

How to stick to a budget

Mini-guide



Matt Hern CFP[®]

Budgeting, just like exercising and dieting is not something most of us naturally want to do.

So, if you're reading this mini-guide I imagine it may be for one or more of the following reasons:

- You want to stop living pay-to-pay
- You want to eliminate your credit card and other personal debt
- You have a specific life event or experience you want to save up for
- A well-meaning family member or friend told you to read this

They are all good reasons to *start* budgeting.

If you want to *stick to a budget* even after you've achieved that initial goal, you need a reason to *continue* budgeting,

Saving creates wealth and financial independence

Just like the real reason to lose weight is to become healthier, the real reason to budget is to become financially healthy.

*Budgeting creates financial fitness,
just like exercise creates physical fitness.*

What most of us ultimately want is to be financially independent. I define financial independence as the ability to quit work on our terms, with the lifestyle we desire.

The journey to financial independence is similar to the journey to physical independence.

First babies roll, then crawl, then pull themselves up onto furniture, walk and eventually run.

The journey to financial independence is illustrated below in what I call the Six Stages of Wealth Creation.

Stage	Outlook	Target	Focus	
Mastery	Forever	Multi-millions	Distribute	Wealth
Competence	Early retirement	\$1 million	Master	
Confidence	Retirement at 67	\$640,000	Accelerate	
Stability	5 Years	\$100,000	Plan	Cashflow
Security	Year-to-year	\$10,000	Save	
Survival	Pay-to-pay	\$1,000	Control	

Figure 1: Six Stages of Wealth Creation, Matt Hern

Controlling your cash flow is the foundation skill to creating wealth and achieving financial independence.

In the table above I have noted this as 'retirement at age 67', but you need to define it more specifically for yourself. We may still choose to work after this point, but the key distinction is that we don't need to work for the money - we are working for the love of it.

If you're living pay-to-pay, then the most impactful action for your financial health is to develop a consistent saving habit through budgeting.

If you're living year-to-year, then the most impactful action for your financial health is increase your saving rate so that you won't need to borrow for predictable life experiences that occur within the next five years.

Typical budgeting advice is 'wrong'

The typical advice about how to cut your spending is only partly right, which is why many people struggle to stick to a budget.

- It's not about tracking your spending
- It's not about budgeting spreadsheets
- It's not about setting a SMART goal

They are useful tools, but alone they will not help you stick to a budget.

As futurist Gihan Perera told me, goals that are SMART (specific, measurable, achievable, relevant, and time-based) are great for goal setting but terrible for goal *getting*. They don't provide any instruction on the actions you need to take to achieve your goals.

Additionally, both successful and unsuccessful people often have similar goals. What differentiates them is their system, says author James Clear in *Atomic Habits*.

*"You do not rise to the level of your goals.
You fall to the level of your systems."
James Clear, Atomic Habits*

Tracking your spending sounds like a good system, but it doesn't help much more than tracking your calories helps you lose weight. Tracking creates awareness which may help motivate you to start and help you stay on track. But that is a supplement to your system rather than the cornerstone, which is why the advice is only partly useful.

Similarly, budgeting spreadsheets may be useful but only if you compensate for their fatal flaw. The flaw in most category-based budgeting spreadsheets is that they are too focussed on the present and don't prompt you to set aside money for predictable expenses that are two or more years away.

Automated budgeting tools that use your last three or twelve months of spending as a base share this same flaw. If you just use one of the many free budgeting spreadsheets you probably won't make it past living year-to-year.

Real reasons we struggle to stick to a budget

1. Don't know how

If at age 16 you were given a car without any lessons, supervision or a test, would it be surprising if you crashed on your first outing?

That is what happens to most of us with money.

When we get our first jobs, we are given access to the powerful 'vehicle' of an income with very little education or supervision. And having a credit card is like driving a turbo-charged vehicle.

So, if you've had the odd crash or two then it's okay to show yourself some compassion. Importantly though, use the experience to take responsibility for learning how to avoid further incidents. Implementing the advice in this guide is a great step.



2. Surprises



Perhaps you've already tried to learn about budgeting and have heard of the 'pay yourself first' method or downloaded a free budgeting spreadsheet.

People who try the 'pay yourself first method' of automatically transferring some money to a separate bank account often still have no savings on a year-to-year basis.

The common reasons they describe are bills cropping up that they didn't expect or didn't plan for.

Given the flaws in budgeting spreadsheets explained above it's inevitable people will be caught out.

A good budgeting system overcomes this challenge by incorporating a principle I call *planning for the predictable*.

3. Willpower

A challenge common to budgeting, dieting and exercising, in fact to all habits, is that of willpower.

