

# Chapter 4

## Why Budgeting is Essential

The single most important tool for resolving bad debt and avoiding its consequences is learning how to budget. It is essential to balance what you are earning with what you are spending, and the only way to do that effectively, for the majority of people, is to budget. In this section I will show you my easy and “pain-free” way to achieve the financial stability you deserve. But first, let’s dispel some myths which surround the word “budget.”

### **Anti-budgeters**

About 80% of the clients who come to me for help have never budgeted. They run the gamut from those who are unsure of how to get started, to serious avoiders, which I call “the anti-budgeters.” The latter steadfastly refuse to consider budgeting and have not made the connection that if they did, they would not be in my office. First I assure all my clients they made the right decision in seeking help, and then I show them how to put their financial life back on a healthy track.

### **William’s Story**

*My client William C. is a smart man. He earns a good living, has a lovely home and family, and a lifestyle that typifies the American Dream. He has one problem, however, which jeopardizes all of it— he is deeply in debt and refuses to budget.*

*“It’s not my style,” he told me. Then he asked, “I make a good living, so why am I in debt?”*

*William is a classic anti-budgeter. He does not equate the necessity of budgeting to solving his problem. He thinks it is something done in the office, not in the home.*

*First I had to convince William that without a budget his bad debt could not be resolved.*

*Second, I had to show him how easy and painless it can be. I will talk more about that in later chapters. William’s resistance is common and often based on fear — and no one likes to admit they are afraid.*

## **How to Confront the Fear of Budgeting**

Let’s talk start with these two questions:

- How much do you earn every month?

- How much do you spend every month?

If you cannot answer either — or both — then you have an issue with budgeting that might be rooted in a simple fear of the unknown. “To thine own self be true,” said William Shakespeare and, recognizing your fear is the first step to conquering it.

I had a client who was so paralyzed with fear due to mounting bills and bad debt that she placed all her bills and back statements *unopened* in a large shopping bag in a corner of her living room. She could not even look at them and was a classic victim of “financial avoidance.” She actually thought that she might fall victim to the “bag lady syndrome,” which is the fear of being destitute. She brought the shopping bag to our first meeting and it took hours to sort through the contents.

**Note: This fear is not gender-specific and crosses all socio-economic lines.**

No matter how bad things might seem, stay focused. Going into denial will only make matters worse. She accrued exorbitant overdraft fees and nearly ruined her credit score. Today, she is still digging out from under but on the right path with a budget. I also taught her the crucial difference between needs and wants.

## Needs vs. Wants

A budget is a list of money coming in and money going out. To create one you need both sets of figures, which I address later in this section. However, to stay on the right path financially you must also learn the difference between needs and wants in your spending habits.

The following is an essential question:

*What are you spending your money on?*

I ask my clients to make a list of all their monthly expenditures including mortgage, utilities, insurance, health, and household expenses. They are often surprised when we review needs vs. wants on that list. Surprise can turn to happiness when needs and wants are balanced properly.

*Example:* An electric bill is a necessity, but 250 extra movie channels are not. I have heard justifications for spending extra money on everything from season tickets and 500-plus

HDTV channels to daily specialty coffees (at \$5 to \$10 per cup) and shopping at expensive boutiques.

All of this is elective spending and there is nothing wrong with it — unless you are deeply in debt and trying to cut costs. I teach my clients how to trim elective spending and still enjoy “the good life” because trimming unnecessary costs gives you more money at the end of the month.

## Simple Budget Advice: Grocery Shopping

Today’s technology makes everything a little easier and that includes budgeting. Smartphones have calculators and I suggest you use them at the grocery store — or any store for that matter. Never go into a store without a list and a fixed amount of you want to spend. If you have budgeted \$100, only spend that amount. How many times have you said, “I went to the store for a carton of milk and spent \$50.” You would be amazed at how much money you can save with this simple system.



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### Life & Debt Tip

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Always bring a list to a grocery store  
and only purchase what is on the list.

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