


Stop #1: Prepare a Zero-Sum Budget



The Secret of the Rich

If you were to survey every millionaire in America you would find that the majority have one thing in common. Believe it or not it isn't a nice car or a huge house. Instead this one thing is the secret to being rich...the majority of millionaires maintain a budget of their money and they always ensure their expenses are less than their income.

This secret of the rich is why the very first thing you need to do on your Financial Freedom Journey is create a budget.

When completing your very first budget you will either find that it is incredibly easy or unbelievably challenging, unfortunately, it is most likely the latter. But this isn't your fault!

Society has taught us to spend more than we make. We are told to take advantage of "deals" such as 5 years same as cash or that we can simply put things on a credit card and pay it off over time.

Marketing geniuses have taught us to want things we don't need and society has trained us to purchase items we cannot afford. This is a very troubling path to go down. You will spend your entire life "keeping up with the Jones'" and instead of a life of happiness you will live a life of stress and disappointment.

But you don't have to live this way!

By creating and following a budget and ensuring your expenses are less than your income you can retire (maybe even early) and you can live out all your dreams.

Now that you know the big secret of the rich, let's get started.

Budgeting Income

The first thing you need to do to create a budget is find how much money you have to spend. We can find this number pretty easily.

If your income is variable and every pay check is different, such as a tippable server or hourly front-line worker, then take a 4 month average of how much money landed in your bank account and use this average as your income on your budget.

If your income is fixed, such as a salaried employee, just add up how much was deposited into your bank account last month and use that number for your budget.

Budgeting Fixed Expenses

Next you need to determine your expenses. Some expenses are fixed and are the exact same amount every month. Think of things like your mortgage/rent, your cable, and your student loan payments.

For these fixed expenses it is easy, simply take how much you pay every month and add them in as a line item on your budgeting worksheet.

Budgeting Variable Expenses

Many of your expenses are variable, where they fluctuate each month. These are things like your electric bill, groceries, and credit card payments.

For these variable expenses take an average for the last 4 months and add the average for each one as a line item on your budget.

Your Allocated Funds

The final type of expenses you have are often the ones most forgotten. These are the expenses that you only pay certain months or certain times of the year. These are things like auto insurance (if not paid monthly), birthday/holiday gifts, and vehicle registration.

These expenses for many sabotage any chance at Financial Freedom. As soon as you feel like you are ahead you might get blindsided by a \$1,000+ auto insurance bill. When that happens it can be tough if not impossible to recover, which is why we need Allocated Funds.

Allocated Funds is where you set aside money each month as if you were paying monthly for these expenses. Except, instead of paying the money out, you transfer it to a high-interest savings account to earn you free extra money while it waits to be spent.

To determine how much you should be setting aside each month divide the total due by the number of months until you have to pay the bill. Now add this amount to your budget.

Once you have done this for all the expenses that should go under Allocated Funds I recommend you automate this process to make it easy for you.

Create a recurring money transfer from your checking account to your savings account for the entire amount you should be setting aside in Allocated Funds each month.

Now don't touch this money for ANY reason except if spending it towards one of your allocated expenses.

Let's do the Math

Now that you have figured out your income along with your fixed, variable, and allocated expenses it is time to take a step back.

Subtract your total expenses from your total income. Is the number positive or negative? If the number is positive then congratulations, that means you are spending less than you make. This also means you have additional money to throw at your debt, your financial goals, and your dreams.

If you are in the negative then it is time to make some adjustments. Do you really need cable? What if you switched to an alternative streaming service such as Netflix or Hulu? Do you need 250Mbps internet? Eating out is fun and easy, but how much can you save by cooking at home? I know it is tough to give up certain luxuries but remember the more you give up now the quicker you can rid yourself of your debt and start living the life you have always imagined.

If your debt is of great amount (\$60,000+) I encourage you to leave certain amenities in your budget. However, keep in mind don't leave too much. Every dollar you aren't using to improve your finances is slowing down your Financial Freedom Journey or preventing you from achieving Financial Freedom altogether.

My wife and I personally, dedicate about 3% of our monthly budget for eating out and other fun activities. The reason for this is, just like in dieting, if you give up everything you are less likely to stay on the plan or in this case your Financial Freedom Journey.

Now that you have figured out your income and evaluated your expenses, your expenses should be less than your income.

