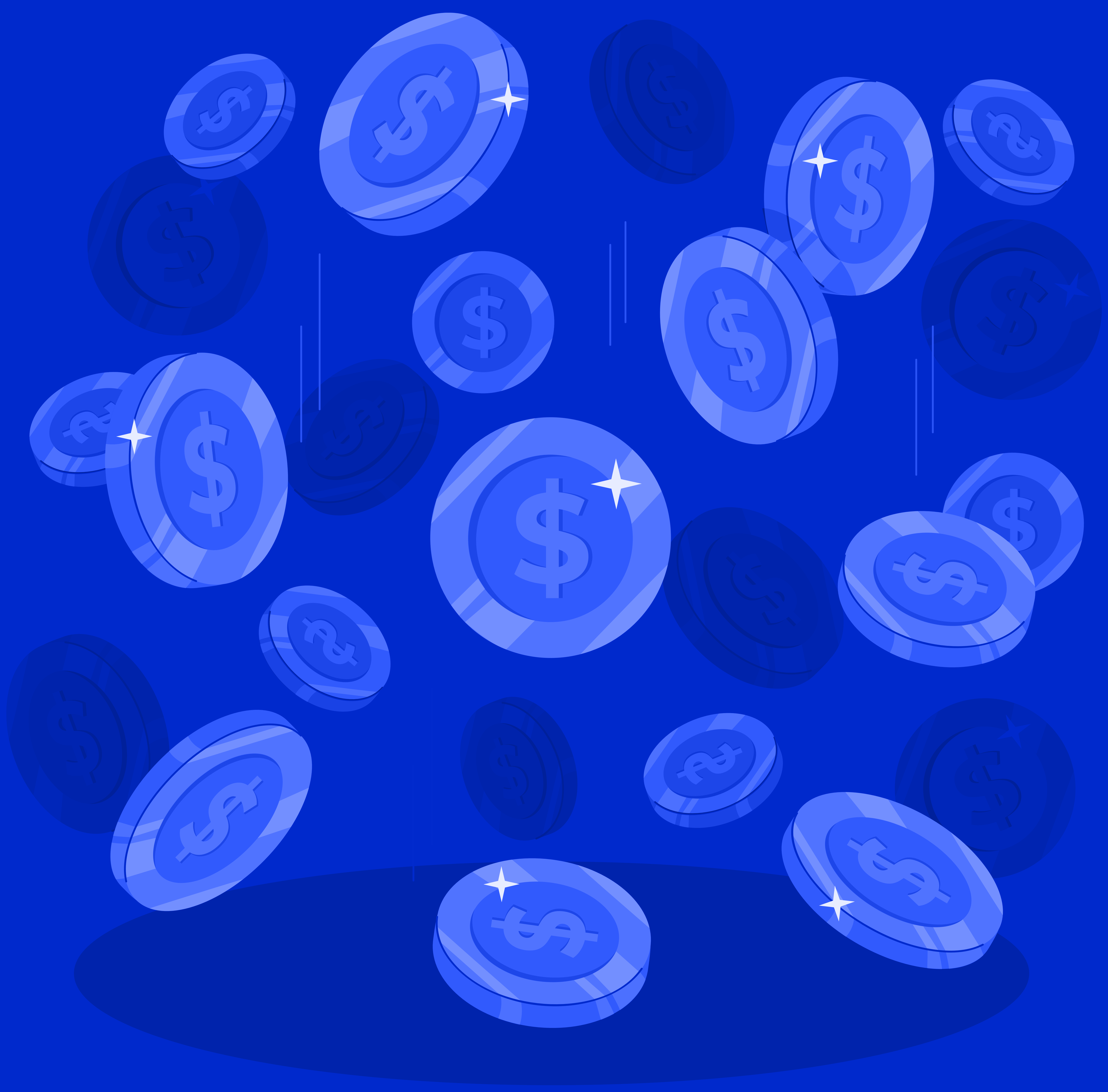
7 STEPS TO MANAGING YOUR MONEY



Thank you for trusting me with your time. I hope this visual guide helps you attain financial freedom. It's one of the most powerful things you can do for yourself and your family.

