

Making the Most of your Paycheck

Principles that cause you to win with your money



By Jake Funnell

Jake Funnell, 2009.

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Introduction

Some of us learn the hard way how money should be handled, while others are fortunate enough to be taught early. Some of us just have to work it out for ourselves. Today someone mentioned to me, “we should be taught this stuff in high school, but we’re not! My sister had to pull me aside and show me how to do it.”

There definitely are a small but mighty group of money skills that *should* be taught early, but aren’t. Here they are.

What this book covers:

- ✓ *What's a “Money Underdog”?*
- ✓ *Not everyone has been taught how to handle money!*
- ✓ *Four key principles that cause you to win with your money.*
- ✓ *Sounds great! Now how do I do it?*
- ✓ *How to make the most of Your paycheck.*
- ✓ *Go get 'em!*

The *Money Underdog*

un·der·dog (ŭn'dər-dôg', -dôg') *noun*.

One that is expected to lose a contest or struggle, as in sports or politics.

One that is at a disadvantage.

In the beginning, you had no concept of money. As you grew from a small child into an adult, your ideas about money were built by your family, the world around you, and your experiences. These money ideas have made you who you are today financially: either a winner, or...not quite yet. If you're the latter, then be encouraged: this book was written by a *money underdog*, for *money underdogs*.

Can you honestly say that you are thrilled with your financial position today? If so, well done; find a way to pass on these skills to someone else. If not, it's probably time for some fresh ideas about money and skills to go with them. Whether you're re-learning or learning for the first time, you will encounter principles that can bring peace and confidence to your money life.

As a money underdog saddled with debt, I've come a long way, and the journey has taken years. It's still not over! However, there are several key ideas that have caused massive change in my financial direction. These ideas have come from others who are further in their learning about money, from reading books, and by learning from others' mistakes and successes with money. Working in the busiest national branch of a major bank for years, I've watched thousands of people handle their money and discussed solutions to help add to their success. This everyday learning led me into formal study, where I've completed a Diploma of Financial Planning.

Today, I'm still collecting new ideas and continuing to rely on the solid foundation of sound money principles. This book is meant to give an understanding of those basics. Don't expect that your finances will magically transform the instant you finish reading this book, but expect that the fresh ideas will change the course of your financial direction as you put them into action.

Not everyone has been taught about money.

{ *Thanks, mom!* }

I have an amazing, outstanding mother and father who raised me properly, with strong positive values. Because of this, I've had a solid foundation in my personal life and a sense of personal value. So do my two brothers. Growing up, it was clear to us boys that not everyone enjoys this upbringing. In fact, many don't. I'd bet that basic money skills are being taught less and less in homes with children.

The difficult thing today is that if you don't learn money-handling skills when you're growing up, who's going to teach them to you? Adults who haven't learned key money principles don't really have anyone they can go to; there's no professional that teaches you the basic skills, really. Plus, it's embarrassing to ask someone else to show you how to handle money, so that's not a preferable option, either.

Thousands of people have sat on the other side of my desk at the bank, brought by the result of lack of knowledge about money matters. They're great people, likable people, but over the years either weren't taught the principles that matter, or ignored them when they were. The truth is that there are common skills and ideas that I see among these people. I also see common habits and ideas among other people who have visited my desk—people who are winning with money, have built some things for themselves and their families, and are heading towards more success in their finances.

Be encouraged that even if you are an underdog, you can still finish miles ahead of nearly everybody else, even if you have a few years behind you! For underdogs, the main thing standing between you and success is information, and there are massive amounts of information available that can help you win with money. Beyond that, it's up to you to take what you've learned and start using it. Having said that, let's take a look at some of these "key principles" that have been mentioned.

Four Key Principles to winning with your money

- ⇨ 1. Pay attention
- ⇨ 2. Save regularly
- ⇨ 4. Stay out of slavery
- ⇨ 4. Have a plan

1. Pay Attention

{ ...you can't afford not to! }

When was the last time you looked at your bank statement? Do you know how much you spend regularly on clothes, eating out, or to have pocket money on the weekend? These are questions I definitely would have been ashamed to answer a few years ago. One of the biggest favors you can do yourself and your financial future is simply to pay attention to what you already do with your money. As my money-wise friend Sam says about his spending, "If I don't know the past, how can I know the future?"

