

How To Set

Your Financial Priorities

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PlantingMoneySeeds
HELPING YOU GROW YOUR MONEY TREE

Introduction

It's common to complain about money. You don't have enough, or you are unsatisfied with your financial situation in general.

In many cases, this disappointment results from the fact that few people actually spend according to their priorities. When you know your financial priorities, it's much easier to keep your spending under control, spend on the things that are most important to you, and feel greater satisfaction with your finances in general.

Once you establish financial priorities, your whole spending plan changes. As your priorities guide your spending plan or your budget, you find that your spending reflects your values, and it's easier to feel satisfied about your choices.

As you review your spending, and compare where your money goes with what's important to you, you might be surprised at how much money you fritter away on things that you don't even like — much less need.

Priorities can stop this drain. When you prioritize your spending, you put the most important things first, and drop the items that you don't care for. It's one of the best ways to reform your overall spending plan and direct your resources toward the things and activities that will truly enhance your life.

Stop the mindless spending and learn to use your money to build your desired lifestyle.

What's Important to You?

“Too many people spend money they haven't earned to buy things they don't want to impress people they don't like.” — Will Rogers

Start by deciding what's important to you. What do you value, and why?

Don't reel off “values” that are popular, or that you think others approve of. As long as you continue paying money for things you don't care about, you'll be unhappy. There's a good chance you'll be broke as well.

Deconstructing the “Why” Behind Your Choices

We are encouraged from a young age to buy what others are buying and to follow the lifestyle path others are following. Few of us stop and think about what we want and why we're doing certain things.

Grow up, attend college, start a job, marry, have 2.5 children, buy a house, purchase a large TV, vacation at Disneyland, retire at 65.

Perhaps you want these things in your life. There's nothing wrong with that. What's wrong is using debt to buy a car that you think will impress your brother-in-law —even though you'd rather just buy a beater with cash and avoid the loan (or use the money for something else).

I have a successful freelance business (at least, it's successful enough for me), but people I know still ask when I'm going to get a “real” job. Because what I do is unconventional, and often considered a hobby, the assumption is that I can't possibly earn a living.

My husband and I also have a marriage that doesn't, in many points, conform to traditional gender roles. We still have a TV that is "only" 32 inches. Much of what we choose to buy and the decisions we make don't fit with the lifestyles lived by those around us.

We're not out there living an amazingly unconventional lifestyle — not like friends of mine that eschew most possessions altogether and travel the world — but we make choices that are subtly different than those around us. We always have enough money to pay for what we need, and we nearly always have enough money to do what we want.

The reason? We stopped doing what we were "supposed" to do and questioned.

"Why?" is the first question to ask as you create your priorities:

- Why do you want that car?
- Why do you want to go to Hawaii?
- Why do you want a job as an accountant?
- Why do you want a high-end bread machine?

Get down into the nitty-gritty of your decisions, and figure out what makes you tick. Question the reasons you are doing something. I know someone who wants to go to Hawaii because a number of family members she knows have been to Hawaii, and they all talk about the amazing things they do in Hawaii. She's been to Europe twice, and would rather spend her money on another trip Europe (a different part), but feels left out when the people around her talk about Hawaii.

It's hard to get beyond that, and it is difficult to cope with feeling left out, especially when you don't truly have the option of just cutting ties with relatives. But if you want to be happier with your decisions, it's important to get to the heart of the matter, and acknowledge the realities of your situation.

If the answer to the question "why?" is, "everyone else is" or "because I'm supposed to" that could be a clue that what you're doing isn't that important to you.

It's a sign that you're wasting your money on something.

Identify for Your Values

Now that you have identified the motivations behind your spending, and acknowledged that some of the things you've been spending on aren't the best uses of your resources, it's time to figure out what you value.

Think about what is important to you. What do you enjoy spending your money on? I like experiences. I like to see new places and try new things. These experiences are important to me. I think they're worth spending money on. I love spending time with family, and with people I like.

I also think it's important to give to charity, and to my church congregation. I enjoy the feeling I get when I read a good book. I feel that I should set some money my aside for the future, so I contribute to a tax-advantaged retirement account.