-Andrew

A Quick Disclaimer

Please keep in mind that I am not a registered financial advisor. I'm just a guy on the internet trying to share what I've learned. This guide is intended to be a starting point for educating yourself. Please make sure to validate anything you're hearing about finances—even from me.

It's always best to confer with a registered financial advisor before making any big financial moves.

Good luck out there, and be careful!

Content Credit

The steps of this guide summarize content from the subreddit for personal finance. Please check out **/r/personalfinance** for more ideas on managing your money.

Budget and reduce expenses, set realistic goals

1. Budgeting 101

Know Where Your Money Goes

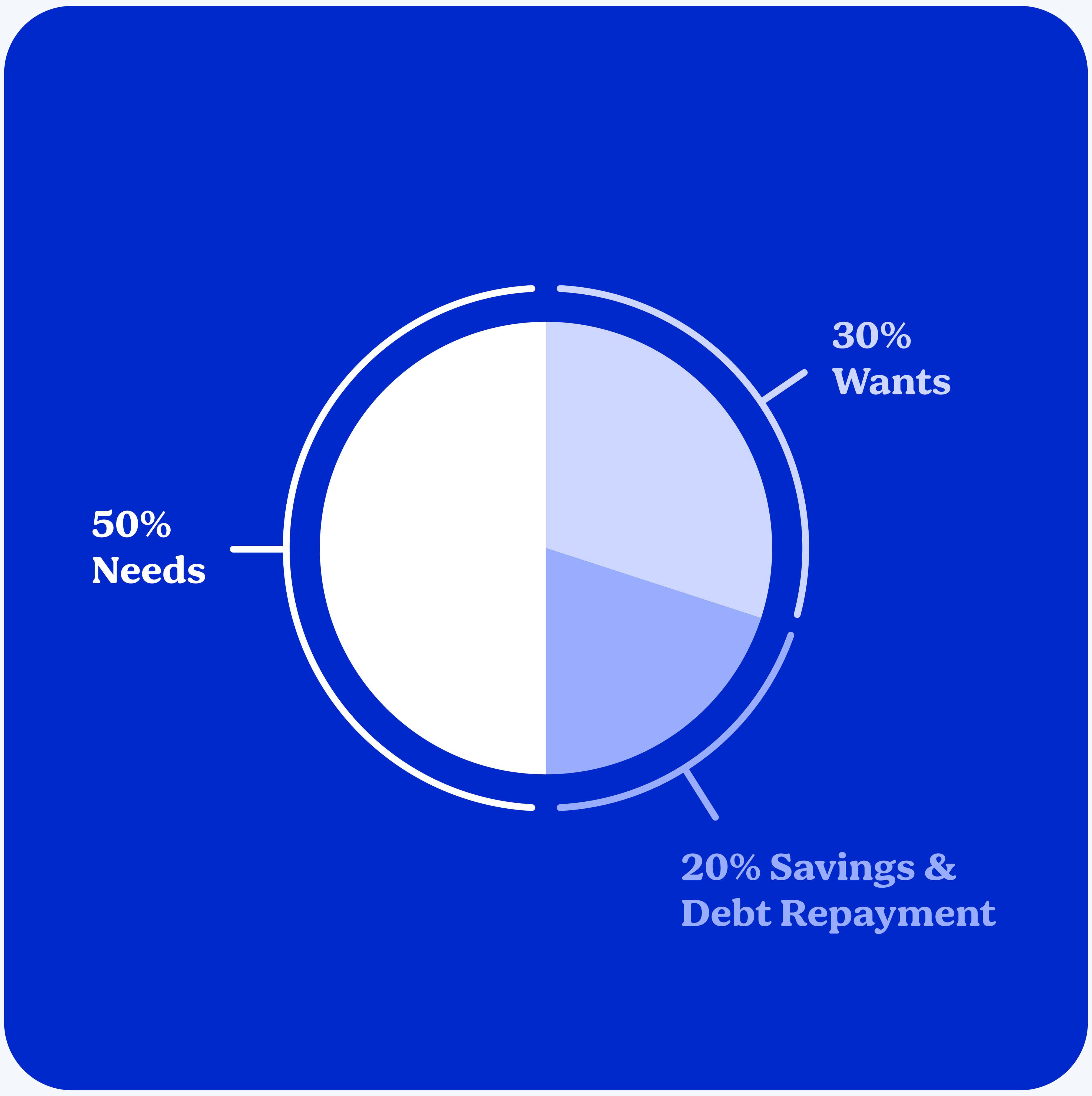
Taking control of your finances starts with understanding where your money is going. Here’s **6 steps** to help you regain control:

