a habit.** Review your budget at the same time and place every week (or month). If you make this a routine, it'll be easier to stick with your budget in the long term.
- **Consider the Envelope System.** With this popular method, every time you get paid, you put cash in envelopes designated for specific budget categories. When that cash is gone, you're done spending for the month. Learn more at <http://tinyurl.com/envelope-budget> or <http://tinyurl.com/frugal-envelope>.

Your goal isn't to keep a budget, it's to live a rich and happy life. Your budget is a tool to help you do that. If one budget doesn't work, try another. Don't just blindly use a budget from somebody else—even Dave Ramsey or Mary Hunt. Use their ideas as a starting point, but tailor them so that your budget fits *your* life.