Simple Rules of Money Management

There are three common money problems that a lot of people have. One they spend too much in relation to their income. Two, they save too little as a percentage of their income. Three, they save money, but they don't know how to invest. The result is that they live "paycheck to paycheck," have limited financial resources in the event of emergencies and lose out on years of wealth-building opportunities. Overcoming these problems is not impossible, but does require a change in financial management practices.

Below are five rules to consider in money management. These come from Dr. Barbara O'Neill, Extension Specialist in Financial Resource Management, Rutgers Cooperative Extension.

1. **Make money before you spend it.** Learn to ignore marketing messages that encourage you to buy now and pay later. The fear of missing out is a strong emotion and can cause people to over spend. With the exception of "high price items such as a house or car, et a police to not buy anything unless you have money in your pocket or in a bank account to pay for it. Instead, save up for the purchase price and/or look for less expensive items. An example is shopping for furniture at a thrift store or an estate sale instead of a department store. Many thrift shops have great prices and many are "gently used."

2. **Establish an emergency fund.** Events happen, both good and bad. It is often not if it will happen, but when. Set up a savings account to cover the cost of emergency events such as car repairs, home repairs or a sick pet, to cover these expenses. Also have enough savings to help if something happens and your paycheck stops. Fund it with 3 to 6 months of expenses or whatever amount of savings gives you peace of mind. Replenish the account when and emergency does arise. Often, people are forced to borrow money from family members, sell things or use credit in an emergency because they don't have enough saved when emergencies do happen.

3. **Get control of your spending.** Over use of credit is generally due to lack of an emergency fund or living beyond your means. When an adequate emergency fund is established, people don't have to use credit to support a lifestyle that they can't afford. Borrowed money always has to be repaid with interest, in addition, monthly payments on outstanding debt reduces your future standard of living. When you spend more than you make, you are mortgaging your future. The best ways it so spend less that you earn.

4. **Pay yourself first**. Each time you get paid before you pay other expenses, put back some in savings. It is recommended to save at least 10 percent of your gross income for long-term goals. This should be given as much priority as your house payment, rent, or car loan.

5. **Develop an investor's mindset**. Investors must expect that they could lose money. Their investments could have a negative return, resulting in a loss of principal. Investors cannot assume a guaranteed rate of return or that their money will grow like they can with cash equivalent assets such as money market funds and certificate of deport. There is no perfect investment that is risk-free, tax-free and earns a high guaranteed return. However, stock returns have exceeded those of other assets over a long time period of 15 to 20 years or longer. Don't invest money in stocks that you will need in five years. In addition, if

an investment sounds too good to be true, it probably is. Don’t invest in anything that you don’t feel comfortable with or can’t explain simply to another person.