1. **Calculate Your Income**
    a. Use after-tax pay.
        i. If you’re in the USA, [**here’s a free tool**]() to calculate after-tax pay.
    b. Plan based on a worst-case scenario if income fluctuates.
2. **Create a Budget**
    a. List monthly *income* and *expenses*.
    b. Separate *needs* (housing, transportation, utilities, groceries, and healthcare) from *wants* (dining out, entertainment, and hobbies).

Needs

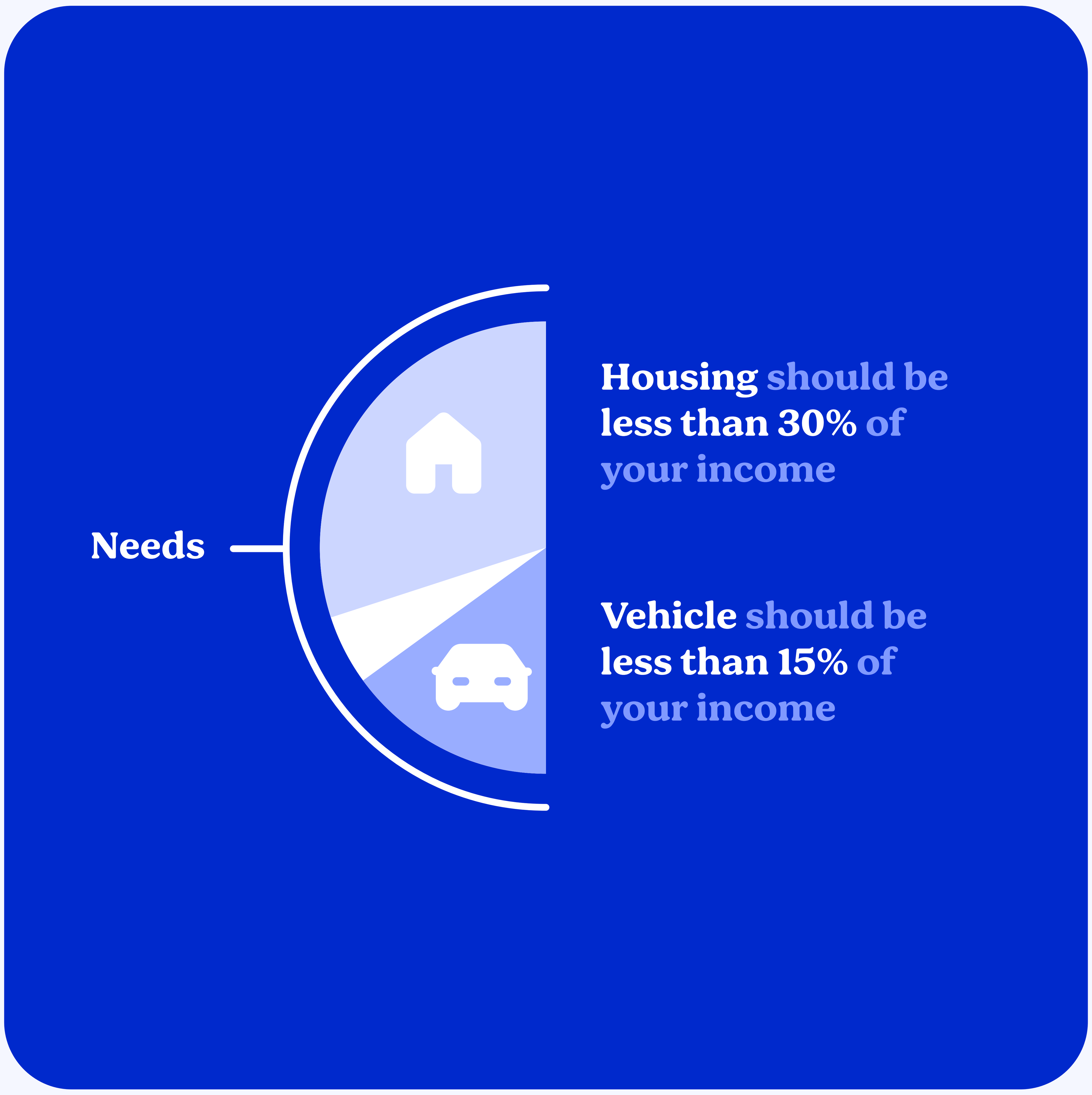
