
Budgeting and managing cash flow

No one likes the word, but making a budget – and sticking to it – is the best way to really take control of your spending. Not many businesses could survive without a budget. You have to start thinking like a business.

There are three steps to creating a budget:

First you have to identify how your money is currently being spent. This will require going through your checkbook and credit card statements over the last year or so.

Then you have to evaluate that spending and see how it fits or doesn't fit into your long-term financial plan. This is where you'll need to create some guidelines for future spending.

Then you'll have to track your ongoing spending to make sure it stays within your guidelines. You may find that your guidelines were too strict or too liberal and may need to be revised.

Tip: Tracking nickels and dimes won't make much difference and will drive you crazy. However, if your out-of-pocket cash spending adds up to much more than 5% of your total spending, better take a closer look.

Here are two important steps to help reduce your spending:

Avoid impulse buying. Think before you reach for your wallet and your credit card. If you had to pay cash, would you still make this purchase?

Comparison shop as a matter of habit. Never buy anything – whether for cash or credit – before you compare costs and value. Expensive brands and designer labels are not necessarily any better quality.

There is no magic solution for everyone. Every person, every family, every household is different. If you want to reduce your spending, you'll find ways to do it. And if you can't, there are credit counseling services available you can turn to for help.