These are my own values. I'm interested in experiences, security, and my loved ones (my issues with making friends is another subject altogether). You need to figure out what matters to you.

Some people like to collect action figures. It gives them something to do, and they enjoy the thrill of the chase — finding those rare figures to add to the collection. Others find it fulfilling to work directly with underserved populations, rather than just giving money and not getting personally involved.

Break free from the idea that there are “right” and “wrong” answers. As long as you aren't harming anyone or breaking laws, whatever you find inside yourself is the “right” answer for you.

Consider what your ideal life would look like if you didn't need money to survive, and you didn't have to worry about what others thought of you. What would you do? What would you try to accomplish?

Most of us have goals and aspirations, and your values reveal themselves in the things you want to accomplish. Make sure that you own these values as well. You have to be comfortable with them, and comfortable with the fact that they might not always line up with others' values. Stop comparing yourself to others, and start comparing yourself to past versions of yourself. Develop your values, and then strive to live up to them without getting hung up on what others do.

Once you know what you need to cut from your life, and understand your values better, it's possible to move forward and set your financial priorities.

Take Care of Your Needs

It would be nice to spend money only on the things you value. However, the reality is that you have needs, and you might have obligations to fulfill. Sometimes, setting priorities means that you make certain things priorities right now; timing is part of the process.

The very first things you need to take care of each month — or however you structure your spending plan — are those things that you need.

Needs vs. Wants

It's simple: Before you can set your financial priorities, you need to understand the difference between needs and wants.

This is basic Personal Finance 101 stuff that many people pooh-pooh, but few people actually apply in their lives. Here's a refresher:

- Needs are things that you require to survive. Food and shelter are needs. Reliable transportation to get to a job is a need if you are unable to make money from home, or if you can't sustain yourself in other ways.
- Wants are things that you prefer to have, but that won't result in death or a severely limited quality of life.

Unfortunately, our society has made an art of turning wants into perceived needs. Your grandparents couldn't even conceive of having a 50-inch TV, and yet many people are sure that they are "needed." If your parents come from the early part of the Baby Boom, a single TV in

the home was considered something of a luxury. Now, though, a TV is a “necessity” and multiple TVs in the home is normal.

Don’t even get me started on cell phones. How quickly did a simple, clunky cell phone go from being a luxury to becoming so ubiquitous that many people consider them integral and necessary parts of their lives?

It’s hard to tell the difference between needs and wants when the wants are so visible and normal. You “need” to have two cars for your family because that’s normal, even if your family would be comfortable with one car, supplementing with mass transit. I have a friend who doesn’t even have a driver’s license because he’s not interested in owning a car.

Another issue is what happens when the “need” status is used to justify wants. Yes, you need to eat to survive. But you don’t need to eat at a restaurant in order to obtain nutrition. The fact that you need to eat is often used to rationalize spending too much on junk and pre-packaged food at the grocery store.

The same is true of buying a home. You need a place to live, but does it need to be a McMansion that you can barely afford? I guess if you truly value a big house, it’s worth the payments, but it’s hardly a true need.

Separate the needs — the real needs — from the wants and the faux needs. Recognize what you require for survival, and make those your first financial priorities.

Obligations

We all have obligations. These might not be true needs in terms of survival, but they should be discharged if possible.

Obligations are things like debt payments. They might also be legal obligations, like child support and alimony, that you are bound to pay. You might not need these items, but they should be high on your list of things to take care of.

After taking care of your needs, your obligations should be the next items on your priority list.

When deciding where your money goes, earmark what you require for needs and obligations very first, and discharge those duties as soon as you can. That way, you can stop worrying about where the money will come from.

Trim the Fat

The good news is that there are things you can do to reduce your costs when it comes to needs and obligations. There are books, blogs, and other resources that can help you cut food costs, choose an inexpensive mortgage, and reduce your utility bills.

You don't have to pay a lot of money just because something is a need or an obligation. Use various money-saving techniques to trim the fat from your needs and obligations. This is especially important if these items aren't particularly important to you. If the answer to your "why" is

that you are paying for these things in order to survive, or if it's that you took out a loan three years ago and promised to repay it, that's a reason to see it through.

