

MONEY-SMART MILLENNIALS

How to Be Financially Stable in Your Twenties
and Early Thirties

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PART I

CHAPTERS III AND IV

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Chapter III: It's time to create a budget

You know the big-ticket expenses in your life, but all the smaller spending can also be a killer. Take a look at your monthly outflow, and I guarantee you will have a few "Yikes, I had no idea" moments. - Suze Orman

In 2015, Melanie's salary was \$45,000. Factor in the wonderful Uncle Sam taxes and as a single girl, she netted about \$38,000. Here we are in July, it's close to the end of the month, she has thankfully paid her rent and she is about to overdraw her checking account. She starts thinking. It's soon August, which means she has already made more than \$22,000 this year but, her

*Would you invest in You, Inc.
today?*

bank says she absolutely nothing. Melanie has worked a few extra hours this

past week to make some overtime income, but where did it all go? Well, for many of us millennials, a large chunk of our money goes towards food. Per Gallup, people 18 to 29 spend an average of \$173 per week on food and those 30 to 49 years old spend an average of one 167¹. Interestingly, people making \$75,000 or more reported spending \$180, only about ten dollars more than millennials whose median income is \$35,000².

Imagine a corporation which does not have a budget and accounting staff. There are no exact figures for revenues, expenses, profits and assets. Nobody knows whether the corporation is

dramatically losing or succeeding. Would you invest in such a corporation? The answer is a big NO. Just like a corporation, you are a financial entity. Let's call you 'You, Inc.' You, Inc. is an entity with revenues and expenses. Would you invest in You, Inc. today?

Knowing how your income is spent is essential to managing it well and efficiently. In fact, Bankrate.com says that failure to set up a budget is the number one financial mistake millennials make³. For Heather and I, using a budget was one of the best decisions we'd ever made in regards to our money.

The How

This portion of *Money-Smart Millennials* is very technical. It requires your participation. If you are not a numbers person and do not care about mathematics at all, you will still be able to accomplish the task.

However, this is not about downloading an app from Google Play or the Apple Store. Those are useful tools. Nonetheless, I

have not found one that reminds you that your student loan payment is due in two days and advises you not to buy the new pair of Jordan's. The purpose of the technique I am about to show you is to give you the tools to make adjustments in order to reach

Our generation is known to quit too early and to be distracted too easily. Let's prove them wrong. Use your goals as your motivation and be determined to reach the finish line.

the goals you have written down. Unless you've generated a passive income stream for yourself, you've worked to make your money. You were active for eight, nine, ten or twelve hours of your day for weeks. Millennial, you must be active with the management of your finances too. Financial stability is not passive. It does not happen by accident. So, let's get started.

Using Microsoft Excel or in your Google sheets, create a spreadsheet with 5 columns and 33 rows. From the left to the right in the first row, name the columns as follows: Monthly Bills, Due Date, Amount Due, Balance, and Paid. Under Monthly Bills, write Starting Balance. Then from the third row under the Due Date column, insert in the cells the numbers 1 through 31 matching the row numbers. Add colors at

your own discretion. Here is an example.

Monthly Bills	Due Date	Amount Due	Balance	Paid
Starting Balance				
	1			
	2			
	3			
	4			
	5			
	6			
	7			
	8			
	9			
	10			
	11			
	12			
	13			
	14			
	15			
	16			
	17			
	18			
	19			
	20			
	21			
	22			
	23			
	24			
	25			
	26			
	27			
	28			
	29			
	30			
	31			

On a separate sheet of paper, write down a list of every single bill you pay each month. Next, write on the same sheet of paper the amount of your weekly, biweekly or monthly paycheck. If you are paid hourly, compute the average of your past 8 regular paychecks and jot down that figure. Notice here that we are considering your regular paycheck. If you were sick for two days during a certain week or worked overtime, do not consider that paystub.

Bills

Rent

Car Insurance

YMCA membership

Bank of America credit card

Amex card

Netflix

Phone bill

Electricity bill

Water bill

Paul School loan payment

Jess school loan payment

Paul's car loan payment

Jess' car loan payment

Cable bill

Internet bill

Paycheck

Paul: 1st and 15th of the month -

\$1457

Jess: Fridays biweekly - \$1290

Let's go back to the spreadsheet and add the monthly bills (and their corresponding amounts) and your paychecks in accordance to their respective date of the month. If your pay dates vary each month as you are remunerated every other Friday for example, determine which dates they would fall on next month. Your spreadsheet should now be similar to the following. Good job!