We are constantly flooded with marketing messages, that fill our inboxes, social media feeds and environment. Marketers are skilled at crafting their messages to undermine our willpower. They've trained much more on how to get us to buy than we have trained on learning how to budget.



Often, we rely too much on willpower as the primary means of sticking to our resolutions. When inevitably our days become busy and stressful, we cave to temptation to boost our mood.

To stick to a budget, we need a system that relies less on willpower

4. Fear of Missing Out (FOMO)



One of the real challenges is that deep down *we don't want to* budget.

We don't want life to be boring, and budgeting, like dieting has become associated with missing out.

We all have an inner child that just wants what they want and doesn't want to be told "no".

This may sound somewhat similar to willpower, except that with willpower we want to change but temptation gets the better of us in the moment.

With this FOMO challenge, even with prime conditions we choose not to resist temptation and instead our emotional brain concocts a convincing story to justify the spend.

The good news is that I have an antidote for this fear.

How to WANT to budget

The antidote to FOMO is to expand your view of what you will be missing out on. In this way you turn FOMO into your special saving power.

Research by Hershfield et al published in 2011 found that people who were shown images of what they may look like in the future were more likely to save more. The images enabled people to better connect with their future selves.

You expand your view by looking over the horizon to those events, experiences and expenses that your future self will predictably encounter.

The purpose of managing our money is to have enough money for what matters most to us today AND tomorrow, all our tomorrows.

To help in seeing over the horizon I share the following cash flow planning model with my coaching clients:



Figure 2: Cash flow planning, Matt Hern

This model follows the principle of prioritising what matters most that Stephen R Covey taught for time and task management in his bestselling book 'First Things First'. You may be familiar with the 'big rocks' metaphor he famously used.

Importantly, the definition of what matters most is entirely personal and based on your values system. The cash flow planning system applies to everyone.

*To afford the life you love
'Save for the Significant and Minimise the Insignificant'*

Create your budgeting spreadsheet around those six categories and you will have a more accurate definition of what is truly affordable.

The expenses you end up cutting are the less meaningful ones you barely miss and won't remember. Due to being less meaningful they require less willpower to eliminate because we have less emotional attachment to them.

This model also serves to minimise surprises by illuminating expenses you need to consider when *planning for the predictable*.

If you are just starting to budget, it's probable that most of your spending is in the bottom three categories. The surprises are those infrequent essentials and comforts that you can't or won't forgo so end up on the credit card.

To begin taking control of your cash flow start bottom-up on the model in manageable increments or 'projects'.

How to STICK to a budget

Budgeting is not tracking your income and expenses. Budgeting is a system of saving and spending behaviours, which if consistently repeated become healthy money habits.

To stick to a budget, you need a *system* that relies very little on willpower so that even in your weaker moments you can stay on track.

In the New York Times bestselling book *Atomic Habits*, James Clear describes the sequence of forming habits as being cue, craving, response, reward. Clear refers to this as "the habit loop", illustrated below.

