

Cash Flow (1.5)



In this section we will answer:

- How can I plug spending leaks?
- What can I do to stick to my spending plan?
- How can I be prepared for unexpected money events?

Money flow letter

Dear Blabby,

Wow, do I need your help! In May I landed my dream summer job working as a caddy at the Rolling Hills Golf Course. Each week I worked about 30 hours at \$6 an hour.

Earning an average of \$180 a week was nice. Plus, I earned at least \$50 each week in tips! It's now the end of August and I don't know where my money went.

Right after I got the job, I repaid the \$40 I owed my sister, and bought a few used video games. I was paid twice a month. Each month I used part of my first paycheck to pay my share of the family cellphone bill and my share of the car insurance. I also had to put gas in the car every other week so I could get to and from work. Although I used my employee discount, I guess it wasn't a good idea to buy lunch each workday at the golf clubhouse. In June I bought concert tickets. In July I spent the day at Six Flags amusement park with friends, and then I got a speeding ticket on the way home from the park. Last month, I had to take off a full week of work to recover from getting my wisdom teeth pulled. Now I just found out that I need to pay \$500 for the senior class trip. It seems that my money has just disappeared. Can you give me advice to control my cash flow?

Cruise to the finish line

Once you've developed your plan, you're ready to put it into practice. No one else can do that for you. Of course, knowing what you should do doesn't mean that actually doing it will be easy. The good news: We've got some tips and strategies to help you get rolling.

The basics of maximizing your money comes down to **cash flow**—the money flowing into your pockets as income and flowing out as expenses and debt. It doesn't matter who you are or how much money you have, maintaining a balanced cash flow is crucial. Even Oprah Winfrey has to plan ahead and set aside money to pay a big tax bill.

“Most people fail to realize that in life, it's not how much money you make, it's how much money you keep.”

~ Robert Kiyosaki, author of Rich Dad, Poor Dad

Stay on course

All the planning in the world is useless unless you're committed to being responsible with your money. The sooner you choose to accept that responsibility, the sooner you'll feel more in control of your finances and your life.

So, how do you stay on track with your plan?

Use your spending log as an “early warning system.” Continue to keep track of what you spend, and you'll immediately see when you're starting to spin out of control in an area. Also, just having to record what you spend can help stop you from making a bunch of small, silly purchases.

Create an emergency fund, which will give you a money cushion when you're sideswiped by a big, unplanned expense that might throw your budget off course.

Share your plan with others. Recruit a friend or family member to hold you accountable and ask you from time to time how your plan is going. Knowing that someone is going to check in with you will inspire you to keep following your plan.

Have a system to manage and track your money. Use a system that is convenient for you—such as an envelope system, weekly receipt tally, checking account register, spending plan spreadsheet, or mobile recordkeeping application.

DID YOU KNOW?

In May 2011, more than 10,000 people around the world undertook the Live Below the Line challenge to live on just \$1.50 worth of food and drink each day for five days—what 1.4 billion people around the world must get by on every day.⁴

⁴www.livebelowtheline.com

Money 911

Sometimes, the money runs out before the month does. When that happens, you have to look at how you can balance your income and expenses to make your budget work. You can balance it only two ways:

- Increase your income.
- Decrease your expenses.

Of course, you're always free to do both!

Get a bugger bucket

Remember the bucket of rocks? When you have too many expense rocks, one way to make them fit is to get a bigger income bucket.

The most common way to increase income is to get a job. If you have a job, you can try for a better-paying one, or ask for a raise, or put in for more work hours.

Even busy teens can find ways to make extra cash these days. Consider this high school sophomore in Arizona: He plays varsity sports six months of the year but still finds time to help local business owners' market on the Internet and to "flip" cars he buys at local government auctions.

Michael plans to ask for a raise at work, but he's also going to offer tech help to residents of a nearby retirement village. Selena is going to decorate photo frames with beads and sell them at an upcoming community yard sale.

Activity 1.9: My income options

Directions: What are two to four ways you can realistically bring in more cash?
Hint: Think about skills or talents you have that other people might need or want.

Plug your money leaks

Ideally, your income bucket is built to hold your expenses rocks. Unfortunately, most people have buckets with holes. Money constantly seeps out, so that the bucket is empty when money is really needed.