Wants

3. **Allocate for Savings and Debt Repayment**
    a. Follow a structured plan to save and pay down debts.
4. **Follow the 50/30/20 Rule**
    a. 50% for needs, 30% for wants, and 20% for savings and debt repayment.



5. Watch out for Red Flags

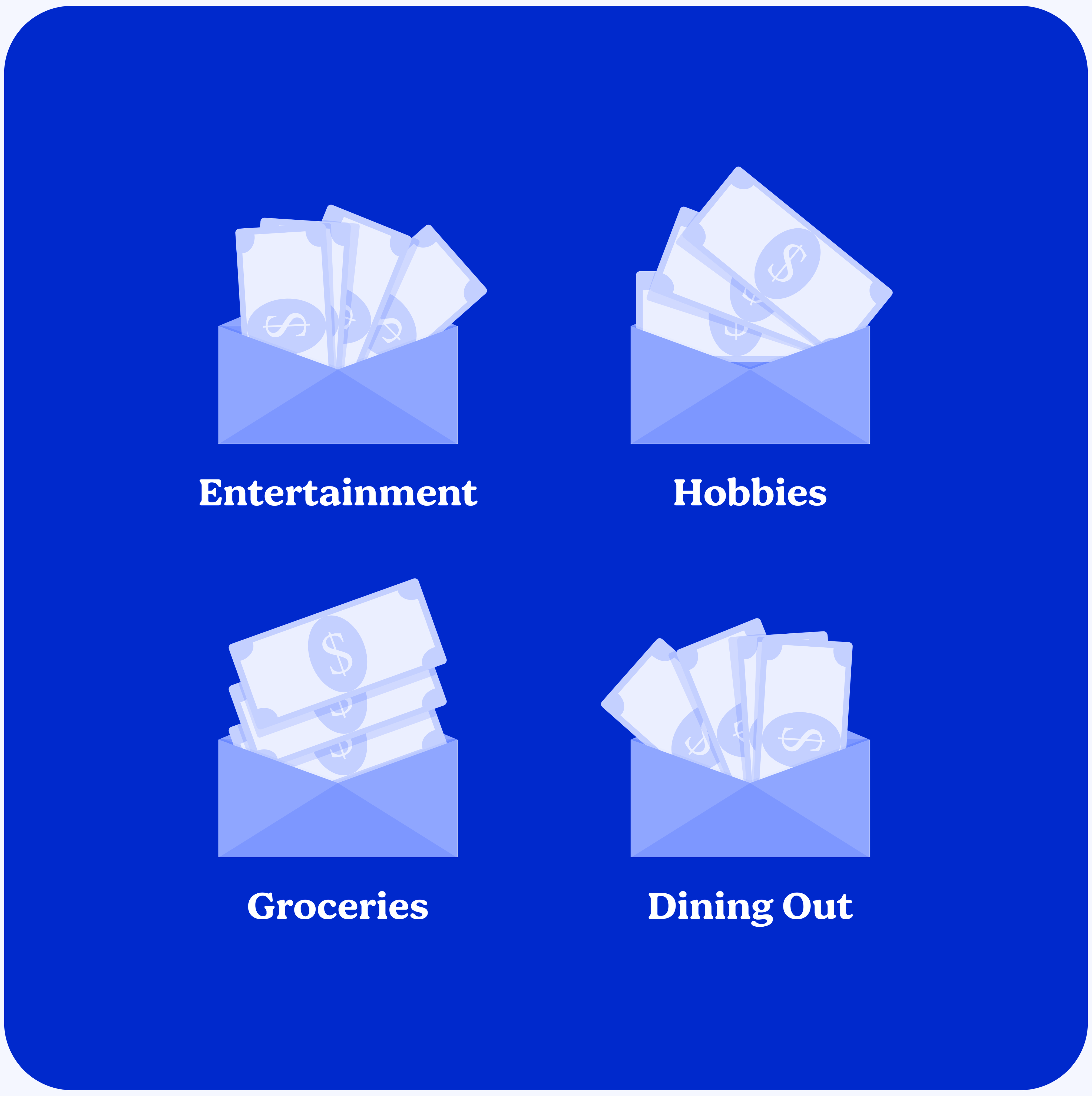
a. Housing costs greater than 30% of income.
b. Vehicle expenses greater than 15% of income.
c. Groceries greater than $300 per person.



