

Select Portfolio Management, Inc
26800 Aliso Viejo Parkway
Suite 150
Aliso Viejo, CA 92656
949-975-7900
800-445-9822
info@selectportfolio.com
www.selectportfolio.com

SELECT Portfolio Management, Inc.
REGISTERED INVESTMENT ADVISOR
Money Management, Inc.
REGISTERED INVESTMENT ADVISOR

Developing a Spending Plan

Developing a Spending Plan

What is a spending plan?

Your spending plan is your active strategy for getting where you want to go. Think of your spending plan as a road map that helps you reach your goals, as well as give you a sense of direction. Your spending plan not only puts you in charge of how your money is being spent on a weekly, monthly, and yearly basis, but it also gives you a sense of control.

What are the steps to develop a spending plan?

It takes some time and effort to develop a spending plan that is right for you and your family. Of course, there are guidelines provided by experts that you can follow, but in the end, you need to develop a plan that you can follow. Here are the steps you can take to develop your own spending plan:

- Create a spending diary
- Identify out-of-pattern expenses
- Estimate your income

Create a spending diary

In order to develop a spending plan that is appropriate for your lifestyle, you need to understand your own spending habits. First, start recording all your expenses for at least a month. It is important to remember to include all expenses, no matter how trivial they may seem.

Create categories

It is important to understand the types of things you spend your money on, as well as the individual items. For this reason, you will want to make a list of categories under which you expect your expenses to fall into. You might want to include the following categories in your list:

- Housing (e.g., mortgage, property taxes, insurance)
- Food
- Transportation (e.g., car payments, gas)
- Other (e.g., entertainment)

Use a money management program

One way to track your income and expenses is by using an online money management program. An added advantage of a money management program is that it can link all your accounts with each other so you can access and pull information from your various accounts. It can also help during tax season by keeping track of all of your tax-deductible expenses.

Identify out-of-pattern expenses

Once you have created categories and listed all your expenses for a month, your next step is to identify your out-of-pattern expenses. Your spending diary will only give you expenses that you made during that period. However, there are many expenses such as insurance payments, holiday gifts, or property taxes that occur annually, semiannually, or quarterly. Look at your canceled checks, your checkbook register, and any other receipts for the last year that can identify all of your out-of-pattern expenses. Add all your out-of-pattern expenses on a yearly basis and divide them into 12 so that you have a clear idea of how much you need on a monthly basis for your spending plan.

Estimate your income

If you are getting a regular salary, estimating your income is easy. Write down your monthly income minus federal and state taxes, Social Security taxes, and any other automatic deductions. Add other income such as dividends, interest, and child support. Make



sure you include all types of income.

Tip: If you get paid weekly, biweekly, or semimonthly, you will need to convert your periodic salary to a monthly figure. For weekly paychecks, multiply your weekly income by 4.3 to get an accurate indication of your monthly income. For biweekly paychecks, multiply your biweekly income by 2.16. And for semimonthly paychecks (i.e., those who get paid on the first and fifteenth of each month), multiply your semimonthly income by 2.

If your income is irregular, you will have to start with the premise that your total income is somewhat predictable, but your paychecks come at uneven intervals. Look at your income over the last two years and project your income for the next 12 months. Divide that number by 12 and consider that to be your monthly income. Plan your spending with that income in mind. During months that you earn more than average, save the extra earnings for the months when you earn less.

Tips to keep in mind when creating your spending plan

Keep your spending habits in mind

People's spending habits do not change overnight so don't create a spending plan that is totally inconsistent with your current spending habits. Otherwise, you are likely to break that budget before it has a chance to succeed. Any budget that changes your lifestyle completely will be very hard to follow. If you are used to eating out at least twice a week and you create a spending plan that allows you to eat out only once a month, you are more likely to stray from the plan than if you create a plan that allows you to eat out once a week.

Keep it flexible

Any budget that is too rigid is likely to fail. In real life, unexpected things happen. Cars break down and friends drop in to visit, so keep some flexibility in your budget to take care of small occurrences.

Keep it easy

Create a system that is easy to follow. After your initial monitoring period, you don't have to record every penny you spend. The less record keeping you have to do, the easier it is to monitor your spending plan.

Keep some fun

Keep a small amount of money available for activities that you enjoy. If you create a spending plan that takes away all your fun, you will have a hard time following the plan.

Include all your categories separately

When you create your spending plan, assign exact amounts to each category and make sure that you have included all the categories. Often, people make a mistake of lumping too many expenses in one category or not creating a category for occasional expenses. That makes it difficult to track your spending and pinpoint exactly where your money went. For example, instead of creating a category for medical bills, separate them into doctor, dentist, etc.

Start with a six-month plan

Often, it is helpful to reevaluate your plan after a few months to see how you are doing, instead of creating a plan for a full year and trying to stick with it.

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice. State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters. The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors.

Advisory Services Offered Through Select Portfolio Management, Inc.

A Registered Investment Advisor

Securities Offered Through Securities Equity Group

Member FINRA www.finra.org , SIPC www.sipc.gov

Select Portfolio Management, Inc

26800 Aliso Viejo Parkway

Suite 150

Aliso Viejo, CA 92656

949-975-7900

800-445-9822

info@selectportfolio.com

www.selectportfolio.com