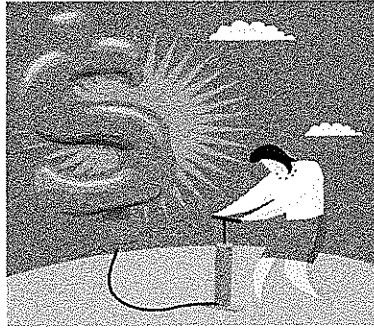


# How to Budget



## **A. BUDGETS ARE A NECESSARY EVIL.**

They're the only practical way to get a grip on your spending so you can make sure your money is being used the way you want it to be used.

## **B. CREATING A BUDGET GENERALLY REQUIRES THREE STEPS.**

- Identify how you spend money now.
- Evaluate your current spending and set goals that take into account your financial objectives.
- Track your spending to make sure it stays within those guidelines.

## **C. USE SOFTWARE TO SAVE GRIEF.**

If you use a personal-finance program such as Quicken or Microsoft Money, the built-in budget-making tools can create your budget for you.

## **D. DON'T DRIVE YOURSELF NUTS.**

One drawback of monitoring your spending by computer is that it encourages overzealous attention to detail. Once you determine which categories of spending can and should be cut (expanded), concentrate on those categories and worry less about other aspects of your spending.

## **E. WATCH OUT FOR CASH LEAKAGE.**

If withdrawals from ATM machine evaporate from your pocket without apparent explanation, its time to keep better records. In general, if you find yourself returning to the ATM more than once a week or so, you need to examine where that cash is going.

## **F. SPENDING BEYOND YOUR LIMITS IS DANGEROUS.**

On average the fee your bank charges you to use another institution's ATM is around \$1.50. That's on top of the average \$1.50 that other institution charges you to use its ATM.

## **G. GETTING THE BEST DEAL TAKES WORK.**

You won't get a great deal on a car if you just walk into a dealer and plunk your money down. Likewise, you won't get a great banking deal unless you comparison-shop and ask about price breaks. For example, a bank might offer free checking if you are a shareholder or if you direct deposit your paycheck.

## **H. USE THE INTERNET TO SHOP FOR BANKING SERVICES.**

You can use the Internet to compare fees, yields, and minimum deposit requirements nationwide. To find out what a local bank is offering, plug its name into any Internet search engine or compare what different banks offer at CNN/Money's [Banking](#) section.

## **I. BANKING ONLINE CAN MAKE BILL-PAYING EASIER.**

Electronic bill-paying can save you the monthly hassle of paying your bills. And if you couple online banking with a personal-finance management program, such as Quicken or Microsoft Money. You'll be able to link your banking with your budgeting and financial planning as well.

## **J. YOU CAN BANK WITHOUT A BANK.**

A number of financial institutions offer accounts that resemble bank services. The most common Credit Union accounts. Mutual fund company money market funds .and brokerage cash-management accounts households with total income of \$50,000 or less are spending more than they bring in. This doesn't make you an automatic candidate for bankruptcy-but it's definitely a sign you need to make some serious spending cuts.

**K. BEWARE OF LUXURIES DRESSED UP AS NECESSITIES.**

If your income doesn't cover your costs, then some of your spending is probably for luxuries-even if you've been considering them to be filling a real need.

**L. TITHE YOURSELF.**

Aim to spend no more than 90 percent of your income. That way you'll have the other 10 percent left to save for your big-picture items.

**M. DON'T COUNT ON WINDFALLS.**

When projecting the amount of money you can live on, don't include dollars that you can't be sure you'll receive. Such as year-end bonuses, Tax Refunds, or investment gains.

**N. BEWARE OF SPENDING CREEP.**

As your annual income climbs from raises, promotion, and investing, doesn't start spending for luxuries until you're sure that you're staying ahead of inflation it's better to use those income increases as an excuse to save more.

**O. MONEY IN A BANK ACCOUNT IS SAFE.**

A bank is one of the safest places to stash your cash since your account is insured against loss by the federal government for up to \$100,000 per deposit.

**P. YOU PAY FOR THE CONVENIENCE OF A BANK ACCOUNT.**

Banks pay lower rates on interest-bearing accounts than brokerages and mutual fund companies that offer check-writing privileges. What's more, bank fees can be high-account costs can easily add up to \$200 a year or more unless you keep a minimum required balance on deposit.

**Q. INFLATION CAN EAT WHAT YOU EARN FROM A BANK.**

Even at a low rate of inflation, the annual creep in the cost of goods and services usually outpaces what banks pay in interest-bearing accounts.

## **R. NOT ALL INTEREST RATES ARE CREATED EQUAL.**

Banks frequently use different methods to calculate interest. To compare how much money you'll earn from various accounts in a year, ask for each account's "annual percentage yield." Banks typically quote both figures. But only APY's is calculated the same way everywhere.

## **S. YOU CAN GET BETTER RATES (BUT THERE'S A HITCH)**

Certificates of deposit (CDs) offer some of the best guaranteed rates on your money and are insured up to \$100,000 each. The catch you have to lock up your money for three months to five years or more. If interest rates fall before the CD expires, the bank is out of luck and must give you the rate it quoted. If rates climb you're stuck with the lower rate.

## **T. ATM FEES CAN TAKE A SIGNIFICANT BIT OUT OF YOUR BUDGET.**

