The Colony Group

YOUR WEALTH

Achieving Success: The Power of Goal Setting and Building a Budget

Financial tips for establishing a budget to support your long- and short-term financial objectives.

When I was a child, my father taught me to save my allowance. He told me that I could spend the money I got every week from doing chores around the house, but if I chose to save it, he would double the money I saved. When I decided to save any part of my allowance, he would take me to the bank, give the cashier both his dollars and mine, and I would reemerge with a small slip of paper: my savings.

Little did I know that he was, in a loose way, emulating compounding or an alternative version of an employee retirement fund with a matching contribution. But the simplistic lesson stuck with me: it was more valuable to save my hard-earned money than it was to spend it. As I've aged, remembering that lesson has been harder with the onset of instant gratitude and its exponentially increasing tenacity.

But if you're one of the individuals with the mental fortitude to withdraw from the persistent need for "more," you've come to the right place. Of course, before you know how much you can save, let alone what each dollar is earmarked for, you need to establish a budget based on your income and spending.

STEP 1: INFLOWS AND OUTFLOWS

Let's start with your income. You want to know exactly the funds that you have available to you when you come home every day, so you only want to track your net income, rather than your gross income. Your paycheck can show you both gross and net, meaning the total money that is paid to you bi-weekly (your gross income) and the money that goes into your bank account after taxes are taken (your net income). Don't forget to include any additional hustle income that you have on the side, keeping in mind that you need to record the net income.

Once you have a picture of your net income, you can start to allocate portions of that income to the expenses that you have each month. Use the tracking system that your credit card automatically has as a starting point; it can feel overwhelming at the first take on establishing what your spending looks like. You'll find that some of your expenses are fixed, in that they don't change from one month to the next, while others vary

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as your spending increases or decreases with the months and/or seasons. There will also be necessary expenses, such as food and clothing and shelter, and there will be discretionary ones, such as entertainment and dining out. Once you've accounted for all of these, you'll be able to see clearly whether you are spending more than your income, or if you are able to save a certain amount each month. If you're overspending each month on a consistent basis, you might consider looking at some of your discretionary or variable expenses to see what might be reasonable to cut back on.

Alright, now that you have a clear vision of the cash flowing in and out of your wallet and checking/savings accounts, and it's time to think of the bigger picture. What is it you want or need in the next six months? Are you hoping to buy a house or go back to school in a couple of years? Do you have a goal retirement age? Write down every financial achievement that you want, big, small, or even ones that you might only get in an ideal world. This is when you get to dream big, so really think about how you envision your life!

Your encouragement and occasional checking in on how they're doing with cash flow can help build confidence in their ability to independently meet their daily needs while still having something left for discretionary spending.

STEP 2: GOAL SETTING

Setting financial goals provides direction and purpose to your money management journey. It helps you prioritize your spending, savings, and investments to reach the life you envision. When you have clear objectives, it becomes easier to stay focused, motivated, and disciplined in your financial decisions.

The ultimate plan is to align your financial goals and ability to save over time with your short-term, mid-term, and long-term goals and objectives. To start, you're going to reevaluate your dream big list to establish when each objective will be pertinent. Do you want to buy a house in three years or in ten years? Are you planning to retire in five years or in 35 years? Try your best to give each item on your list as specific a timeframe as possible; make each goal SMART – Specific, Measurable, Achievable, Realistic, and Timely. Doing this will make it easier to put each one into the short-, mid-, and, long-term buckets later on, and will help Future You to stay motivated on days when it's harder to be focused.

When breaking down your goals into short-, medium-, and, long-term goals, you want to look at life in a timeline. Short-term goals should be inclusive of anything you wish to pay for or achieve in the next few weeks, months or even years. Mid-term goals can be anything you want to do in the upcoming five to ten years, while longer-term goals can include anything you want to do as far out into the future as you'd like to plan.

Thinking about the future in terms of these milestones can be helpful in figuring out what you want, when you want it to take place, and then in coordinating and planning to save money for each goal that you have.