Try the Envelope System

The envelope system is a cash-based budgeting method. You use labeled envelopes filled with cash for each category of spending. It helps you manage your spending my making it more physical and less abstract.

1. **Set Up Your Budget:** List income and categorize expenses.
2. **Withdraw Cash:** Get cash for your budgeted amounts.
3. **Label Envelopes:** Write category names on envelopes.
4. **Fill Envelopes:** Place cash into each envelope.
5. **Spend from Envelopes:** Use only the cash in each envelope for its category. Stop spending when the envelope is empty.
6. **Review Monthly:** Check spending, adjust budget, and refill envelopes.



Essential Tools and Resources

1. **Free Spreadsheets**
   a. The Spreadsheet for People Who Don't Know How to Budget!: User-created spreadsheet popular on /r/personalfinance.
   b. Google Sheets Budget Template: Free and customizable template available in Google Sheets.
2. **Money Management Software**
   - **Personal Capital** (Empower Personal Dashboard): Free tool that links with financial institutions to track spending and manage finances.
   - **YNAB** (You Need A Budget): Popular budgeting app with a subscription model. Free for students with a .edu email address.
3. **Open Source Software**
   - GnuCash: Personal and small-business financial accounting software that is free and licensed under the GNU GPL.
   - HomeBank: Free and easy-to-use personal accounting software.
   - Money Manager Ex: Free, open-source, cross-platform personal finance software.
4. **Envelope System Supplies**
   - Cash Envelopes: Purchase labeled cash envelopes online or create your own with regular envelopes.
   - Envelope Budgeting Apps: Apps like Goodbudget and Mvelopes offer digital versions of the envelope system.
5. **Credit Card and Debit Card Statements**
   - Review your monthly statements from your bank or credit card provider to track and categorize expenses.

