

Managing Cash Flow By Right Spending

Some financial advisors recommend a rigid approach to spending: a certain percentage of income for housing, so much for food, this much for installment debt and so on. Others take a simpler and more flexible approach, dividing expenses into needs and wants.

Your first priority is to tithe the tenth (10%) that belongs to God. Tithe to your local house of worship. This is the place you receive your spiritual care. Next, put away 10% for savings and investing. Take care of yourself by setting goals, then treating those payments as fixed expenses. Suppose you have two children to put through college and you want a comfortable retirement. The first checks you write each month should be to your IRA, 401(k) and college savings plans.

Then come your living expenses. Roughly 70% of your money is already spoken for by needs such as rent or mortgage, utilities and taxes. Those are pretty much fixed expenses, although you can reduce taxes with proper planning. Those are needs; then you can worry about the wants.

Once needs are met, about 10% is left for debt reduction and other wants, and that's where you begin making choices. You can buy new cars or used ones. Food is very discretionary — you can choose to eat very well or just a basic menu. And clothes — you need appropriate clothing for work, but after that there is a lot of leeway. Every type of expense requires similar thinking. For instance, some heavy readers stock up on books and subscriptions, but you can use the library instead and save money.

Many people underestimate (or overspend on) gifts. There are many more occasions to give than just Christmas and birthdays. All those baby showers and graduation gifts can add up. Take a hard look at what you spend for gifts.