As a financial beginner, there are a few initial, short-term goals that can get you started on the right foot. These include:

a) An Emergency Fund: This fund is your safety net should something unexpected occur, preventing you from relying on credit cards or loans. Your emergency fund should be about 3-6 months of expenses for a household with two or more income sources, or 6-12 months of expenses for a solo-income household. Start by opening a savings account to separate your emergency funds from your everyday spending and save a portion of your paycheck into it each month until you build up to the balance you are comfortable with.

b) Repay Your Debts: How terrifying is it to sign into your credit card account and see that looming balance due number? It can be super helpful (both mentally and IRL (in real life)) to pay off any of your outstanding credit card balances, student loans, or other money accruing interest as quickly as possible. Start by tackling the loans with the highest interest rates and allocate part of your income to pay them off each month.

c) Build up Savings: Did your cousin invite you to her destination wedding in Ibiza next summer? She'll probably want you to go to the engagement and bachelorette parties, as well. With travel prices increasing as much as they have been lately, it could be helpful to build up a savings or investment account for known upcoming big expenses, so you don't have to rely on your emergency fund when that day inevitably arrives.

Mid-term goals will be anything that you plan to do in five to ten years. These are usually bigger purchases that take longer to save up to, or they are life changes that you anticipate happening sometime "down the road." These goals might include one or more of the following:

a) Homeownership: If owning a home (or purchasing a second home) is part of your vision, saving for a down payment is the first step in making that a reality. Do some research on pricing, location, and anything else that you envision needing for this home and try to be as realistic as possible when you outline your desired down payment amount.

b) Starting or expanding a family: This can seem like a smaller expense by comparison with some of your other ideas, but it is a continuous one that will increase your expenses year after year.

c) Investing in YOU: Would grad school or a certification in your field increase your career options or double your pay? Investing in your education or skills is likely to enhance your potential and make you more successful in the long run.

Finally, the remaining items on your dream list should be anything that you want to happen more than ten years from now. These are the ultimate objectives that will be the foundation of your financial success; they will allow Future You to enjoy the fruits of the labor that you're putting in now.

Some objectives you see on your list might include the following:

a) Retirement planning: If your employer offers a 401(k) plan with a matching contribution, you should absolutely be contributing to it. Even contributing a small amount of your paycheck each month will end up compounding into significant amounts over the years.

b) Vacationing and travel: Perhaps you want to go on a Mediterranean cruise once your children are out of the house and on their own. Maybe you want to go on an expensive, all-inclusive trip to a remote island with your partner. Or maybe you want to disappear into the Appalachian Mountains to be off the grid for a while and become one with nature. Whatever the experience, saving a little now will go a long way in making this a reality.

c) Financial independence: Lastly, ,your goal starting today should be to live comfortably off your savings for years to come. This aspiration is to own investments that generate enough passive income to cover your expenses once you retire, offering you the freedom to continue pursuing your passions and goals.

play a role. Torabi is well-known for her role in empowering young women financially and this book is highly rated for its entertaining yet practical advice on personal finance.

With your guidance and these financial tips, your grad can get off to a positive financial start with the tools to establish healthy lifelong financial habits.

IN CONCLUSION

Setting goals and managing your finances are two vital aspects of leading a successful and fulfilling life. Review what your budget stipulates you can put aside on a monthly basis for these short-, mid-, and long-term goals. Are you able to earmark each dollar for a goal? Have you opened a new account for each goal (if that is helpful to you)? Or are you able to track your savings for each goal in a different way? It can be helpful to set up a direct deposit from your employer/paycheck to your savings or brokerage account on a bi-weekly or monthly basis; with this, you won't need to think about your savings each month because it will be automatic.

Your budget is going to change with every decision you make on an ongoing basis, making it crucial to continuously monitor and make any changes or adjustments that you see fit along the way. If you find yourself cutting back on discretionary spending, remember not to sacrifice your current happiness and work-life balance. By staying patient and persistent, you can steadily progress toward your financial needs and wants. Remember that small steps today can lead to significant returns over time!