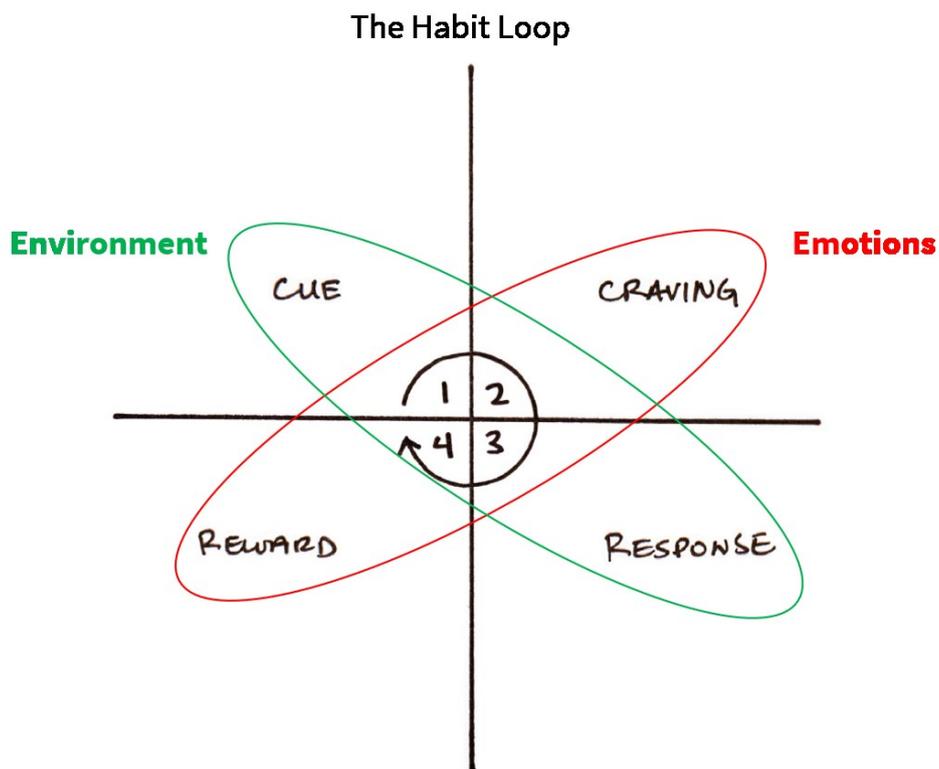


Figure 3: The Habit Loop, James Clear, 'Atomic Habits'. Additions of Environment and Emotions by Matt Hern

Your exposure to cues and your ability to perform the response are impacted by your environment.

The craving you have and the reward you receive often are about how they make you feel.

We struggle to stick to budgets for the same reasons we struggle to stick to diets and exercise programs: emotions and environment.

To stick to your budget the two keys are:

- Design your environment for success
- Harness your emotions

Design your environment for success

In consciously designing your environment you make succeeding almost automatic and blowing your budget very difficult.

Therefore, you can rely less on willpower and still consistently save even when life gets busy and you're tired.

Five ways to redesign your environment are:

1. Remove temptation
2. Compartmentalise
3. Automate
4. Restrict access
5. Track and report

Harness your emotions

Since spending feels good, to stick to your budget it's important to make not spending and saving feel good too. In doing so we are hacking our brains for our benefit.

Five ways to harness your emotions are:

1. Do what you want to
2. Save for the significant
3. Celebrate good decisions
4. Be held accountable
5. Make trade-offs visible

Those last two methods help you stick to your budget by making over-spending feel bad. This motivates you to make a healthier choice, which you make feel good by celebrating.

No, I don't mean celebrate by buying something. Do something free and instant that triggers the same feel-good chemicals in your brain, so that you are more likely to want to repeat the behaviour. A high five, a fist pump or a smile will suffice. I like to say "nice work, Matt" while I perform the celebratory action.

Create your budgeting system

*"If you haven't started, then taking action is more important than finding a better strategy."
James Clear, Atomic Habits*

As I wrote earlier budgeting is a *system* of saving and spending behaviours, which if consistently repeated become healthy money habits.

To achieve your goal that led you to read this mini guide your next steps include:

1. Find a budgeting system
2. Adapt it to your goals, situation and environment so you maximise the chance that you will succeed.
3. Choose where to start
4. Stick to it
5. Build on it

A great starting point would be to join my community to receive weekly articles on how to be financially fit and healthy.

Join my community at www.MattHern.com.au/subscribe

"Working with Matt has really changed my life!

Matt made budgeting very easy to understand and offered great support as I implemented his system, providing valuable insight and advice.

The system Matt taught me has given me a new sense of clarity, freedom and confidence. I finally feel that financial management is no longer a burden.

Matt's expert help has been money well spent!"

Leah Dowsett

Personal support to build a budgeting system you stick to

Changing our behaviours on our own can be difficult and slow.

I offer personal coaching to help you design *your* environment for success and harness *your* emotions. You could do it yourself - I will smooth and accelerate your journey.

In a way I'm like a personal trainer for your financial fitness.

We work together to get you financially fit and on track to your goals.

Financially Unfit	Financially Fit	
Lifestyle fuelled by debt	Debt free	
Pay interest	Earn interest	
Impulsive	Methodical	Behaviours
Off-track	On-track	
Overwhelmed	Clear	
Stressed	Confident	Feelings
Struggling	At ease	
Feeling trapped or stuck	Feeling free	
I'm bad with money	I'm good with money	ID

Figure 4: Characteristics of financial fitness, Matt Hern

I will:

- Teach you a budgeting system, including:
 - How to set up your accounts
 - How to set your affordable budgeted amounts
 - How to identify where to trim any excess
- Support and advise you on personalising the system, including:
 - Where to start
 - How to build up to the full system
- Provide accountability to help you embed new healthier habits

To learn more about my coaching call me on 0400 225 955 or e-mail matt@matthern.com.au

I offer a complimentary, obligation-free discovery meeting to explore if coaching is right for you right now.

About Matt Hern CFP®



I am a specialist budgeting coach who helps people create a budget they can stick to so they can spend smarter, reduce debt and achieve their saving goals. In a way I'm like a personal trainer for your financial fitness.

Since 2003 I've advised people on the right financial decisions to achieve their goals, working as a Certified Financial Planner™ professional. Clients I've advised have achieved goals such as being mortgage free by age 40 and having both parents able to work part time while their children are young.

What makes me different is that I take a behavioural approach to wisely managing your money.

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