

10 EASY STEPS


TO CLIMB OUT OF A FINANCIAL RUT



Digging yourself out of a financial rut begins with getting informed and choosing to take control of your financial situation. If you are in charge of your finances, you will release that stress and worry and finally experience the confidence that working with a cohesive plan brings. A solid game plan eliminates the guesswork when it comes to decision making, thus significantly reducing the stress and anxiety that builds up with every money choice we make.

STEP 1: Understand Your Values

Understanding your values will make decision-making easy. For example, if you do not like to use credit, then you will probably have some measures in place to avoid credit cards, therefore, using a credit card is against your value system. Questions that may help reveal the values for you individually or your families include:

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- What is the lifestyle you like to live?
 - What's most important to you?
 - What is an absolute NO for you?
 - What is an absolute YES for you?

Answering these questions, writing them down, and understanding the difference between a “WANT” and a “NEED” will provide a built-in decision making apparatus for you to always use. We are all programmed to live based on our value system. Financial decisions are no different.

STEP 2: Create Your Goals

Goals give you a focused direction and help facilitate momentum. A great exercise that you or you and your spouse / partner can do individually and then compare is:

Picture yourself one year from now reflecting back. It has been a “good year.” What happened? Now think about what it would mean if it were a successful year --- what happened? Do the same thing for 5 years from now. In your mind, take yourself to that year and reminisce about the fantastic events that have occurred. What are they? From this wider perspective you can drill down to what your specific goals are for this year and the next five. Try to come up with a complete list for all areas of your life (individual, marriage, finance, children, etc) and then prioritize the top three. Attach a monetary value to each of these goals so you know how much money you will need to fund each one.

STEP 3: Prepare for Change

Chaos attracts chaos---which means feeling stressed every time you see stacks of papers or think “I have no idea what we have or where we are....”. Make sure you know exactly where all of your financial statement and documents are and/or what the usernames and passwords are for each online account. Have a safe locked place in your home designated to hold any important paperwork and a list of your important online access information.

Pull together all of your latest statements for any assets you have: e.g. retirement accounts, 529s, savings accounts. Do the same for any liabilities you owe: credit card debt, student loans, and mortgages. Use these items for #4.



STEP 4: Discover Clarity

We must face the music and understand our current situation to see change. Draw a line down the center of a page, or create two columns in excel. Label one side “Assets (Things you own)” and the other side “Liabilities (Things you owe).” Sum up the columns. This “snapshot” will show you what is called your Net Worth, which is simply your Total Assets minus your Total Liabilities. Net worth gives you a big picture view of your financial situation. The balance sheet can reveal easy “fixes” that could provide huge relief --- you may have extra cash that is not working properly to fund your goals (for example, you hold an excess amount in cash earning 1 % when you have credit card debt revolving at 17 %) You must know where you are now to move forward and reach your goals.

STEP 5: Learn Balance

Climbing out of and avoiding financial ruts starts with knowledge. Whether you analyze your past statements or track you’re spending diligently for 3 months, you should know what your monthly “nut” is. How much do you need to earn each month to cover your expenses? Now, what is your income level? Does it match?

Obtaining balance includes knowing and planning for three areas:

1.

Goal funding amounts: What are you contributing each month to realize your goals? If these are after thoughts, they will not happen. Pay yourself first through direct deposits. You’re probably used to it for your 401(k), so try it for other goals too.

2.

Fixed expenses: mortgage, car payments, health insurance, etc. Have a budget and use it religiously, this is so important!

3.

Variable expenses – (groceries, entertainment, gifts). One tip: Allow for whimsical purchases without judgment so you do not feel trapped. Either set up a different account or give yourselves a monthly amount that is for “whatever you want!”

