

#1.1 Wealth Creation | How to assess your financial position, make a budget, and manage your money

Research

"While it is true that money can't buy happiness, money can help people have more choices in life and achieve certain life goals, as well as dealing with the practical considerations of day to day living such as paying the bills.

In this sense, money is not the only source or determinant of happiness, but good money management can make a big difference to people's lives and therefore their happiness, especially over time"

From the report by the Financial Literacy Foundation [Financial Literacy Australians understanding money](#), which also found that:

- 48% of respondents don't budget regularly for their day to day finances;
- 27% have difficulty setting money aside for big purchases or spending;
- 17% don't think about ways to reduce spending,
- 17% could not get by for some time in case of a financial emergency and
- 16% are not easily able to keep track of their everyday spending;
- 22% claim not to save;
- 21% get into debt by buying things they can't afford;
- 17% usually pay back only the minimum amount required on their loans;
- 17% don't feel comfortable with their level of debt; and
- 13% usually pay only the minimum amount owing on their credit card. AND

And

- Australians are less confident when it comes to dealing with more complex money management issues, but keen to learn more about these issues;
- despite generally high levels of confidence in their ability to manage money, some Australians do not have good money management habits, particularly in areas where they are less confident, such as investing;
- a significant proportion of Australians have attitudes, beliefs or behaviours that may adversely affect their motivation to learn more about managing their money better and take action;
- ability does not necessarily translate into action;
- where ability is lacking, people can be assisted to progressively build their confidence and competence; and
- regardless of their ability, people need to be aware of the personal relevance and importance of better money management and motivated by the prospect of greater choices and opportunities, security and other quality of life benefits that better money skills can provide.

It really doesn't take much to get going and by making the most of our money, we have greater control, less stress and a better chance at having more choice in our lives. Little things really can make a big difference when it comes to money, and a little bit of effort is well and truly worth it.

Paul Clithero Chairman Financial Literacy Advisory Board Sep 2007

So to help you take control of your money, financial future, your life! - many experts, [financial planners](#), [accountants](#), [analysts and commentators](#), [gurus](#) advise you to do 3 things, *then* start investing.

1. Assess your financial position
2. Make a budget
3. Manage your money

For various reasons, and as the stats above show, you will often put off doing these 3 things. The tables below set out some more mainstream expert advice, tips and planners.

“Money tips that make me want to stick a fork in my eye”

Scott Pape - The Barefoot Investor

But for a sometimes less conventional approach – especially to budgeting and managing money, The Barefoot Investor has some easy and practical tips. Check them out in his [6 Step Money Plan](#) - 'a plan to lead you to financial freedom' (and in his other resources on BiG):

“STEP #1 [Get Some Mojo](#) With cash in your hands you call the shots. You’re in control.

STEP #2 [Turbocharge Your Takehome](#) Earn. More. Money. Now.

STEP #3 [Domino Your Debts](#) “Advertising has us chasing cars and clothes, working jobs we hate so we can buy stuff we don’t need.”

STEP #4 [Fill Your Buckets](#) Relax, I’m not going to mention the ‘B’ word. We’re going to turn budgeting on its head.

STEP #5 [Get the Banker Off Your Back!](#) Just because the bank gives you 30 years to pay doesn’t mean it should take that long.

STEP #6 [Tread Your Own Path](#) Use your time, creativity, passion and cash to make a difference.”

So whether you choose to follow The Barefoot Investor, or a combination of his ideas and from the resources below, all the very best with getting your finances in order - ready to start investing.

