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Money Management

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What is Money Management?

Money management refers to the process of tracking and planning an individual or group's use of capital. In personal and corporate finance, money management usually includes [budgeting](#), spending, saving, and investing.



Private banking financial advisors provide money management services to individual customers. Commercial banking provides money management to corporate clients. In financial markets, money management also refers to portfolio management and investment management. Financial professionals manage investments and make investment decisions for pools of funds.

Summary

Money management refers to the process of tracking and planning an individual or group's use of capital. In personal finance, money management includes budgeting, spending, saving, and investing.

In corporate finance, money management covers the raising and use of capital. A firm's budgeting is mainly influenced by its business strategies.

In financial markets, money management refers to portfolio management and investment management.

Money Management in Personal Finance

Money management is a broad concept. It refers to the strategies and techniques to determine the use of an individual, company, or institution's capital. In personal finance, money management covers budgeting, spending, and saving (investing). Money management can be proactive with periodic or regular financial planning. It can also be reactive to specific events without intuitive planning in advance.

As a result of different ages, lifestyles, family structures, and many other factors, financial plans for individuals are different. However, the fundamental principles of budgeting can be commonly shared. For example, one simple method of personal budgeting is the "50-20-30 Budget Rule."

The 50-20-30 Budget Rule suggests an individual spends 50% of their after-tax income on essential expenditures. The essentials include house [mortgages](#) or rents, transportation, groceries, utilities, and so on. 30% of their income should be spent on the things that the person wants. It can include expenses on partying with friends, movie tickets, and vacations. The remaining 20% should be saved or invested for future financial goals.

Money management with intuitive planning and budgeting helps to reduce inessential expenditures. Such expenditures do not add value to an individual's living standards. They can be saved or invested for better use in the future. Money management also lowers the risk of running out of money. It helps individuals to achieve their financial goals in the long term.

Financial advisors in private banks, insurance firms, and other financial institutes provide personal money management services. Individuals can also process their money management needs through personal finance applications.

Money Management in Corporate Finance

Similar to personal finance, money management for corporate finance also includes planning and budgeting. However, the process of budgeting is quite different. A company's budgeting is mainly shaped by its business strategies. It is built upon the company's historical [financial statements](#) and adjusted with forecasting estimates.

In addition to the use of capital, corporate money management also considers the raising of capital – how much to finance and how to finance should be determined. Money management for corporate finance is more complex than for individuals. Companies need professional teams to provide financial analysis and planning.

Money Management in Financial Markets

In financial markets, money management also refers to investment management or portfolio management. Investment companies manage a pool of capital from their individual and institutional clients.

Money managers invest the capital in different asset classes to generate returns. The assets include stocks, bonds, private equities, real estate, commodities, and so on. The firms also offer brokerage, mutual funds, ETFs, investment advice, retirement services, financial planning, and many other money management services.

Some of the world's top money management firms include [The Vanguard Group](#), BlackRock Inc., and [Fidelity Investments](#). Vanguard is the world's largest mutual fund provider and second-largest ETF provider. BlackRock's ETF division is the biggest ETF provider in the world. Its iShares unit lists \$1.9 trillion assets under management.

Different investment strategies are applied depending on many factors. The factors include investment philosophy, client risk preferences, the size of the fund, and many others. For

example, Bridgewater Associates, as a hedge fund firm, applies a global macro investing strategy. It seeks investment opportunities from economic trends. On the other hand, [The Blackstone Group](#), the world's largest alternative investment firm, invests a lot in private equity and commercial real estate.

Stock portfolio management can either be passive or active. Passive portfolios invest in ETFs and mutual funds to follow certain indices. Active portfolios are managed by management teams with particular strategies. The management of a debt portfolio usually considers credit risk, [interest rate risk](#), and reinvestment risk. Alternative investments can further diversify a portfolio and lower the systematic risk.

Examples of alternative investments include private equities, venture capitals, commodities, and real estate. Portfolio and investment management can be very complex and requires expertise. Professional money managers apply different strategies effectively to reach a higher expected return at the given level of risk.

Investment risk is proportional to the return in an efficient portfolio. The main idea of money management is to balance the risk and return to maximize investors' utility.

Additional Resources

CFI is the official provider of the global [Commercial Banking & Credit Analyst \(CBCA\)](#)™ certification program, designed to help anyone become a world-class financial analyst. To keep advancing your career, the additional CFI resources below will be useful:

[Appropriation](#)

[Personal Finance](#)

[Top Investment Banks](#)

[Investing: A Beginner's Guide](#)

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