What I Wish I'd Known … Financial Advice for my Younger Self

#1 Three Golden Rules to Help you Manage your Money

by James Marshall, Financial Adviser

If you could go back and advise your younger self on money management, what would you say? What do you wish someone had told *you*? And which good money habits do you wish you'd picked up sooner?

In this series of articles, we share advice for our younger selves in three core areas of financial knowledge. This article includes helpful tips and what I wish I'd known earlier about **day-to-day money management**.

Three Golden Rules to Help you Manage your Money
When I first started earning, I remember the freedom and independence that came with it. I had very few financial commitments and no serious responsibilities, and I spent just about all my income. But before long I was wondering where my money was going. I wasn't seriously in debt, but I did have a niggling feeling that something wasn't quite right.

In retrospect, **I wish I'd known these golden rules for managing my cash flow**:

Rule 1: Never spend more than you earn
Rule 2: Know where your money is going
Rule 3: Save some of it

Using these rules puts you in control and removes the considerable stress of suddenly finding out that you've overspent or won't be able to afford an unavoidable expense. Using these rules also helps you to develop a financial understanding that will develop further and benefit you in the years ahead as your circumstances become more complex and may involve other people such as your future family.

Rule 1: Never spend more than you earn
It all starts with knowing how much you earn – this is your income including the tax you pay to the ATO. The tax is your money too and appropriate financial planning strategies may enable you to keep more of it than you thought. But that's another story …

Let's assume you earn $100,000 p.a. and pay $26,500 tax. This will leave you $73,500 in hand (your 'take home pay') to cover all your expenses over 12 months. Rule 1 is to never spend more than your take home pay, so you'll need to review your annual expenses to make sure they come in at less than $73,500.

TIP Make sure you know your annual income. It may be on your payslip or previous tax return.

TIP Set up a direct debit from your transaction account to your savings account so that your savings happen automatically – as Warren Buffett says *'Don't save what is left after spending, spend what is left after saving'.*

Rule 2: Know where your money is going
A helpful way to investigate your expenses is to divide them into 'essentials' and 'non-essentials'. As the name implies, essential expenses are difficult to avoid and include things like mortgage or rent payments, utility bills, the costs of running a vehicle, car insurance, home insurance and so on. In contrast, what you spend on non-essentials (entertainment, eating out, travel, hobbies and clothing) is a conscious decision and tends to vary more than your essential expenses.

While I'm not suggesting that you miss out on all the good things in life, conscious decision making is simply good practice so that you don't spend what you don't have.

Stratus Financial Group's cashflow service provides an automatic secure link between your bank transactions and budgeting software. This allows you to build a personalised spending profile by tracking the transactions in your bank accounts. Budgeting in the 21st century no longer means you need to manually download or enter transactions from your online banking. It's quick and easy to use – you'll even be able to track your spending on the go with iPhone and android apps.

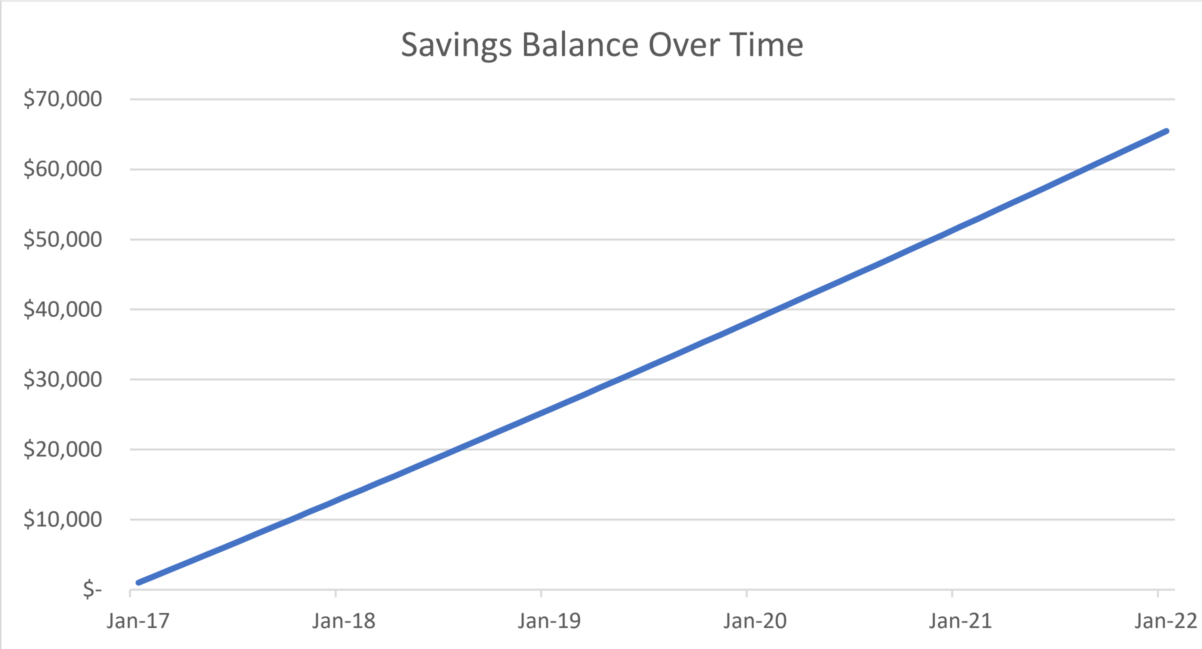
TIP Once you've reviewed your spending patterns it's time to identify where you can save. Found you're spending too much on clothes? Why not reduce temptation by increasing the amount you direct debit to your savings account?

Rule 3: Save some of it
Before long, your basic cash flow should be under control and you'll be spending less than you earn. At this stage, a simple way to jumpstart your life savings is to invest some or all of your surplus income. Putting a little extra away now can make all the difference to your financial future.

TIP Use one of the many free online forecasting tools to plot a savings graph for yourself like the one shown below. It can be very motivating to see the actual outcome of a regular savings habit of your own. They say you can't score without a goal, so why not set yourself a savings goal at the same time?

TIP Each time you receive a pay rise make sure you increase the regular debit to your savings account.

The following chart helps you consider the potential impact of saving $1,000 per month for five years. Saving $1,000 per month should be comfortably manageable if your income is around $100,000 p.a.



Key Assumptions:

- Sam has an income of $100,000
- Sam invests $1,000 per month for five years (commencing with $1,000 in January 2017)
- Sam reinvests the interest earned
- Interest rate of 2.80% p.a. compounded monthly
- Excludes the impact of tax.

Disclaimer: *The above projection is for comparison purposes only and is not a guarantee. The projection is not intended to be your sole source of information when making a financial decision. You should consider whether you should seek advice from a licensed financial adviser before making any decision about salary sacrifice.*

Related articles:

[Take CONTROL: How to manage your CASHFLOW]

Get financial advice early

Financially speaking, the sooner you take financial advice, the more you will benefit – both now and later on – from your income. Many young professionals with relatively few financial responsibilities get into the habit of spending most if not all of their income without a thought about their future wealth. Seeking the right advice early is key but do your homework and choose a professional who feels like a good fit.

Here are some tips on how to choose a firm to advise you:

- Ask for recommendations from your peers.
- Check out a firm's and advisers' credentials and read their client testimonials.
- Enquire about their specialisations.
- Contact them by phone or email and start asking questions.

If you (or a young person in your life) would like to talk to a financial planner at Stratus Financial Group about cash flow, super, insurance or any other financial matter, please contact us. It will be our pleasure to help. Phone (07) 3007 2007 or email info@stratusfinancialgroup.com.au

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