1. Assess your financial position

| Tips/Traps/Who can help? | Check out | Resources/Tools |
|---------------------------|--|--|
| | <ul style="list-style-type: none"> • What you own - your home, savings, super, car, shares and other investments • What you owe - debts including mortgages, loans and outstanding credit card balances • Income and expenses • What insurance you have and for how much • Whether you have an up-to-date will | MoneySmart (ASIC) Money health check |
| Traps | <p>Women face unique financial challenges such as having less super than men, living longer and taking time out of paid work to care for others. The toolkit looks at:</p> <ul style="list-style-type: none"> • Under 25 • Having a baby • Relationships and money • Buying a home • Kids and money • Trouble with debt • Divorce & separation • Back to work after a baby • Women & super • Investing & getting advice • Retirement ready • Losing your job • Illness and disability • Losing your partner • Becoming a carer • Budgeting • Insurance • Small business | MoneySmart (ASIC) Women's money toolkit |
| Who else can help? | Investors Association Budget Basics | Analysts and commentators, financial planners, accountants, |
| | How To Find Your Budgeting, Saving & Investing Mojo! | Savings Guide |
| | Financial Planning Association of Australia Ask and Expert Q&A service | FPA Ask an Expert “currently closed, but will reopen later in the year. You may find the answer to your question in our previous Q&As.” |
| | MoneyMinded is a series of interactive activities designed to improve your money management skills. | MoneyMinded (ANZ & others) |

2. Make a budget

| Tips/Traps/Who can help? | Check out | Resources/Tools |
|--------------------------|---|--|
| | Super vs mortgage calculator | MoneySmart (ASIC) |
| | Career break super calculator | MoneySmart (ASIC) |
| | Budget Planner Spreadsheet | Bruce Brammall |
| | <ul style="list-style-type: none"> • Income • Home & utilities • Insurance & financial • Groceries • Personal & medical • Entertainment & eat-out • Transport & auto • Children • Summary | MoneySmart (ASIC) Budget Planner |
| | <ul style="list-style-type: none"> • How to start • Budgeting; Credit Cards • Where to start with debt reduction • How much to save • Dealing with temptation | investEd How to save effectively and MoneySmart Credit card calculator |
| Tips | <p>5 Simple steps to start a budget</p> <ul style="list-style-type: none"> • Get all of your bills and receipts together, and print out a transaction list from credit and debits cards for the last few months. • List all of your expenses, breaking them up into key areas such as debts, bills, living expenses, savings goals and an emergency fund. • List all your sources of income including wages, government assistance, bank interest, share dividends and other investments. • Organise your expenses and income into pay periods or another set period. Expenses that are billed over a longer time frame — such as annual car registration — will need to be divided across them. • Project your long-range budget over 12-months by adding up the subtotals. If your income does not exceed your expenses, you're off to a great start. | MoneySaver Build your own budget Budget Calculator |
| | <ul style="list-style-type: none"> • Automate your money. As soon as your pay comes in, automatically move your money into the sections you have decreed for your budget. This means money gets automatically deposited for rent, debt repayments, savings etc. We can be our own worst enemy, so take yourself out of the equation. • Discretionary cash. For your entertainment budget throughout the week, I like to have it in cash. The reason? Because once it's gone, I know I'll just have to stay in and watch TV until next week. • Keep it simple. It's essential to not start out too strictly with a budget, it's often where people fall down (more on this below). Remember, you can always save any money that's left over and you can always change the amount you're budgeting throughout the week. | Savings Guide How to budget |

| | | |
|---------------------------|---|--|
| Traps | <ol style="list-style-type: none"> 1. Spend in the wrong order 2. Don't understand compound interest 3. Don't understand how little things add up 4. Think property is the only investment 5. Don't understand risk 6. Always back last year's winner | Noel Whittaker It's about wealth and me |
| Who else can help? | Scott Pape Barefoot Investor Five Steps to Financial Freedom and Barefoot Podcast | Analysts and commentators, financial planners, accountants |
| | <ol style="list-style-type: none"> 1. Determine your monthly income 2. List your fixed expenses 3. List your variable expenses 4. Evaluate your income VS your expenses 5. Tracking your expenses to learn 6. Adjusting your budget as you go 7. Evaluation of your budget | Savings Guide How to budget How to easily set up a budget |
| | <p>“Free*, confidential and independent financial information for Victorians [but useful Aus. wide info] experiencing financial difficulty”</p> <ol style="list-style-type: none"> 1. Understanding your credit rating 2. Financial Counselling Victoria wide; How to find a lawyer, financial counsellor, financial planner or accountant to get the financial advice and help I need 3. Who to contact if you need food or shelter or support urgently 4. FAQs about MoneyHelp and financial counsellors 5. How to cancel a direct debit 6. Letter templates to assist you approach your creditors 7. Budget tool: Use our free Budget Planner to help you plan and manage your money 8. Budgeting tips: Step-by-step guides on how to get assistance with mortgage payments and utility bills 9. Video help | MoneyHelp Preparing a budget |