If you're serious about changing your financial direction, this part is essential. To pay attention to where your money goes, you'll need some kind of record. If you use a debit card for most purchases, your record could be your bank statement, either printed or viewed through internet banking. If you're in the habit of paying with cash (well done!) then record keeping may involve keeping your own record, or keeping all receipts.

An effective way to find out where you stand on your spending is to take a one-month sample of your expenses and purchases. It involves using a system (keeping all receipts, writing in a small notebook, etc) to track your spending over the course of a month. Have a look at the sample below for an idea of how to record your spending:

Date:	Spent on:	Amount:

At the end of the month, gather your records and add up the amounts you spent on different categories: groceries, eating out, coffee, etc. This can be a shocking revelation as you realize how much money you actually spend on different areas. My shocker area was coffee! Even if you only do this exercise once, you'll be able to identify a few categories of spending where you know you need to take control. Trust me, just doing this simple assignment will wake you up to where all your money goes, for the better.

2. Save regularly

{ *The rich man's wealth is his fortress, The ruin of the poor is their poverty.* }
-Ancient Proverb

If you take only one thing from this book, take *this* lesson. Everybody encounters tough times involving money at some point. I would argue that people who save regularly have less tough times, and that their tough times don't last as long. South African Andre Olivier describes, "A willingness to [save] the extra enables us to weather tough times." If you live paycheck-to-paycheck and don't save any extra from your paycheck, you're forced to borrow when tough times come, and they always do. When you have savings, it's like having shelter during a rough thunderstorm. The ancient proverb above describes saved money as being "like a fortress".

Having savings made a *major* positive difference the first year my marriage. We started off without any regular savings, and this leads to stress regularly when unexpected costs come up. Eventually, we took a tip from American money expert Dave Ramsey, who recommends starting with a \$1000 "emergency fund". As a husband, I noticed that once we put this savings in place, it brought a higher level of peace to our house. My wife knew that when unexpected costs hit, we'd be covered. No Stress.

How much savings is enough? There's no right amount, but it's generally best to find a comfortable portion of your paycheck, and save it every single pay. The important part is to make it a habit. As your ability to control and plan your spending grows, you may be able to increase your regular savings. A good beginning emergency fund may be \$1000, and a full one may include six months' worth of expenses. Ultimately, it's there to guard you against emergencies that would otherwise slow you down or stop you.

3. Stay out of slavery

{ “The rich rule over the poor, and the borrower is slave to the lender.” –Ancient Proverb }

The ancient Hebrew proverb says that “the borrower is *slave* to the lender”. If you have a credit card, store card, overdraft, personal loan, car loan, student loan, home loan, investment loan or anything similar, this describes you. Three years ago, the Bureau of Statistics reported that nearly 80% of households had some kind of debt, and among those, the average debt amount was \$50,000. And statistics are not heading in a good direction. According to that proverb, slavery is booming business these days! The good news is, you can choose whether you'd like to be a slave or not.

Having regular payments to someone else actually robs your financial power. Your income is typically your best asset for winning with money, but if most of your paycheck goes to someone else, how are you supposed to win? You can't. The only answer is to get debt-free as soon as you can, so you can get on with winning. To do this, you'll have to quit borrowing from now on (close down those credit card accounts), then go into attack mode and smash your debts with intensity. The absolute best way I've found to do this is in a book by Dave Ramsey called *The Total Money Makeover*. It's simple, solid money advice for real people. There are links to some brilliant information in the last section of this book.

Possibly the hardest part of this process is changing habits. If you're in debt, there's a good chance it's because of a pattern of choices involving money. You might have to learn to say “no” to yourself, your spouse, kids, etc. if a purchase is unplanned or outside your budget. However, if you make a habit of choosing to spend only what you actually have in cash or your savings account, you'll soon be one of the few people living in financial freedom. Sadly, having car payments, credit card payments and other payments is all normal in today's culture; living with debt is a “normal” way of life. But imagine what you could do if your paycheck arrived and you didn't have a single payment to make to anyone? How easy would it be to do the things you really want to? Imagine the sense of freedom that would bring to you and your family.

