The Psychology of Money

Prioritize your Spending

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Manage your Bills

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MANAGING YOUR FINANCES IN CRISIS IN A VOLATILE ENVIRONMENT

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Life is becoming more stressful and financially unpredictable each day to a majority of people. The current financial crisis that has been caused by the coronavirus disease (COVID-19) has brought to us to the bitter but candid realisation that anything is possible, including the world was almost coming to a standstill, more so economically. COVID-19 is ravaging the global economy and presents unprecedented challenges. The effects of such an unforeseen predicament of a major disease with a widespread global effect threatens our lives and our very existence. This has led to a near-collapse of the economy, businesses and industries, culminating in financial crisis and job losses. At a time when we are discussing mental health and psychological distress, it is imperative that we refocus on some possible economic and financial impact affecting us all.

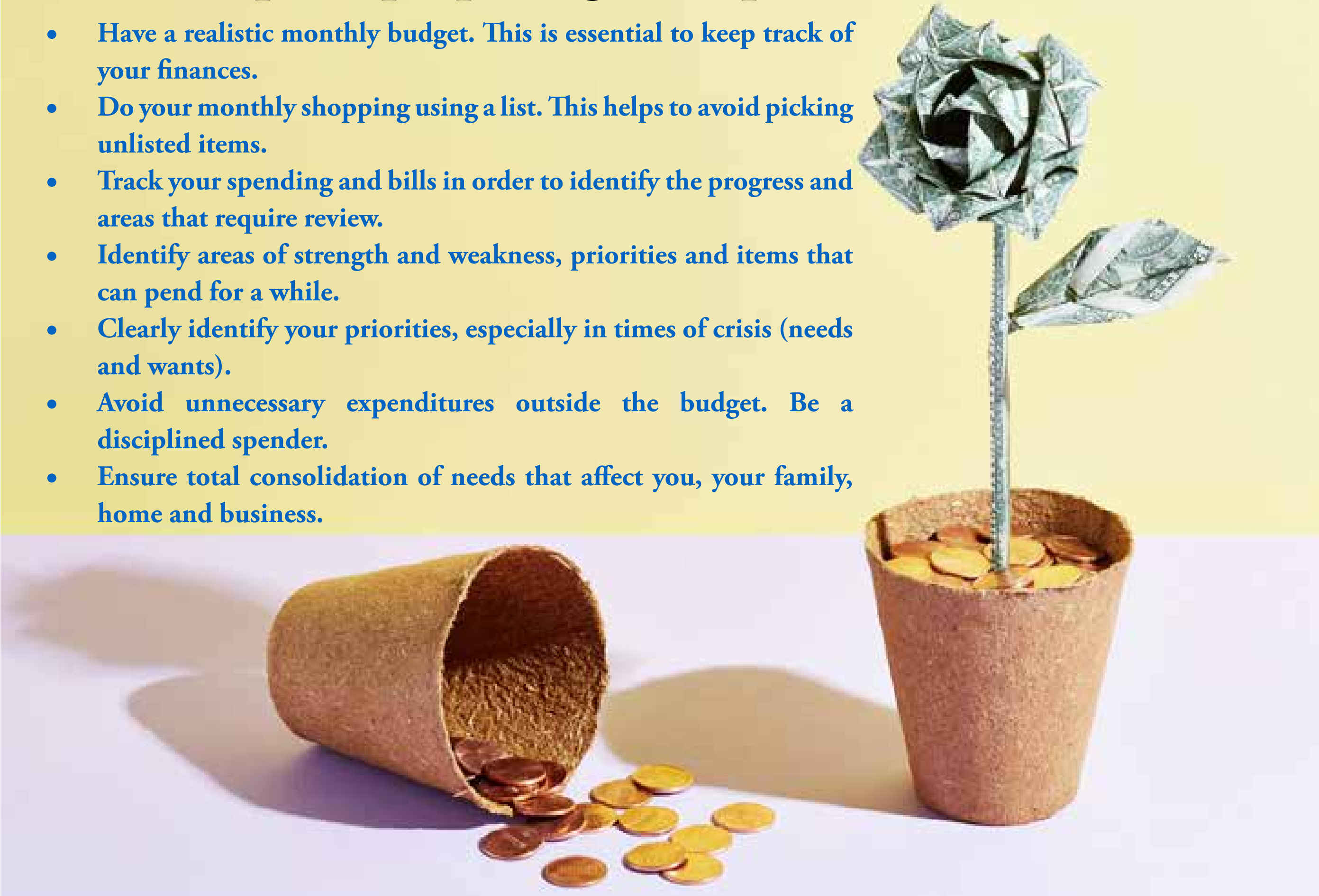
This particular column will be discussing aspects of general financial management, including wealth, income and investments, and risks involved, including insurance and assurance. We intend to offer our readers an opportunity to deliberate on and experience issues to do with money and wealth, making investments and other vital financial aspects such as money markets, retirements, financial decisions, savings, needs and wants and other perspectives.

"Personal financial management requires a lot of personal discipline. You have to be committed and disciplined in order to track down your finances and trail how you are managing (or mismanaging) them. The rule of the thumb is to identify your needs and adjust your priorities accordingly. However, it is important to note that more often than not, our needs and wants far exceed our income. This is a big challenge to the often-suggested 80/20 basic rule on savings and investment of our incomes. The rule suggests that 80% of our regular monthly income should go to our spending (needs and wants) and 20% to our savings. Therefore, you should certainly plan on how to effectively spend and account for the money that you have earned.