Essential Tools and Resources

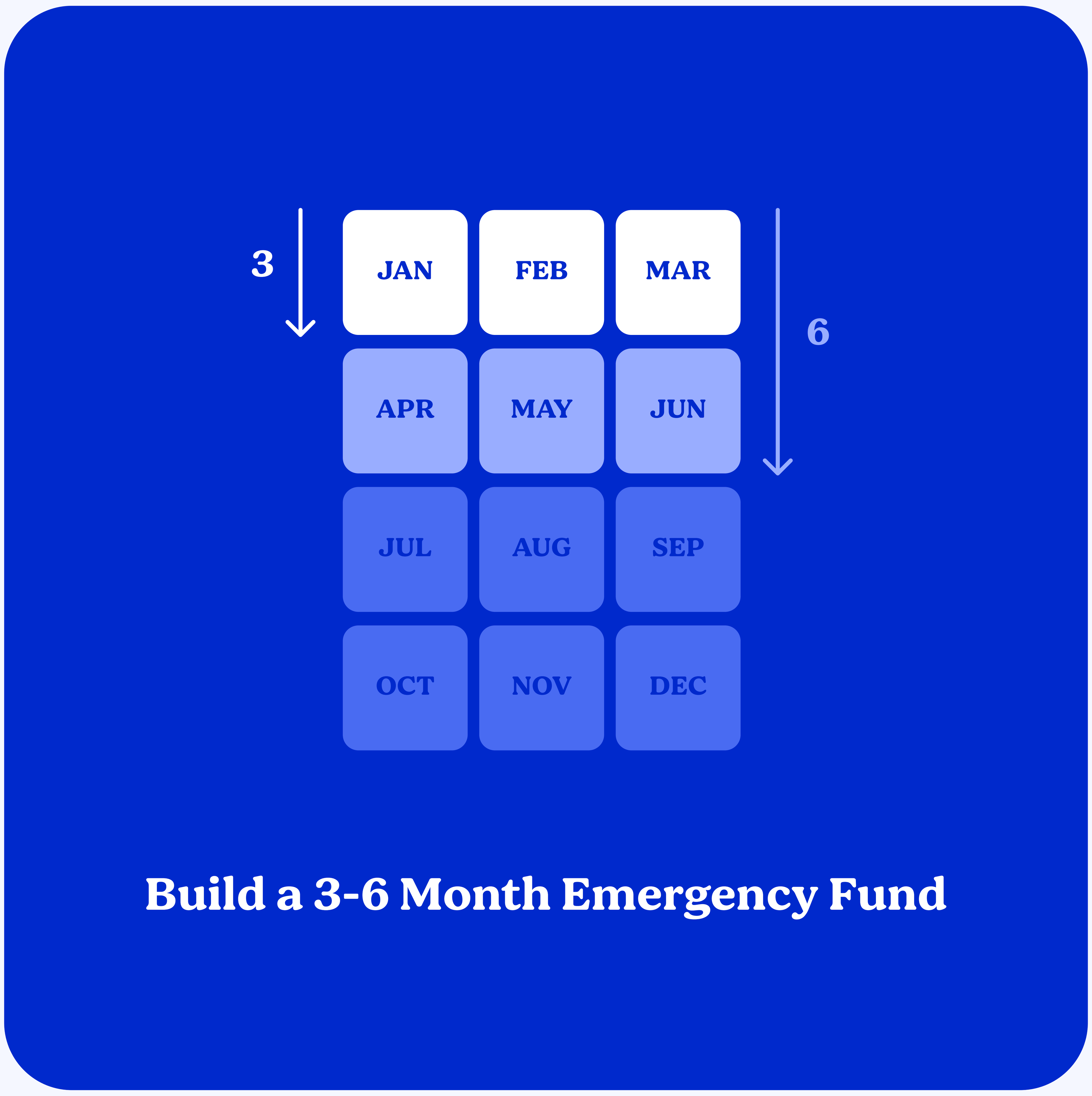
7. **Financial Calculators**
    - After-Tax Paycheck Calculator: Tools like those available on SmartAsset or ADP can help estimate your after-tax income.
    - Debt Repayment Calculator: Websites like Unbury.me help you visualize and plan your debt repayment strategy.
8. **Online Communities**
    - /r/personalfinance on Reddit: A community where you can seek advice, share experiences, and find additional resources.
    - Bogleheads: Forum inspired by the principles of Jack Bogle, focusing on long-term investing and personal finance management.
9. **Educational Resources**
    a. The Financial Diet: Blog and YouTube channel offering tips and advice on budgeting and personal finance.
    b. Mr. Money Mustache: Blog that provides insights on frugality, budgeting, and early retirement.
10. **Books on Budgeting and Personal Finance**
    a. “The Total Money Makeover” by Dave Ramsey: A step-by-step plan to take control of your finances.
    b. “Your Money or Your Life” by Vicki Robin and Joe Dominguez: A comprehensive guide to transforming your relationship with money and achieving financial independence.
    c. “I Will Teach You to Be Rich” by Ramit Sethi: A practical guide to managing your money and building wealth.

Build an emergency fund

2. Build an Emergency Fund

An emergency fund gives you flexibility and peace of mind. It covers unexpected expenses like getting fired, medical emergencies, or urgent repairs. This financial cushion helps you handle major life changes and unforeseen events. Here's how to build it:

1. **Determine Your Goal Amount**
   - Your goal should be to save *3-6 months of essential expenses* (e.g., rent, utilities, groceries, transportation) to cover emergencies.



2. **Set a Monthly Savings Target**
   - Decide how much you can save each month to reach your goal. If you're unsure use the 50/30/20 Rule.