4. Have a plan

{ *“Money is a terrible master but an excellent servant.” -P.T. Barnum* }

The world has a plan for your money. Its plan for your money is this: to take it all. Have you seen, heard, felt, tasted or smelled any advertising today? In the last 20 minutes? Have you been offered credit? If you don't have a plan for your money, it will end up going to someone who does. Marketers and advertisers around the world work very diligently to get you to reach into your pocket and spend more of your hard-earned money. Yes, some of them have brilliant products and services, but choosing to have a plan for your financial future is more important than choosing to buy what you want, right now.

Making a plan for your money is the core element that will transform your money life. Make this your motto: “I spend less than I make”! The total of your income should be greater than the total of your spending. Now that you have a clue about what categories you spend your money in, you can carve out some boundaries. For example, if you found that you spend \$100 per month on coffee and feel the need to cut back, try allowing yourself \$80. If you always spend more money than you want to on the weekend, try paying yourself a preset amount out of your paycheck specifically for the weekend.

When you have a plan for your money, you'll find that other areas of your life improve as well. Money stress causes so many other issues! Financial pressures are a leading cause of divorce. Imagine what stresses could be relieved in your relationships if money wasn't such an issue. Your emotional and physical health would improve as the financial burdens were lifted. As you develop more integrity and a solid foundation in your money life, you'll find more opportunities and blessings come to you. Where there used to be financial wreckage, there would be new potential for dreams to be realized. More importantly, if you can make the changes in your own habits now, you may ensure that the next generation-- your children-- would be raised as financial winners, not as another generation of money underdogs.

Sounds great! Now what?

{ *All hard work brings profit, but mere talk leads only to poverty.* }
-Ancient Proverb

Knowing these four principles we've looked at so far won't make a bit of difference in your life until you put them into *action*. In the next few sections, we'll explore some practical strategies you can use straight away to begin taking control of your money life.

Make the most of your paycheck

Whether your income is regular or irregular (Pay As You Go” or “Non-Pay As You Go”), there is a way to plan for your spending. As an employee, you're likely to have a set amount coming in, or little variation in your pay amounts. Because of this, it's essential to make the most of each dollar in your paycheck. On one hand, your pay is “limited” in a sense to a set amount each pay. On the other hand, the advantage of a set pay amount is that it makes your budgeting very clean and simple. For those with variable incomes, base your budget on a “slow” month for income, but put extra categories in to show how you’ll spend any extra income you might get above that base amount. Regardless of what pay type you have, if you manage it well, you can make your money grow.

Budgeting basics

Now that you know the “why” of the budget, it's time for the “how”. As you know already, once your pay hits your bank account or your mailbox, your money will tend to go wherever it wants. Because of this, it's important to have your plan ready *before* payday arrives. Your plan can be fortnightly or monthly, but just make sure it's written down ahead of time. You might even pick a set date each month for your budgeting. In writing your spending plan or “budget”, there should only be 2 core elements. Dave Ramsey calls them: income and “outgo”:

Income-- Your total income from all sources.

Outgo-- Total expenses and spending of all kinds.

The big idea is to plan out your entire paycheck so that every dollar you have coming in is dedicated to a specific purpose such as food, transport, internet, coffee, etc. The top of the budget will show your income, single or combined, from all sources. Underneath the income, list all your expenses, including anything you'd like to have cash for during the fortnight or month. If you subtract your total “outgo” from your “Income”, you should have zero. By doing this, you

eliminate unplanned spending and purchases. If there's an amount left over after your expenses, create a category for it (ie, savings, Christmas, etc). This kind of spending plan allows you to be the master of your money, and not the other way around.