Obviously, legal obligations can't (and shouldn't!) be cut like this. But there are plenty of other ways to save on your needs and obligations, whether it's asking for a creditor to lower your interest rate or whether you plan your meals around sales and coupons.

Do what you can to reduce your costs so that your financial resources aren't being drained for these items any more than is necessary.

Get Rid of Unimportant Spending

Now that you have reduced what you're spending on the necessities and obligations, it's time to focus on the unimportant spending.

Remember how you've asked yourself "why?" and identified your values? Now is the time to put those principles into practice. Go through all of your regular expenses (and even look at some of the occasional expenditures from the past) and ask yourself why you're spending the money. Then, determine whether or not the spending fits with your values and overall vision for your life.

I was surprised one day to realize that I had too many knick-knacks to display in my home. How did that happen? I'd see something I thought was pretty, and I'd buy it without thinking about why I was making the purchase, what I'd do with it, and what I could have been doing with the money instead.

By the time I realized that there wasn't room for one more knick-knack, I'd spent enough for a decent vacation — something I value more than yet another crystal whatever for my bookcase. Yes, I like to have a few nice things in my home. But I don't want that many knick-knacks. My husband and I also used to have a kitchen full of novelty small appliances of the sandwich-maker ilk. How often are you really going to use an electric tortilla warmer?

Well, if you're going to use it several times a year, maybe it makes sense for you to own one. It doesn't make sense for me, though. Before I buy something, I ask myself whether or not I:

- a) Need it
- b) Will use it
- c) Want it
- d) Believe it will enhance my life
- e) Fits with my values

Lots of things don't fit into those categories. I've put any number of things down and walked away because, even though I like it and sort of want it, I realize it won't enhance my life. Nor does it fit with my values.

Trim the unimportant spending from your budget. Stop spending on things you feel are just "ok." When you drop those items from your spending plan, you'll be surprised at what's left over.

Direct Your Resources

I hate the word budget. Even though I use the word, and write about budgets, I still don't like them. However, many people think in terms of budgeting, and it works.

However, I like to think of myself as directing my financial resources. I don't have a budget. My spending plan boils down to:

Pay for the important things, and spend the rest of the money until it's gone.

Think about what you want your money to accomplish on your behalf. It should mesh with your values. I want to pay my bills, contribute to a retirement account, tithe, give to charity, ensure my son has access to certain activities (piano lessons, 4-H, and other developmental extracurriculars), and travel a bit. My husband wants the same things, except instead of travel, he wants to collect action figures.

As long as the bills are paid (and I often lump the groceries in with the bills), the retirement account is funded, and our other important goals are met, we can spend our money on whatever else we want. When it's gone for the month, it's gone. But since the most important items are covered, the things we're giving up aren't as important.

Depending on what stage you're at with your finances, you might need to direct your finances differently. If you have consumer debt you want to pay down, that is going to be a high priority at this time. If it's important to you to build up an emergency fund, so that you can fulfill your value of being prepared, make that a priority.

Your priorities are likely to change a little as you achieve financial milestones and your situation changes. Adding a life partner and children to the mix can also change the dynamics. Even through these changes, you can continue to prioritize your finances. Just make sure that your priorities reflect your own core values.

If it helps, make a list of all your spending. Put the most important items on top, and the least important at the bottom. It can be painful to cut from your budget, but when the things axed are those that aren't that vital to your happiness or goals anyway, it's a little easier to deal with.

Once you learn to prioritize so that you direct your financial resources in a way that reflects your values and helps you reach your goals, you'll feel more satisfaction for the way you spend your money and your time, and you'll feel better about your lifestyle because you'll be confident in your decisions — and you won't need to cut out the things that are truly important.

I hope you enjoyed this mini-ebook. Visit my blog **Planting Money Seeds** for more insights on working toward financial freedom, including information on what I've learned from running a home business.

Also, I invite you to download another free resource, my **Checklist for Financial Freedom** when you share this **resource with your friends**.