3. Manage your money

| Tips/Traps/Who can help? | Check out | Resources/Tools |
|---------------------------|--|---|
| | <ol style="list-style-type: none"> 1. Household budgets 2. Saving money 3. Paying bills 4. Contracts 5. Banking 6. Credit 7. Types of credit 8. Debt 9. Working in Australia 10. Insurance | <p>MoneySmart (ASIC) Money management kit and TrackMySpend - track your personal expenses with, and Savings goals calculator</p> |
| Tips | <p>Pocketbook automatically organises your spending into categories like clothes, groceries and fuel – showing you where money is being spent. Setup budgets, see your balances and view your transactions. Giving you insights so you can spend & save even smarter...</p> | <p>Pocketbook</p> |
| | <p>Six-Step Guide to Saving</p> <ul style="list-style-type: none"> • Pay down bad debts first • Set savings goals • Build a budget • Open a high interest savings account • Set up an automatic savings plan. • Set aside an emergency fund. | <p>Money saver The Ultimate Guide to Saving Money</p> |
| | <ul style="list-style-type: none"> • Save on groceries • Save electricity and water • Save money with a friend • Save on clothes and other items • Save on your wedding • Save on bank fees • Change one habit and save • Try the Saver Plus Program | <p>MoneySmart (ASIC) Simple ways to save money</p> |
| | <ul style="list-style-type: none"> • Save money on your credit card • Increasing your card's credit limit • Secondary credit cards • How to check your credit card statement • Credit card chargebacks • Closing your credit card | <p>MoneySmart (ASIC) Smart ways to use your credit card</p> |
| | <ul style="list-style-type: none"> • Pay off mortgage • Place in offset account • Place within super | <p>Noel Whittaker It's about wealth and me</p> |
| Who else can help? | <p>Bruce Brammall Savings and other calculators</p> | <p>Analysts and commentators, financial planners, accountants</p> |

Checklist - Assess your financial position, make a budget, and manage your money

| Completed | Task | Notes |
|--------------------------|---|-------|
| <input type="checkbox"/> | <p>Assess your financial position</p> <p>If you haven't, by when?</p> | |
| <input type="checkbox"/> | <p>Considered specific finance issues facing girls/women in the family?</p> | |
| <input type="checkbox"/> | <p>Have you, or will get, help and advice?</p> <p>From who?</p> | |
| <input type="checkbox"/> | <p>Make a budget</p> <p>If you haven't, by when?</p> | |
| <input type="checkbox"/> | <p>Have you:</p> <ul style="list-style-type: none"> • Spent in the right order? • Automated your \$? • Allowed for discretionary cash? • Understood the importance of compounding? • Kept it simple? | |
| <input type="checkbox"/> | <p>Have you, or will get, help and advice?</p> <p>From who? By when?</p> | |
| <input type="checkbox"/> | <p>Manage your money</p> <p>Have you set up a money tracking system TrackMySpend, Pocketbook or other?</p> <p>If you are going to, by when?</p> | |
| <input type="checkbox"/> | <p>Have you started paying down debt/saving \$?</p> <p>If you haven't, by when?</p> | |
| <input type="checkbox"/> | <p>What other steps have you or can you take to save \$?</p> <p>By when?</p> | |