There are two basic formats you can use for your budget: written, or on a spreadsheet. Unless you're already savvy with computer-based spreadsheet programs, such as Microsoft Excel, I'd recommend doing a simple written budget on paper. Find yourself a good spiral-bound, medium-sized notebook and write down this month's budget on page one. Going forward, you can use a page for each month or fortnight. Here's a quick example of what it might look like:

Income for March 2010:	\$3,000
Expenses:	
Food	\$500
Electricity	\$100
Rent	\$1,300
Giving	\$300
Internet	\$80
Saving	\$720
Income - Expenses =	\$0

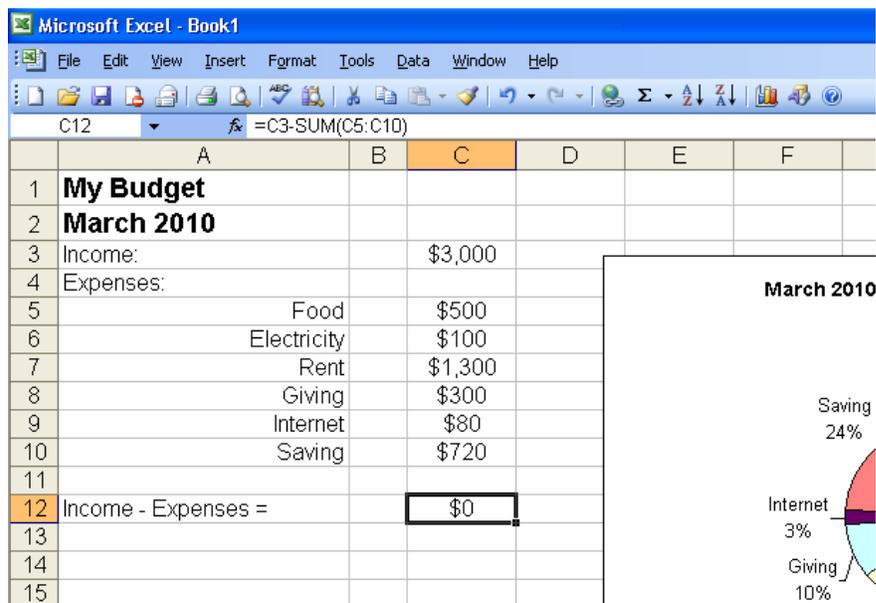
Remember, it's important to budget out your whole paycheck so that you're left with zero at the bottom. Any leftover money will find a way to spend itself if you don't plan for it. So if you do have money left over, create a new category for it, such as "saving" or "pocket money". A written budget like this is easy to refer to at any time. When payday arrives, simply go down your list and pay each bill. Once you've paid an item, mark it with a ✓. Easy. Then write your plan for your next paycheck!

Income for March 2010:		\$3,000
Expenses:		
Food	(cash)	\$500
Electricity	✓	\$100
Rent	✓	\$1,300
Giving	✓	\$300
Internet	✓	\$80
Saving	✓	\$720
Income - Expenses =	☺	\$0

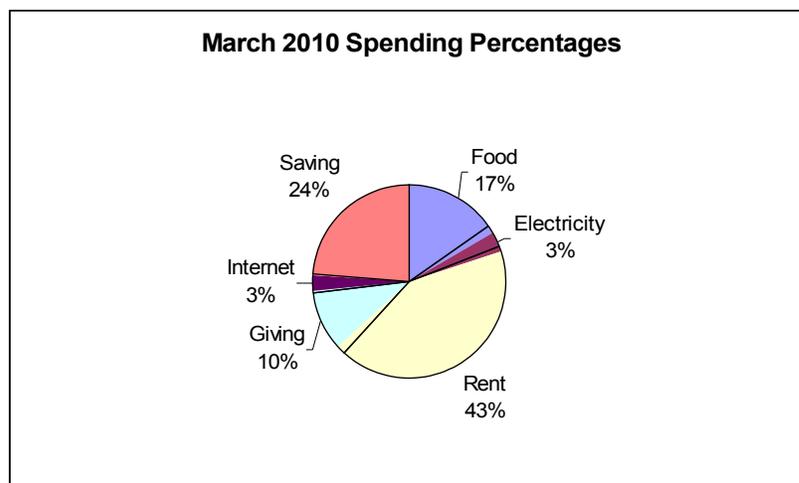
Budgeting - For Geeks

If you consider yourself to be a bit nerdy due to your computer abilities, you could try running your budget on a spreadsheet. Microsoft Excel is the most popular, but there are others very similar. This won't be a tutorial in Excel; the program comes with its own "Help" menu. Although, you will find some ideas here on how you might take advantage of Excel to operate your budget

without needing a calculator. Also, in the last section, you'll find links to downloadable budget spreadsheets and worksheets that you can use straight away. Your budget on a spreadsheet could look as simple as this one:



