

## Personal Finance: The Basics

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The articles on our website are based on our values, our experiences, research, and our passion for prudent personal financial management. The debt burden that many carry, and the monthly, weekly, or even daily concerns that people have for making ends meet are a constant focus at Jazer Solutions. It is our daily goal to provide tried and true financial reasoning, examples, and tools for people who are committed to taking control of their finances and diligently working toward financial independence.

Economic changes over the last 3 decades have been dramatic, especially in the most recent 7 years. The housing market, unemployment rate, and increases in medical expenses (to name a few), have contributed to financial hardships and difficulties, and a stagnant economy. Headlines tout glimmers of hope as enough jobs are created one month, the stock market rallies one day, or home sales pick up briefly, but the trend has been almost flat. We're hopeful, but we know the reality of the situation and that it won't change overnight.

The basics of personal finance are a new focus for many people, and sadly for some out of necessity. Across our nation efforts to spend less, save more, and reduce debt are helping individuals to gain some control and stability. For many it's a long hard road, but forming good financial habits will have life-long benefits. Let's review some basics...

1. **Living within our means:** This is something we just can't do if we don't have a handle on what we spend and how it compares to our income. Listing expenses in a budget or spending plan, adjusting the numbers as things change, and comparing the monthly total to our income is a revealing exercise. If we're living beyond our means, then the hole is just getting deeper.
2. **Know the story - Capture all income, bills, assets, and debt:** Many people just don't know where they stand financially. This has got to be the first step in managing personal finances. Sometimes we just don't want to know the bad news, but it won't get fixed any other way.
3. **Face the music:** We can't look the other way and deceive ourselves into thinking that things will get better by themselves. They won't. We have to face

up to where we are and get past it. Putting this off just delays the inevitable...and the situation just keeps getting worse while we delay.

4. **Commitment:** Once we see where we are, we have to commit to getting things on track and to spending time updating, comparing, adjusting, and analyzing our financial data. If we treat managing our finances as an unwelcome chore, we'll pay the price for our quick and half-hearted efforts. This is an area of our lives that requires our time and attention every week.
5. **Be frugal, be wise:** Being frugal is not being cheap. In fact in the long run, it often pays to buy a more expensive product that will last, than to buy one that breaks easily or doesn't really perform as advertised. Being a wise consumer can save a lot of money in the long run, and it only takes a little of our time.
6. **The 24 hour wait (48 is better):** Waiting 24 hours before making a major purchase is a tried and true way of reducing impulse buying. If we sleep on purchase decisions, we just won't make as many. Waiting two days is even better. Studies show a significant reduction in purchases when people wait a day or two. I guess we realize that we really didn't need it after all.
7. **Save for a rainy day:** Having an emergency fund is the only way to keep the mishaps of life from disrupting a good financial plan. Many people establish a budget, saving, and debt reduction plan only to have it ship-wrecked by a sudden financial need. There are plenty of recommendations for how large an emergency fund should be, but all agree that there has to be one.
8. **Eliminate debt:** The heavy burden of debt drains us emotionally and physically. It's a cruel master, and has to be eliminated. We need to form a debt reduction (elimination) plan, stick to it, and keep from adding more.
9. **Get rid of "stuff":** Stuff clouds our minds and our decisions. Stuff we bought and don't use, stuff we bought and never needed, and stuff that we have with no idea where it came from. It all needs to go. When we get rid of stuff, we see just how

much stuff we buy that we really don't need, and hopefully become wiser purchasers in the future.

10. **Credit cards:** Handle with extreme caution. If you ask people why they use credit cards, you get a wide variety of answers. Some don't like carrying cash, others just find it easier, some admit they can't afford to buy things and credit allows them to buy them (ouch), and some actually get depressed when they spend cash but don't feel guilty putting things on a credit card (guilty?). Unless we're paying the bill in full at the end the month...every month, there should be very few reasons that we use credit cards.

These ten basic principles, if followed consistently, can develop into sound personal finance habits. If we keep a close watch on purchases, manage our budgets, save for the bumps in the road, and eliminate debt (and stuff), we form a solid framework to build our financial goals on. None of these principles is especially hard to follow. It just seems that they're hard to stick with over the long term. It's amazing how hard it is to save a reasonable amount of money. Little by little the deposits are made and ever so slowly the balance climbs. And yet, one major purchase (withdrawal) can wipe out years of saving. It's a fact of life. Then there's debt. Debt is like a huge weight on our shoulders that we can't seem to unload. Credit card debt, car loans, equity loans, mortgages, and personal loans all take a heavy toll on us. It seems to never end, but sticking to the basics can go a long way toward breaking the cycle and clearing the path to financial independence.

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