Michael realized he gets a parking ticket at school at least once a month. He knows it's because he's often late and the student parking spaces are filled up. He decides he'll start leaving for school 10 minutes earlier so that he can park legally and not get ticketed.

Selena thought about the curling iron that never worked and the books she's bought but never read. She decides that in the future she will check for reviews online before buying personal care appliances, and she's vowed not to buy more books until she's read the ones she has.

7 ways to strike back

One way to make your money go further is to fight back against all the sneaky ways that stores, shopping websites, and even restaurants lure you into spending more money with them. Here's how to make sure you're the one in the driver's seat:

Plan for success. Decide how much you'll spend before you even leave home. Make a list of what you'll buy. Set a dollar limit on unexpected great deals and impulse purchases.

Limit temptation. Pay with cash. Debit and credit cards make it easy to overspend. Counting cash out makes you automatically think, "Wow, is this really worth it to me?"

Research your bigger purchases. Read reviews in magazines or on reliable websites. Talk to knowledgeable people you trust. Compare prices by checking other stores or searching online. Taking a little time before buying can save you many dollars and regrets later.

Think "used" instead of "new." You can save a lot of money by buying "gently used" clothes, video games, DVDs, sporting goods, and books. "Refurbished" electronics typically look new and act new, and often come with warranties. There are even websites for trading your books, games, and DVDs with others.

Look for discounts before you go. Look for coupons online, in catalogs, or in local newspapers. When you are in a store, ask at the customer service counter about any sales, specials, or coupons.

Don't shop when you're on top of the world ... or feeling blue. Whenever you're really up or really down, you're more likely to buy on a whim. Unfortunately, the feel-good effect of your purchases will likely wear off before you get home.

Don't shop when you're dieting. Researchers have found there's a limit on the amount of self-control a person can manage in one day.⁵ So, if you've been dieting, working too hard to have fun, or otherwise depriving yourself that day, you may have tapped out your reserves of self-control. Stay home to prevent letting loose with impulsive purchases.

Adding it up

Michael and Selena feel pretty confident with their spending plans and strategies for making the most of their money. Michael is less stressed about his financial situation these days. He likes knowing that when he buys something, he has enough money. He's even convinced his younger sister to start saving her tips from her ice cream parlor job so that she can buy the TV she's been wanting for her room.

Selena showed her dad her goals and spending plan. Every month when they make the trip to deposit her PYF money, they talk about how her plan is working for her. She's also noticed that he doesn't grill her anymore when she comes home from shopping—a perk she didn't expect.

How do you feel about the way you're managing your money now?

Activity 1.10: My Spending Leaks

Directions: Looking at your spending log, do you recognize any money leaks? If so, answer these questions about your spending:

<i>What do I wish I'd done with that money instead?</i>	<i>Will it take me longer to reach my financial goals now?</i>
<i>How can I reduce the impact on my situation now? (Return or sell the item, cancel the membership, etc.)</i>	<i>What will I do to keep from making the same mistake again?</i>

Challenge 1-D: My action plan

The habits you have now will continue as you get older. The sooner you replace ineffective money management habits with sensible habits, the better off you will be as you take on more financial responsibility.

For this challenge task, reflect on your spending habits and ways you can take charge of how your money is used. Add this Action Plan to your personal financial planning

portfolio. As your life circumstances change, refer to your Action Plan to check progress, modify your strategies, or work on new habits.

Directions:

- ❑ 1. Apply what you have learned about managing spending as you complete this challenge. Preview the criteria listed in the Scoring Guide to plan for the assessment.
- ❑ 2. Think about how well you manage your money now. Regarding your spending habits, assess what you do well and ways that you can make improvements. Use the space below to brainstorm ideas.
- ❑ 3. Devise a plan for specific actions and habits you can apply to be in control of how your money is used. The Action Plan should take into consideration your current circumstances and values. You may want to ask trusted friends or family members for input based on their experiences and observations of your current habits.
- ❑ 4. Self-assess your work using the Scoring Guide. Optional: Ask a classmate to peer assess your work using the Scoring Guide.

I think I do a			Job of managing my money.		
What I do well:		What I need to improve and the consequences of ineffective habits:	Strategies that will help me stick to my action plan		