But we aren't done quite yet. Look at your budget again. What are you able to remove while still being able to enjoy your Financial Freedom Journey and be able to pay off more than the minimum payment of your debt?

Are you able to switch to carpooling to save gas and tolls? Would you survive on eating out only twice a month instead of twice a week? What about switching to generic food? These are decisions you and your family need to make, however, the harder you think, the more out of the box creative thinking you have, the sooner you will be able to change your financial life and start living your dreams.

Increase Your Income

You might be thinking "I have already cut every expense I can and I still cannot afford my bills or to increase my debt payments".

If this is you, then this means you need to increase the amount of income you make every month. Are you able to land a better job or ask for a raise to increase your income?

If changing jobs is not possible and asking for a raise won't help, then you might need to start thinking of taking on a side hustle or an additional job.

While working full time as a web developer I also worked as a freelance web developer bringing in an additional \$1,000 per month on average. At the same time I also worked at Walt Disney World Resort as an Attractions Host. This not only

brought in even more additional income but I also received free theme park admission saving me about \$1,500 per year.

I know it isn't easy to work ~~40 hours~~ 50 hours each week and then go to work at night or on the weekends but it helps, A LOT.

In my case working sometimes 60-70 hours a week increased my annual income by more than \$12,000. This made those 7 day work weeks or 15 hour days worth it in the end. Besides, this isn't for life but just until you are able to get your Financial Freedom Journey under way.

Figure 1.1 - Joel's Side Hustle



My Wife and I enjoying a day at Magic Kingdom, for free. One of the perks of being an employee is free admission year around.



Working as an Attractions Host at Disney's Animal Kingdom on nights and weekends earns me an extra \$2,000 each year.

Zero-Sum Budget

Now that you have listed your income and expenses on your budget worksheet and your income is higher than your expenses it is time to put that extra money to use.

Figure 1.2 - Building a Zero-Sum Budget

Income	Amount
His	\$1,800
Hers	\$1,830
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Expense	Amount
Rent	\$1,000
Fuel	\$600
Student Loans	\$490
Groceries	\$300
Emergency Fund	\$300
Retirement	\$180
Tolls	\$150
Auto Insurance	\$150
Cell Phone	\$125
Electric	\$100
Restaurants	\$80
Internet	\$75
Pharmacy	\$50
Water	\$30
Balance	\$0

When preparing your budget you should associate every penny of your income with an expense. You should never budget more than your income and you should never plan to have money left over; your budget should add up to \$0.

The reason using a zero-sum budget is so important is if you have money unallocated you will spend it on frivolous things like that magazine in the checkout line or the latest electronic gadget.

Using a zero-sum budget does not mean you should not put money into savings or retirement. It also doesn't mean you cannot have an "outings" expense for random weekend day trips. Having a zero-sum budget simply means that for every penny of your income you make there needs to be a budget line item to allocate it towards a purpose.

Your Budget is Flexible

Because every penny is already allocated towards a purpose it is important to review your budget throughout the month to make sure your expenses are staying below your income.

For example if you want to take your spouse out for a nice dinner but you only budgeted for fast food then do it, but you need to evaluate from your budget where that extra money is coming from. Maybe you are underbudget in groceries or maybe you skip eating out next week.

What you should avoid though is taking the funds from expenses that are critical to your Financial Freedom Journey. For example don't take your extra student loan payment and spend it on a nice lobster dinner.

This type of action will delay your Financial Freedom Journey and potentially have long-lasting consequences on your finances.

You also shouldn't feel obligated to max out the spending in your budget.

If your grocery bill or electric bill were low this month then that is a great thing. Take the extra money and throw it at your debt, your financial goals, and your dreams.

Finances are a Partnership

Finances are one of biggest reasons for divorce in this country. Therefore, I cannot emphasize enough if you have a significant other it is important to include them in all of your financial decisions.

My wife and I sit down every month to discuss our financial situation.

We look at the previous month's budget and look ahead to next month. We make any necessary changes and also discuss ways to prevent overspending and ways we can save.

We also look at our overall finances including our investment portfolio, retirement accounts, and our net worth.

Then every four months we recalculate our entire budget from scratch, this allows us to see things in a whole new light and we may be able to decrease or completely eliminate some new expenses.

Find what works for you and your significant other, but make sure all decisions are made together and everyone is informed.