- If you have lots of high interest debt, and no emergency fund, you will benefit from minimizing all non-essential spending.
- Build your emergency fund before other investments.

1. **Open an Emergency Fund Savings Account**
    - Choose a high-yield savings account or any FDIC-insured account that's easily accessible. Nerdwallet has a **list of popular options**.
2. **Automate Your Savings**
    - Set up automatic transfers from your checking account to your emergency fund account each month. This helps you stick to your allocation.
3. **Prioritize Initial Savings**
    - Focus on building a smaller initial emergency fund of $1,000 if you have high-interest debt, then gradually increase it.
4. **Cut Unnecessary Expenses**
    - Identify and reduce non-essential spending to boost your savings rate.
5. **Save Windfalls and Bonuses**
    - Direct any unexpected income, such as tax refunds or work bonuses, into your emergency fund until it's full.
6. **Monitor and Adjust**
    - Regularly review your progress and adjust your savings plan as needed. If your expenses go up, your emergency fund should increase.
7. **Replenish When Used**
    - If you need to use your emergency fund, rebuild it as soon as possible.

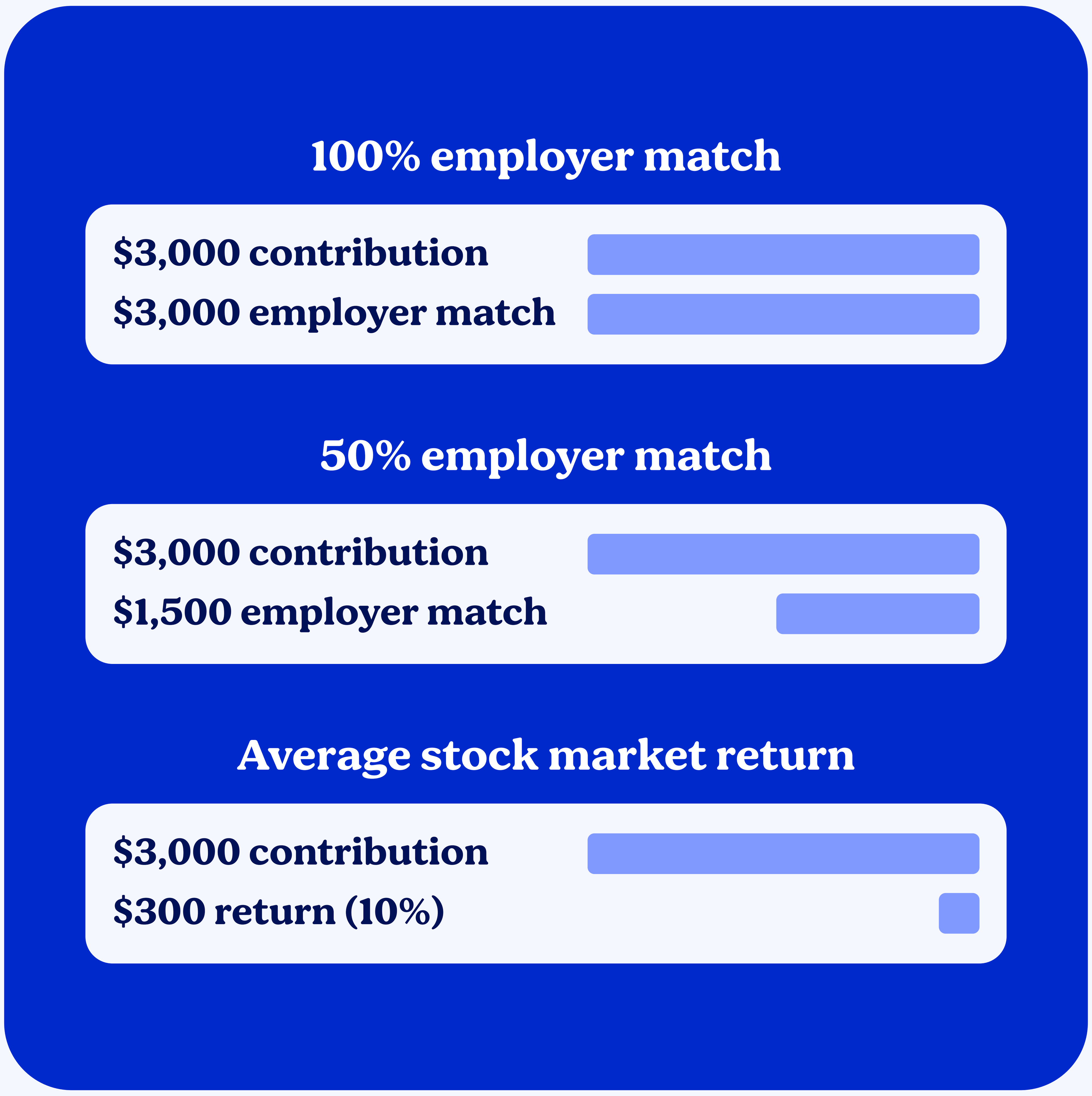
Employer-sponsored matching funds

3. Employer-Sponsored Matching Funds

Many employers offer matching for retirement contributions. In the United States this is often called 401K matching.

If you have an employer that offers this, contribute enough to get the full matching contribution from your employer. Your contribution will usually need to be set up through your employer because it's deducted directly from your paycheck.

In the United States, it's common for employers to offer 50-100% matching for up to 6% of your paycheck. Let's assume you make $50,000 per year. Here's a visual comparing



This means you’re getting an *immediate, risk free* return of 50-100%. This is crazy. For comparison, the long-term average annual return for the U.S. stock market, is approximately 10% *per year*.

This return is so good, you should prioritize it even before paying down high-interest debts. If your employer doesn't offer matching funds, skip this step and move to the next financial priority.

Pay down high interest debt

4. Pay Down High Interest Debt

Focus on paying off debts with interest rates over 4%. Credit cards typically have much higher interest rates, making them good to pay off first.

There are two great ways to tackle paying off your debts:

1. **The Avalanche Method:** Prioritize debts with the highest interest rates.