Monthly Bills	Due Date	Amount Due	Balance	Paid
Starting Balance				
Paul's paycheck	1			
	2			
	3			
Rent	4			
Car Insurance	5			
Jess' paycheck	6			
YMCA membership	7			
Netflix	8			
	9			
Phone bill	10			
	11			
BOA credit card	12			
Paul's car loan payment	13			
	14			
Paul's paycheck	15			
Internet bill	16			
	17			
AMEX credit card	18			
Electricity	19			
Jess' paycheck	20			
	21			
Jess' car loan payment	22			
	23			
Cable	24			
	25			

	26			
Water bill	27			
Paul's school loan payment	28			
	29			
	30			
	31			

You should be starting to see how your finances play out each month. There are still a few steps leading to the full picture. The time has come to input dollar amounts. For the Microsoft Excel novice or Google Spreadsheet amateur, feel free to get help on this step. We are not all the meticulous type; so, going into so much detail may not be your cup of tea. I do understand. However, I encourage you to be persistent and finish the task. Our generation is known to quit too early and to be distracted too easily. Let's prove them wrong. Use your goals as your motivation and be determined to reach the finish line. In your spreadsheet, in the cell under Balance, enter the dollar amount in your checking account at the beginning of the month. Below that amount, we will enter the following formula: *sum of the cell above and the cell of the bill*. Press Enter then drag the formula all the way down to the last cell in the

Balance column.

Monthly Bills	Due Date	Amount Due	Balance	Paid
Starting Balance			756	
Paul's paycheck	1	1430	2186 (F6)	X
Medical bill	2	-50 (E7)	=sum(F6+E7)	X

In the 'Paid' column, enter a X next to the specific bill once you have paid it.

Now you have a better understanding of your overall finances. Did this step totally go over your head? Do not worry, you are still in the race. Feel free to use the budget I have designed for you. I invite you to visit subscribe to *Money-Smart Millennials* website at www.moneysmartmillennials.com. Click on the 'Budget Template' page and simply request access to download the file. It already has the formula computed.

Let's now add the various expenses which do not necessarily fall under a bill category. They may be fuel expenses, lunch, groceries, etc. Go ahead and add a row for savings. This may be at the beginning of the month, at the end of a month, or a couple of times per month according to your personal situation. Before I show you how to input these expenses into your

budget, let's do a quick-thinking exercise together.

The indispensable expenses

Expenditures such as fuel, lunch food, groceries, public transportation for some of us, etc. are inevitable. We know they're coming and we also know how much they cost. So why not plan for them? Heather and I have found that being specific about these expenses have saved us thousands of dollars over the years. We have incorporated them into our budget and chosen to regard them as bills which have due dates.

1. Fuel expense: A few years ago, I figured that I was spending about \$30 in gas every week. That was about a full tank of gas for my Nissan Sentra sedan. Heather had a longer commute than I did, so her cost was about \$50. We decided that we were going to get respectively \$30 and \$50 of fuel once a week, even if we ended up not fully filling the tank. Could we have gotten more? Of course, we could have. However, it allowed us to input this into our budget and more importantly, it gave us a sense of where our bank account would stand every time we got fuel in our tanks. At the time, we had just gotten married and our money was quite tight. Figure out how much your weekly commute costs you. Whether you are driving or utilizing public transportation, there must be a

fixed cost. Next, choose a day to input it in your budget. For us, it was Sundays.

2. Lunches: How much money do you spend for food every day? This includes breakfast, lunch and snacks. If you are like the average millennial in today's America, you are buying between \$20 and \$25 worth of food every day. In other words, your weekly food 'bill' is approximately one \$140 and up to \$175. Just as you did for your fuel expense, pick a day of the week to insert this bill in your budget. You must determine a specific amount for your or your household. Once you have a number, my suggestion is to withdraw that amount from your checking account on the day which you chose for your budget. Then leave your apartment or house daily with \$25 in cash and spend no more on food.

How do we add these expenses to the budget? Simple. Once you have elected the day to get cash from your checking account for food, refer to a calendar for the specific date of the month which corresponds to your day. Then insert a new row in your budget for that specific 'bill'. Eventually, you

will have the same day of the month for multiple bills.

This step of creating a budget is simple, but not easy. Creating this budget on a regular basis will

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We must remember that motivation only gets us going but discipline keeps us going.

require time, dedication and persistence. Make time to edit your budget for the upcoming month(s). More importantly, set aside a time slot

to review it on a regular basis. Unexpected purchases happen and when they do, you will need to add those debits to your budget. That is where discipline is a factor. Dear friends, any worthwhile accomplishment in life demands discipline. Anyone who aims at being physically fit must not only set a time to exercise, but also maintain consistency at it. Similarly, being financially fit requires dedicated time and discipline. We must remember that motivation only gets us going, but discipline keeps us going. James Allen said: 'Men are anxious to improve their circumstances, but are unwilling to improve themselves; they therefore remain bound.' Don't let that be you. Ask yourself: am I ok with what my financial picture will be if I don't build a budget and create discipline? Ultimately, this budget is your step to financial stability.

