

Medium

The Power Of Tracking & Budgeting

“Finance is not merely about making money. It’s about achieving our deep goals and protecting the fruits of our labor. It’s about stewardship and, therefore, about achieving the good society.” (Robert J. Shiller)

Zaid Dahhaj

The first rule of any healthy financial mindset is to **track**. In particular, tracking what you make, spend, and invest.

The second rule of any healthy financial mindset is to **budget**. Budgeting is essentially consciously taking control of what you spend your money on through the use of limits.

I have personally been diving deep into tracking and budgeting when it comes to my finances and it has helped me immensely on my journey towards financial independence.

My number one resource to do this: The app called *Mint*. This is by no means an advertisement and I am not earning any money from spreading awareness over their platform. I just absolutely love what this type of platform has allowed me to do when it comes to my financial situation.

Here are a list of what you’ll be able to track and place your awareness on:

All of your accounts

Your credit score

Your recent transactions

Your upcoming bills

Your budgets

An overall breakdown of what you spend your money on

Your cash flow

Being able to track all of these metrics places the power back in your own hands when it comes to improving your financial decision. The reason for this is because a lack of awareness destroys most people's financial situation and we'll explore that more down below.

Ignorance Of Finances

The vast majority of people are completely unaware of their financial situation. Even if they are, they swipe it under the rug and continue to struggle with this area of their lives.

The majority of people practice unhealthy financial practices such as:

Debt accumulation (Loans, Financing, etc.)

Spending more than they make

Practicing stagnation with the amount of income they make

Lack of saving and investing

Lack of tracking and budgeting

Lack of financial literacy

The list goes on.

The point is that most people are uneducated when it comes to the topic of building wealth. They weren't taught these things in school or by their parents and so they just go with the flow of their ignorance and get themselves into unhealthy situations financially.

The single biggest change that we can make in our financial situation is to track and budget our spending. If we understand where our money goes and practice self-discipline then we can take control of our ability to gain freedom through the vehicle of financial independence.

Let's go through the most common financial problems and how we can get around them to move towards a more secure financial future:

Debt Accumulation

In our society, it is unbelievably easy to fall into the trap of accumulating an enormous amount of debt in a short period of time. The system is designed or set up in such a way that people who don't know what they are doing can get themselves in financial trouble very easily.

The main sources of this debt are student loans, financing vehicles, mortgages, taking out other loans, credit cards, so on and so forth.

Avoid these things until you can actually afford to buy whatever it is that you would like with cash. If you don't have at least 3 times the amount of the purchase you want to make then don't even think of buying it.

For example, if you want to buy a \$100,000 car and don't have at least \$300,000 then you have no business buying that car. If you can't comfortably purchase more than one of the item then it's an absolute no when it comes to making the purchase.

Negative Cash Flow

Having negative cash flow just means that you're spending more money than you are actually earning. This ties intimately with debt accumulation.

Almost everyone, if they tracked correctly, would realize that they are either coming extremely close to having negative cash flow or are already passed the point of spending more than they make. This is a scary habit to develop because no matter how much money you make, you come out short as a result of this addiction to spending.

Set a budget and practice self-discipline with those budgets. Also, track what the biggest categories of spending are for your unique situation. For most people, *housing*, *transportation*, and *food* are the major culprits when it comes to spending more than we make. Let's go into them a bit deeper below:

Housing

Housing costs can quickly add up, especially if you live in an expensive area. If you can, split rent with other people and keep utilities to a minimum.

This will allow you to free up much needed resources for the future.

Transportation

Transportation can also add up very quickly if we are not careful. Carpool with others if you can, ride a bike, look for cheaper insurance—these are all viable options to reduce the cost of your transportation.

Food

This, in my opinion, is the biggest and most insidious category that goes under people's radars.

Last month, I spent \$600 on food. I was absolutely shocked once I started using the Mint app and tracked every category of where my money was spent. Therefore, I set a budget for \$150 a month on food and just by doing that, I have dramatically lowered the cost of my food spending.

Cook your meals, look for deals on healthy food, stop going out so much and if you do go out then meal prep ahead of time to avoid unnecessary food expenditures.

Income Stagnation

Many people are making a certain income and seem to keep themselves stuck at that certain level of income. They don't look for new ways to increase their income or change their mental approach as to how to make money.

The solution to this consists in a few things. Firstly, **look for new ways to make more of an income on the side** because once your awareness is open to it, you'll find solutions.

Secondly, **surround yourself with people who earn way more than you do**. By doing this, you will pick up the beliefs, mindsets, and behaviors and eventually move towards a place of real wealth. We become who we surround ourselves with.

Increasing your income combined with the focus on reducing spending is a powerful combination.

Lack Of Saving & Investing

Saving and investing is like watching grass grow, it is not exciting at all but it is a necessary habit to implement if you want to build real wealth.

The solution to this is to **automate systems so that both saving and investing work automatically without your willpower**. Set up an account such as a Roth IRA, index fund, so on and so forth and automate your savings. Start with \$100 per month.

Lack Of Tracking & Budgeting

This one can be solved by downloading an app such as Mint and checking it every single day. Create a habit of doing this and you will already be ahead of most people in terms of finance.

Lack Of Financial Literacy

The vast majority of people are uneducated financially. The solution to this is to become curious about finances and learn as much as you can from high quality resources.

Read books about money and finance, listen to podcasts, read blogs, go to seminars, as long as you learn about finances then you will end up in a good place in the future.

These are the biggest financial culprits.

Conclusion

Tracking and budgeting is at the root of a great financial life. You must start with these things and take control of your financial situation and understand where your money goes.

If not, you will become frustrated with your life and end up in a place of suffering because finances impacts every area of your life.