

# Get It Done: Disaster-Proof Your Finances

## **You can track your spending one of these three ways.**

Keeping a well-organized budget is a lot like flossing your teeth. You know you should do it, and you have the best of intentions, but you just never seem to get it done.

There's a reason for that when it comes to budgeting: Keeping tabs on all of your income and expenses can be a lot of work. If it already takes you a long time to balance your checkbook each month, imagine how much longer you would spend assessing each of your purchases.

Software products and electronic banking and finance have made tracking expenses a lot easier than it used to be. Before technology changed the way people do business, tracking expenses required keeping piles of receipts and reconciling them regularly. Now, with software programs like Quicken and tracking websites like Mint.com, your computer can do much of the work for you.

If you have Internet access to your bank accounts and credit cards, then you can generally download your transactions directly to your computer. Based on the information merchants provide, the downloaded transactions may even include the category of expense for particular items. The reports these programs generate can give you a good idea of where you stand and identify the areas where you can improve.

However, these programs are only as good as the information they receive. Few people have simplified their finances to the point that they use a credit or debit card for every purchase they make. Often, it's the small cash items you're tempted to dismiss that add up to a significant drain on your finances. Because those cash purchases don't show up on any bank or credit card statement, your budget software won't provide accurate reports -- unless you enter those expenses manually.

Because a firm understanding of your income and expenses is the No. 1 step in forming a personal financial plan, it's best to have as much detailed information as possible. But if you've tried without success to track your expenses, here are a few tips that may help you on the road to financial self-knowledge.

### **Going all-cash**

The simplest way to budget is to use cash for all your financial transactions. You can do this in several ways. One way is to cash your paychecks and then keep cash on hand - but having a large amount of cash around isn't the most secure way to handle things. Another way is to deposit your paychecks and make regular withdrawals of cash that will last a few days to a week at a time.

You may find that no matter how hard you try, it's impossible to use only cash. Many banks require customers to make mortgage payments by automatic withdrawal from a bank account. Utilities and other companies that bill on a regular cycle have pushed customers to move to automatic billing because it saves time and expense for both the

utility company and the customers. Although automatic deductions require some separate tracking, moving the bulk of your transactions to cash will still make clearer to you how you stand.

At the end of each month, look at how much cash you have left, if any. This will tell you whether your expenses match your income. Although this method doesn't give you detailed information about exactly where your money is going, it does catch all the small cash transactions that sometimes escape tracking programs.

### **The envelope method**

A variant of the cash method, the envelope method involves a bit more planning. You cash your paycheck as in the cash method, but then divide the cash into categories. For instance, if you get paid \$3,000 each month, you might put \$1,000 in an envelope representing your rent or mortgage payment, \$250 for groceries, \$200 for gas, \$300 for utilities, and so on. You can divide your money into as many categories as you care to track.

This method gives you more information about how you spend your money. If your grocery envelope has money at the end of the month but your eating-out envelope runs out early, then you know that you're not eating at home as much as you had planned. Also, depending on how many envelopes you have, the method can really point out areas that represent holes in your finances.

### **The hybrid method**

These methods work even if you don't have any tracking software. However, in conjunction with such software, these methods can help close the information gap that software programs usually encounter.

For example, your software may tell you that you earn an average of \$500 per month more than you are spending on tracked categories. But a quick look shows that your checking account hasn't gone up by \$500 each month. It's likely that the difference is reflected in the cash transactions that you aren't picking up on the software. By using either the cash or envelope method for that \$500, you can get a more accurate picture of where that extra money is going, thereby giving you a more complete picture of your overall expenses.

Budgeting may seem like a large time commitment. Yet that investment of effort can provide huge returns in the form of cost savings and a reduction or elimination of unnecessary expenses. A good budget can help you identify how much money you have available to save and invest, as well as give you an idea of how much leeway you have if an emergency arises. With these simple methods, even the busiest people can find out how they stand.

<http://www.fool.com/personal-finance/saving/get-it-done-disaster-proof-your-finances.aspx?source=iscsitcls0000001>