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Article

Article: Most Important Rules of Money Management

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The lack of money is often not our problem, it is the way we spend it. Wealthy people tend to spend money on things that increase in value or provide them with a return on their investment.

People who are not wealthy spend the bulk of their money on items that perish, depreciate or have no return on their investment. Even the family home, which is often the most expensive item that most people purchase, usually provides no return on their large capital outlay.

There is one main reason why people get themselves into financial difficulties. They simply spend more than they earn. The two ways of increasing wealth is to either increase our income, or decrease our expenditure.

Unfortunately, through increased exposure to advertising and access to products, we are constantly enticed into having more and more material possessions. The easiest way to resist this temptation is to establish a plan where we always save a little of our income and learn to control our debt. If we do this consistently and regularly, we will eventually form a habit - a good, lasting habit that will overcome our financial difficulties and lead us to financial freedom.

Money is there to provide security, satisfaction and joy in our lives, and we can have some of life's little luxuries along the way. However, while we are learning to manage our finances, we need to control our spending and allocate our money according to our needs.

Initially, this means we may have to eliminate wastage and extravagance, and identify the things we really need to lead happy, fulfilling lives. We need to remain conscious around our spending. We need to remind ourselves that every cent we spend - does count! Initially, this may mean we have to cut back a little, but it is only directed at wastage and extravagance.

I believe that extravagance and over-spending is just the other side of the 'scarcity' coin. It is often the belief that there is not enough that leads us into buying too much. It requires a mature, practical approach, which is within all of us, to become great financial managers. A little planning, a little discipline and often a bit of self-talk are all that is required. It just takes a moment to stop and remind ourselves to think long-term, not short-term.

The trick to economizing is actually quite simple. Before you part with your money, always ask, "Do I really need this? Will I end up wasting this? Is this an extravagance I can live without?" If you develop a little voice in your head every time you go shopping that asks you these three simple questions, and you listen to and obey the answers, you will automatically start to economize.

Economizing is not about living frugally. It is not about being miserly and not sharing your money. It is not about penny pinching and living without the things you really need. Economizing is simply about not wasting your money, not being extravagant and not buying things you cannot afford.

Here are a few ideas to help resist the urge to spurge:

1. Keep focusing on your long-term financial goals.
2. Prepare a monthly actual-to-budget variance analysis of where you spent your money. This may seem tedious but it always works wonders. Initially we may have good intentions but as time progresses, temptation can take over. If we see how we fared with our spending each month, it pulls us back a little. If we don't see it, we tend to forget and the overspending can easily get away from us.
3. Carry a small card in your wallet detailing your budget for luxury items. When that is spent - stop, and wait until next month.
4. Only buy what you need. Remember, wastage and extravagances are just the other side of the scarcity coin.
5. Learn to nurture yourself in less expensive ways. A \$30 massage may be better than that \$200 new dress.
6. Set up a separate savings account to reward yourself with the occasional luxury fantasy, maybe a week-end at some fabulous retreat. By putting away small amounts of your budget, you can save up for those sensational rewards rather than fritter it away on useless \$5 or \$10 items each week.

There is always the tendency to spend when we should be saving. The surplus money comes in and our automatic response is to go out and spurge. This is the very behavior we need to address before we can become financial stable.

We need to keep reminding ourselves of the one of the most important rules of money management: "Spend less than you earn", and then - and only then - can we surge ahead along the path to financial freedom.

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