Using a spreadsheet to do your budgeting does give you some advantages. Firstly, the program does all the math for you; your job is just to give it the numbers and tell it what to do with them. You can still use the same layout (income minus outgo equals zero), only Excel enables you to tweak things and customize however you like. For example, I could add a column that automatically displays the amount I've spent on electricity as a percentage of my income (i.e. 3.3%). Or, I could actually have that represented in a full-color pie chart or graph:



This particular chart took less than five minutes to create, *including* time spent referencing the “Help” feature. If you're a visual learner, this is a very helpful way to “see” where you're spending your money.

With spreadsheets, unlimited customization is possible—you can get as geeky as you like with your numbers and your budget. There are so many applications for budgeting with Excel. You can break down your expenses to subcategories like fixed expenses and variable expenses or you can run a separate spreadsheet to track your savings toward a particular savings goal.

Budgeting is huge. If you can get this basic skill down, you'll be miles ahead of where you are now. Over time, this habit will prove to be a big factor in your money success. I asked a successful customer at my bank what her number one tip would be for people wanting to win with their money. She thought for a minute and said, "Have a strategy. If you can run a budget, you can run your life."

Go get 'em!

An ounce of action is worth a ton of theory.
-Ralph Waldo Emerson

One of my favorite things about my job is watching people's energy levels rise as they realize there is a way they can win with their money, that there is hope, that they can learn the skills to win. They lean forward to listen, their eyes get wider, and by the time they get up to leave, they virtually spring out the door to get home and get their money life organized! There is an energy shift that takes place internally you when you realize it's possible. Be aware that you can read this entire book, do nothing about it, and continue getting the same underdog result you've always gotten.

I would encourage you to take advantage of that fresh energy and get to it: make a plan to track your spending for a month. Get a clean notebook and start preparing a simple budget. When your tracking is done, set budget categories and plan next month's spending. Maybe pick a date for your monthly "budget meeting". Get to it!

As you go, be teachable, and look for opportunities to teach. Find other people that are doing well, and learn what's working for them. Gather more material—books, magazines, the internet—and discover a new money skill or two. If you can integrate these new skills and ideas into your money life, before long you might even have other money underdogs curious and asking you what you're doing so well! When they do, remember what it was like to be a money underdog, and pass your skills on to them in a spirit of patience, compassion, and hope. If you can believe in yourself to win, you can believe in others for the same thing. Your action is what will make all the difference in the coming months and years of your financial life. Now you have a place to start. The question is, what will *you* do when you you've finished reading this?



Resources and links for more information

1) <http://moneyfunnel.wordpress.com/>

Visit my blog, where you can catch weekly bite-sized money tips. Send money questions to askmoneyfunnel@gmail.com and I might answer them on my weekly blog! Also watch for helpful new material. I'll see you there.

2) <http://www.daveramsey.com/>

I've learned more money wisdom from Dave Ramsey's books, radio show, and website than from anywhere else. Start by downloading the Podcast or reading "The Total Money Makeover" by Dave Ramsey.

3) <http://www.ANZMoneyManager.com>

This website is a smart tool which allows you to link all your bank accounts (regardless of your bank or credit union) and view reports and charts on your transaction history. You can also set budget limits with an alert SMS when you're close to your spending limit!

4) <http://fido.gov.au>

Fido is a government-operated website made to inform and education consumers. There's good information on financial products and general money tips.

5) <http://money.ninemsn.com.au/>

A great source for the latest financial news as well as helpful articles on all things money. Subscribe to *Money* magazine if you're really keen.

6) <http://office.microsoft.com/en-us/templates/CT101172321033.aspx?av=ZXL000>

For Microsoft Excel users: link here for great downloadable budgeting spreadsheets you can use right away.

Credit where credit is due

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4) Images and chart from Microsoft Office 2003, Microsoft Excel software.