



PART 3: THE BUDGETING TOOL VIDEO TRANSCRIPTION



Welcome to Part 3 of the Finance Your Detour program. Part 3 is all about preparing you to use the Budgeting Tool. In this video lesson, we are going to focus on some key concepts and terms that will help you when you begin using the budgeting tool.

Here are the objectives for this video lesson. First, we want you to understand our monthly approach to budgeting, and how it differs from other common approaches. You will learn all the key terms and concepts that are used in the budgeting tool so that the tool will be simple and easy to use. AND you should also learn how to actually use the budgeting tool. Note, this lesson specifically will not cover the last objective, but you will find a link to 5 short video training tutorials in the resources/downloads section below which will walk you through using the template.

Alright, let's take a few minutes to discuss some really important concepts.

For most people, when they think about budgeting or monthly financial planning, they think about it very logically. It's really a simple equation. You have a certain amount of money that comes in, you have an amount of money that goes out, and then at the end of the month, hopefully you have something left over.

Ok, let's take a look at this more in depth. Your paycheck (or whatever income) you make is the money coming in.

The money that goes out is made up of two different things, fixed expenses and monthly purchases, also known as variable expenses.

PART 3: THE BUDGETING TOOL VIDEO TRANSCRIPTION

Then at the end of the month, you subtract your expenses from your income and that's your savings... again, hopefully. Have you ever gotten to the end of the month and asked yourself where did all my money go? This used to happen to us. We would want to save really bad, but we felt like we just couldn't. That's when we decided to change the way we approach this process.

When we think of money and savings in this way, we tend to believe we need to make more money to save more money.

Unfortunately, it doesn't really work that way. Over the years, we have made more and more money. We met in college when we both worked in the restaurant industry. Then we moved from this job to that job as our careers matured which allowed us to make more money than we were in the previous job. The strange thing was that even though we were making more money, we weren't getting any wealthier.

As it turns out, the more money we make, the more money we spend. It's great to make more money, but more money is not the real solution to the problem of building wealth. Building actual wealth requires a financial plan or a roadmap, just like this roadmap that we covered in the last section. And the budgeting tool is the way to help you make sure that you are following the steps in the roadmap.

So, if you want to start building wealth and saving money, you have to pay yourself first. You must stop thinking of savings as the leftover amount and start thinking about it in the same way we think about a bill that is due every month.

When you do this, the equation changes. Savings gets treated like a fixed expense, and combined with zero dollar budgeting, you give every dollar a job. Once savings is not considered optional, your focus then is on your monthly purchases and making sure that you are planning for and then spending only what you have allowed yourself to spend. If you hold yourself to your budget, then you can guarantee that you will have paid yourself and put some money away!

This is important because now you are being proactive with your money instead of reactive. Keeping a budget is less about restricting your spending and more about awareness and being in control of your spending. When you give every dollar a job, whether that job is to pay for your car, your house, a night out on the town, or groceries, you control your money and your money doesn't control you. Your relationship with money, and saving money will change.

PART 3: THE BUDGETING TOOL VIDEO TRANSCRIPTION

Let's clarify something before we move on. When we talk about treating savings like a fixed expense, savings could mean something different depending on where on the road map you are. If you are saving towards your \$1,000 emergency fund, then that's what savings means to you. If you are paying off debt, then the quote unquote savings amount is the extra amount that you will be applying towards your debt payoff plan. Lastly, we like to treat our charitable giving as a fixed expense too, because just like with savings, if you treat it as a leftover amount, it will never happen. In the previous example, the term savings could represent any of these scenarios.

Now we are going to quickly cover some key terms that you will find within the budgeting tool.

Fixed expenses are those recurring items that you pay each month...you know these because we all dread them...our bills. Things like mortgage, rent, a cell phone bill, and utilities are all fixed expenses. They are fixed because they normally don't change very much and you have a pretty good idea from month to month what they are going to cost.

Disposable income is often called discretionary income. This is the amount of money that you have available once you account for your fixed expenses. Therefore, you really get to decide how you spend this money.

Monthly purchases are just that. They are the various items that you purchase using your disposable income. Our budget program really focuses on these purchases...for most people, this is where they really lose track of their of money because they don't have a good system for categorizing their expenses and tracking them over the course of the month.

Zero dollar budgeting is when you budget down to the very last dollar. When you do this, you are effectively assigning a job to each and every dollar. This is the best way to budget.

Budget Category helps you categorize your monthly purchases. When you eat at a restaurant, that type of purchase may fall into a budget category called dining out. You are in control of the categories and you are in control of assigning how much money should be available for each category.

So now looking back at our example from before, let's see how these terms enter the equation.

BUDGETING TOOL VIDEO TUTORIALS TRANSCRIPTIONS

Fixed expenses is equal to your bills plus your savings (and possible charitable giving)

Your income minus your fixed expenses equals your disposable income. Disposable income is what you use to make monthly purchases

Monthly purchases are placed into budget categories

And zero dollar budgeting puts your money to work, including planning for your budget categories, savings, and fixed expenses.

Alright, one last thing before finishing this lesson. You will see a Cash Balance box on the monthly dashboard of the budgeting tool. This may confuse you a little bit the first couple times you use the tool.

Cash balance is straightforward. It is the amount left after you subtract all of your expenses, both fixed and monthly purchases from your income.

It is designed to help you see how you are doing as well as give you a final grade at the end of the month.

During the month, you want this to be a positive number - that means you haven't spent more than you earned. If it is negative at any point, this is bad because that means you have spent more than you earned. At the end of the month, you want your cash balance to be as close to \$0 as possible. That will mean that you followed your zero dollar budget and everything went according to plan.

That brings us to the end of this lesson. You should now be familiar with how our monthly approach is a little different and why it is so important. You should also be familiar with the key terms and concepts that will help you be successful when using the budgeting tool. This is now a good time to go to the video tutorials in the resources/downloads section below so you can watch the brief training tutorials.

Thank you for watching and see you in Part 4.