Assess your current state of affairs and figure out where you can adjust spending to allow for saving and how you can keep the money separated in a way that works for you and/or your family. How closely you keep track of your monthly spending depends on your own comfort level. **The way you do it is not important.....JUST DO IT!**

STEP 6: Gain Control of Debt

Debt! We hear it all the time. We always hear how bad it is and to avoid it, yet, we still find ourselves buried in it. Now that we know exactly where we are, we can begin to develop a plan to eliminate this pesky monster. There are several different “views” on debt. My view, is to write all the debts down from Step 2 except the mortgage. List them in order from highest to lowest payment. Why? The reason we get into financial ruts is typically a lack of cash flow. Therefore, we pay down the debts that are taking the most out of our cash, and free that up to fund our other priorities.

Some use the highest balance method some say highest interest rate method. If we are having challenges paying for our necessities, we need to use any extra money we found to free up more cash. This is the way to relieve the stress and ensure we dig ourselves out of the rut.



STEP 7: Build Your “Foundation”

A STRONG FOUNDATION will cover you in the event of an unexpected event. For example, if you lose your job, your income may go from “comfortable” to “devastating” overnight. What will you use to pay your bills? An emergency fund needs to be listed as a priority goal if it’s not already.

The opinion on this varies, some say 3-6 months others 6-12, my recommendation is 12 or more. Money in the bank provides security, and comfort. You can make smarter and better decisions when you have sufficient savings. This money needs to be liquid---meaning you can access it quickly (since emergencies are not planned!). Open a separate interest-bearing savings or money market account (rates are around 1-2 %) and hold the cash here. I can provide recommendations on good high yield savings accounts.

STEP 8: Ensure Protection

I can’t stress this enough! Do you have insurance? Becoming disabled is approximately 2-3 times more likely than death depending on what source you want to quote. However, disability insurance is often overlooked. Don’t make this mistake. Call your HR Department to see if you have any coverage and/or talk with a disability/life insurance agent and secure quotes for your own independent policy. Please ask, and I can guide you and set you up with some trusted advisors.

Protection also includes life insurance How much do you need? This depends on your situation. A good rule of thumb is to look at your liabilities from step 2. This amount is a starting point. If your married and you or your spouse died, where would you be left? How much income would you need to replace? Spend time thinking about this and then call a life insurance agent to secure quotes. Consider an independent policy since work insurance is not portable. The earlier you obtain this, the cheaper it is.

STEP 9: Settle Your differences

If you are married, this step is vital to you. Your sister? Your brother-in-law? Who will take of your child in the event of your untimely death(s)? These conversations can cause much tension and anxiety. A few rules to follow:

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- 1.** Discuss in a “safe space”: If you can’t discuss at home, then I always suggest a public setting. Go to Starbucks. Each spouse can safely state any concerns she/he has about a choice with no grudges held. This is your child, not a time to hide feelings.
 - 2.** Take comfort in knowing that you will have proactively handled the situation and will most likely curtail any lengthy court battles that could result in an even more disruptive experience for your child(ren).
 - 3.** Review your decision each year to assess if any major life changes have occurred that would affect your choice.
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Relief factor: Know that the odds of this ever carrying out are slim, so do not waste hours of negative energy fighting over trivial things. Select a Guardian, get the proper paperwork in place, and feel the relief.



STEP 10: Play Time

Vacations are a good time to take a break and relieve the tension of daily living. Eliminate any spending guilt by having a separate (untouchable) account dedicated solely to relaxation. Determine the amount of money that you will contribute to this fund every month. Keep it in a money market account that earns interest between 1-2 % so you can grow against inflation but still protect the funds (since it will likely be a short timeframe for needing the cash).

BONUS STEP #11: Get Unbiased Help

Money is the source of the most heated and emotionally intense arguments in relationships, and cause of stress for individuals. In addition, different people have different styles of approaching financial issues which often result in desperate or no systems for managing your or your family's money.

The pace of life leads to limited time to focus fully on your financial picture, finding an unbiased expert to assist you can often be the most efficient way to make sure you have your finances in order and are actively pursuing and reaching your goals. Plus, you will relieve any tension when it comes to money and give you more time to live, plan, and enjoy your life!

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