Chapter IV: Your budget is your financial GPS

You were born to win, but to be a winner you must plan to win, prepare to win and expect to win. - Zig Ziglar

Kyle and Jessica were trying to save an additional \$300 every month. Their breakfast and lunch budget was \$800 meaning \$20 each, every work day of the month. They decided to reduce their monthly eating out budget by \$200, an amount which would go towards the goal. Instead of spending \$20 daily, they would only spend \$15 for lunch. For breakfast, they decided to eat at home, adding a mere weekly \$15 (\$60 per month) to their grocery budget. They had figured out how to save an extra \$140. They also have a \$100 per month gym membership which included a \$25 fee for group classes. After being members for two years, they had only attended one class.

Consequently, the decision to drop the unnecessary fee, which now

brought their savings to an additional \$165 monthly, was very easy. Working and strategizing together, they eventually came

Most debtors or creditors will allow you to move your due date at your convenience at least once or twice during the life of the loan.

to a game plan that added \$350 extra to their savings.

Another client of mine, Anita, a 30-year-old music teacher had a \$315 car payment due on the 22nd of the month. She would usually make the payment on the

20th or 21st. Then on the 30th, her \$1200 rent payment would be due preceded by a \$125 car and rental insurance bill on the 25th and her student loan payment on the 27th. She would then receive her paycheck on the 1st day of the following month, usually short after her checking account was empty or had been withdrawn and penalized with non-sufficient funds (NSF) fees. Anita's challenge was that the bulk of her bills was all due in the second half of the month and in the span of one week. To create a balance in her budget for better management, I suggested rearranging her bills. Most debtors or creditors will allow you to move your due date at your convenience at least once or twice during the life of the loan. Take advantage of that option if it's beneficial to you. Anita contacted her car note lender, her insurance company and her student loan administrator and was able to move those due dates to the first half of the month. Although it did not change the amount she owed every month, it reduced her stress which was her ultimate goal.

I give you these two examples to show how by utilizing your budget, you will be able to unveil the hidden opportunities in your finances. I once heard successful entrepreneur Matt Grotewold illustrate it as follows. During a road trip, when you deviate from the route the GPS has chosen, it recalculates your itinerary using algorithms, getting you to the destination. Your financial goal is the desired destination. You do not have to come up with an algorithm for your financial goal, but you do have in your budget an effective tool that plays the same role.

Maximize that tool and you will achieve your goal by incrementally improving your finances every month.

When Heather and I first implemented this technique, it was exciting to feel and be in control of our expenses and assets. It wasn't perfect at the beginning, but we kept at it. This happened over five years ago. Today, our finances are in a much better place and consequently, we have become more flexible. As our income increased, our savings grew as well. Nowadays, I can get away with gratifying myself with a new toy purchase without feeling guilty. 'Do you then still follow a budget?' you may ask. Absolutely! Why? Because Heather and I have a bigger goal, more important than a 55" smart TV. You may be thinking

that you do not need a budget because you make enough money. That might very well be the case. The point is not to have such a

The point is not to have such a specific personal budget for the rest of your life, but to manage your money well enough today so that tomorrow, you live comfortably and without stress.

specific personal budget for the rest of your life, but to manage your money well enough today so that tomorrow, you live comfortably and without stress. Trust me, you will discover something about your finances that you haven't realized. Let me illustrate.

Rachel is a 26-year-old software engineer in Bethesda, MD whose salary is \$72,000. Her goal is to be a homeowner by 2021 and she wants to have \$60,000 saved for her down payment. Being a single girl and living with two roommates, it turned out that

saving \$15,000 (\$1,250/month) each year for the next four years was not a terrifying challenge. With her income, Rachel was not hurt by eating out four or five times a week. Nonetheless, every time I met with her, she would complain about being behind on her goal. Somehow, when the 30th of the month came, Rachel would not be able to transfer the desired amount to her savings account. So, I shared the budget technique with her. It looked great and we were both excited. However, there was an issue. Rachel did not incorporate her shopping habits. Together, we realized that Rachel was spending at least an extra \$150 every month shopping at department stores and sometimes upwards of \$400. Rachel loved shopping for new clothes on a regular basis. At an average of \$200 per month, she was delaying her savings goal by \$2,400 a year buying clothing and accessories. It did not seem like much to her monthly, but once we computed the yearly expenditure, she concluded that she did not need to spend so much on clothing. That was a huge chunk out her income. Here is the game plan we created. Every month, she would transfer to her savings the planned \$1,250 plus any additional money sitting in her checking account that she did not need. Then every fourth month, she would withdraw \$500 from her savings and go enjoy herself shopping. The result: she spent \$1,500 on clothing that first year implementing a budget thus keeping \$900 that she would have easily lost without even realizing. When you decide to use your budget as your guide, just like Heather and I had to figure out, you will find areas of improvement as you keep consistent. It's an inevitable part of the process. In any endeavor in life,

I have learned in my only twenty-eight years of existence that it takes many failures to achieve worthwhile success. Do not be discouraged if you stumble upon difficulties and setbacks. I assure you that it is normal.