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MENTOR
C A P I T A L

September, 2008

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Mentor Monthly Missive

Put Savings First With a Budget

Where does that money go? The country, it seems, is in the midst of a savings crisis. Personal savings rates have dropped in recent years and remain low by historical standards as many people continue to spend beyond their means. If you're among those Americans who can't seem to save, it might be time to create a budget. Whether you are young with child or retired, high-income or just making ends meet, thoroughly analyzing cash flow is essential because it provides the basis for the proper management of personal wealth. A budget allows you to understand where the money goes and may help you free up cash for important savings goals, such as college and retirement. Many people engage the services of a professional adviser like Mentor Capital to help them manage their cash flow. Having an objective third party involved can be well worth the expense.

Getting Started

Setting up a budget will require some work, but the benefits more than offset the time invested. How you create your budget is up to you. You may choose a piece of financial planning software, such as Quicken, or you may choose the paper and pencil route. The first element of any budget is your income, or how much money you receive each month. This can include wages, social security, alimony, fees, and dividends from investments that you do not reinvest. Once you know what your monthly income is, you can use a budget to make sure you don't spend more than you earn, thus helping to reduce debt and freeing up cash for savings. Next, you need to know how you spend your money. Start by tracking your spending for a month. Gather bills and receipts, and don't forget to include your morning coffee from your favorite franchise and trips to the vending machine. Make sure to list expenditures paid with cash also. Consider carrying a pen and paper to list your daily cash expenditures. Don't assume any expense is too small to record. After you write down your expenses, break them into categories. Fixed Committed Expenses -- mortgage, loan, and insurance payments that stay the same from month to month; Other Committed Expenses -- things you can't live without, like food, utilities, and clothing; and Discretionary Expenses -- things you like but don't necessarily need.

Less Spending = More Savings

Once you know where the money goes, it's time to analyze your expenses. There probably isn't much you can do about Fixed Committed Expenses without moving or getting rid of the family car. However, if these expenses are greater than your monthly income, you are probably carrying too much debt to effectively save. You may find some room to economize in Other Committed Expenses, but look at Discretionary Expenses first. This is typically the easiest place to reduce spending. Begin by canceling magazine subscriptions to titles you don't read. Eat fewer meals out, or choose less expensive restaurants. Across much of the country, you can rent two DVDs for the price of a single adult ticket to a movie.

Dig Deeper

Once you've reduced discretionary spending, look at those Other Committed Expenses. Can you reduce the grocery bill with coupons or more economical meals? How about taking public transportation instead of cabs? One area to closely examine is credit card debt. If a high balance is keeping you from saving, you need to find ways to trim those monthly payments. Call your credit card company and ask them for an interest-rate reduction, or shop around for a card with a lower rate. Beware of low introductory "teaser" rates that increase to much higher rates after six months. You could also consider a home equity loan, which may offer a tax

deduction. Make sure that you'll be able to afford the monthly payments before you take the loan. Banks can foreclose on a home equity loan within 90 days if you miss payments.

The Goal: More Savings

Once you've figured out where to economize, it is time to take action. This is to encourage you to pay yourself first, a key rule of saving. By setting aside a certain amount each month for savings, you can build toward your goal without missing the money. You may be able to set up direct deposits into your savings or brokerage accounts. Also look into any employer-sponsored retirement plans you may have at work, which potentially offer tax benefits along with savings for the future. It might also help to set a savings goal, both for short- and long-term needs. Studies have revealed that families with savings goals tend to save more. Remember that your budget is a living document. As your circumstances change, so will your goals and needs. Review your budget every few months to make sure it reflects your goals and to see if you are saving as much as you possibly can.

SUMMARY

- You can use computer software or a pencil and paper to create a budget.
- Analyze your spending for a month to see where your income goes. If your living expenses are greater than your income, you'll need to find ways to economize.
- Your spending can be broken down into three categories: Fixed Committed Expenses, Other Committed Expenses, and Discretionary Expenses.
- To free up cash for savings, begin by reducing Discretionary Expenses, then look at Other Committed Expenses.
- Pay down credit-card debt aggressively. Once the debt is paid off, direct the extra money to savings.
- Set aside some of each paycheck for savings goals (401k, IRA, Roth IRA, Savings Account, etc.)
- Review your budget periodically to make sure it is still in line with your needs and goals.
- Set a new savings goal for the year ahead -- such as saving 5% or 10% of income for retirement and other priorities.
- Ask Mentor Capital Management Inc. about our budgeting philosophy and expertise.



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