   a. This is the most financially efficient method. You will pay the least money over the long-term doing it this way.
2. **The Snowball Method:** Start with the smallest balances for a psychological boost.
   a. If you have a lot of different debts, paying off smaller balances can feel good. If this helps motivate you, you may want to pay off debts this way.

Always make minimum payments on all debts first, and allocate extra funds to pay down high-interest debts faster.

Contribute to an IRA

5. Contribute To An IRA

After building your emergency fund and taking advantage of employer-sponsored matching funds, contribute to an IRA (Individual Retirement Account).

Aim to save up to 15% of your gross income until you reach the annual contribution limit. Choose between a **Roth IRA** or **Traditional IRA** based on your income level and tax situation to maximize your retirement savings.

IRAs come with tax benefits:

- **Traditional IRA:** Contributions may be tax-deductible, reducing your taxable income for the year. Earnings grow tax-deferred until you withdraw them in retirement.
- **Roth IRA:** Contributions are made with after-tax dollars, but withdrawals are tax-free in retirement, provided certain conditions are met.

IRAs often offer a wider range of investment choices compared to employer-sponsored plans. You can invest in stocks, bonds, mutual funds, ETFs, and more.

For individuals aged 50 and older, IRAs allow for catch-up contributions, enabling you to contribute more each year and accelerate your retirement savings.

Save more for retirement

6. Save More for Retirement

Once you've funded your IRA, increase your contributions to your employer-sponsored retirement account if available. Aim to save 15-20% of your gross income for retirement. If you're self-employed, consider opening an Individual 401(k), SEP-IRA, or SIMPLE IRA to maximize your retirement savings.

Save for other goals

7. Save for Other Goals

With your retirement savings on track, start saving for other financial goals. These might include building a health savings account (HSA) for medical expenses, setting up a 529 plan for education costs, saving for a home down payment, or funding other significant purchases.

Use tax-advantaged accounts where possible and choose appropriate investment vehicles based on the time frame and nature of your goals. Prioritize your goals and allocate your discretionary income accordingly to achieve them efficiently.

At this point it can be fun to save up for big entertainment purchases like vacations. Some people find it helpful to open high interest savings accounts to separate these funds from other savings.