Two of us have a background in Finance and Psychology, one of us is a Counselling Psychologist and will moderate the money matters into our personal lives. Of course, economics and money are part and parcel of our lives. It is essential to be both prepared and careful with money and how we manage our finances. With the proper preparation, you can turn your finances into a potential investment and, in several ways, avoid a financial tragedy despite the temporary setbacks. The purpose of this column and featured article in *The Counsel-ling Magazine* is to enhance your financial management knowledge and skills on how to plan and handle your hard-earned finances, and to assist you embrace the need to effectively track your finances. This will help you steer off troubled financial waters even in looming economic disasters.

Quick Tips to preparing your personal finance

- **Have a realistic monthly budget. This is essential to keep track of your finances.**
- **Do your monthly shopping using a list. This helps to avoid picking unlisted items.**
- **Track your spending and bills in order to identify the progress and areas that require review.**
- **Identify areas of strength and weakness, priorities and items that can pend for a while.**
- **Clearly identify your priorities, especially in times of crisis (needs and wants).**
- **Avoid unnecessary expenditures outside the budget. Be a disciplined spender.**
- **Ensure total consolidation of needs that affect you, your family, home and business.**



The cost of living has certainly gone up. In this case, you need to be careful about how you spend your money and at the same time ensure that you make savings for future needs. There are several basic skills and tactics applicable even by novices in financial matters. It is increasingly important to adopt more strategies in order to cope with the economic hardships. In the majority of these, you need to cut on spending.

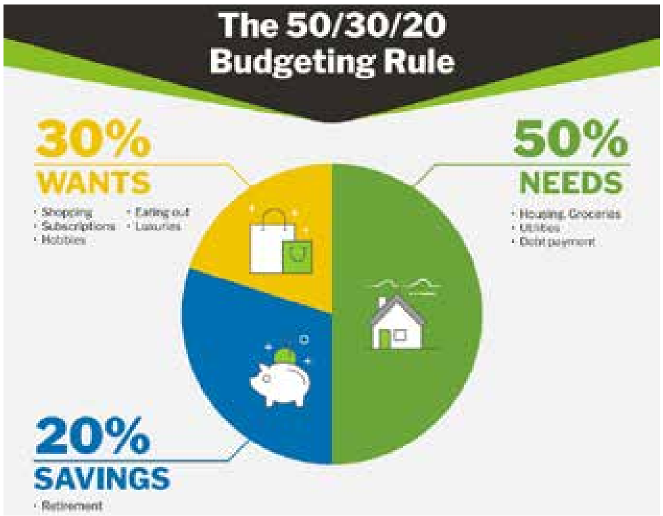
The following six (6) steps have been suggested to help you overcome the financial and economic crisis:

1. **Plan your finances with a smart budget**

It is not enough to write a budget. It is more important to come up with a workable budget. This is what I refer to here as a SMART budget. (**S**imple, **M**anageable, **A**ttainable, **R**ealistic and **T**ime-bound). It is true that we may make plans on how to spend our money, but it is not always the case when it comes to the actual allocation of spending. We easily tend to divert our money to various needs. This is because we also find out that we have more urgent or pressing needs. Also, most people get their money and somehow allocate it to their 'needs.'

It is essential to make a distinction between a need and a want. A need is often a necessity or essential item or thing that is required for life, such as air, water, food and shelter. A want is something that is not necessary but is a desired item. This is because it enhances the quality of living such as a television, an expensive mobile phone, jewellery or designer clothes. There are people who will argue that certain things may be or are not a necessity, such as a mattress or bed, mobile phone, car, house and others. This discussion with yourself lets you know whether you are living within your means (financial acumen) or over straining or over-stretching yourself.

Elizabeth Warren popularised the so-called "50/20/30 budget rule" in her book, All Your Worth: The Ultimate Lifetime Money Plan. The basic rule is that you should divide up after-tax your income and allocate it to spend as follows: 50% on needs, 30% on wants, and investing away 20% to savings.



A personal budget does not have to be as comprehensive as an institutional one, with complex figures and tables, notes and conclusions. Indeed, a budget simply implies that you plan on your spending. The essence of a budget is the behavioural aspects that make it a useful tool that can help you decide what you need and what you want. This then allows you to allocate your money appropriately, and thus help you stand strong financially. In your monthly budget, you are encouraged to identify your fixed spending such as house rent. This helps you to always have an idea of how much money you should have as a bare minimum. Any spending that fluctuates, such as water and electricity bills, should be monitored to identify abnormal trends. Below is an illustration of a simple budget and fixed spending clearly identified.

Item	Fixed or variable	Budget amount	Actual spend	Variance
Rent	Fixed	15,000.00	15,000.00	0
Electricity and Water	Variable	3,000.00	4,500.00	(1,500.00) overspend
Internet Network	Fixed	2,500.00	2,500.00	0
Shopping	Variable	8,000.00	12,000.00	(4000.00) overspend
House help	Fixed	7,000.00	7,000.00	0
Travelling / Fuel	Variable	9,000.00	8,500.00	500.00 under spend
Savings	Fixed	5,000.00	5,000.00	0
Totals		**49,500.00**	**49,500**	**(5,000) Overspend**

There are four critical notables from the above illustration

(1) It is important to identify both your fixed and variable spending.
(2) Variable spends fluctuate both as over or underspends.
(3) Negative variances can impact on your budget negatively.
(4) Due to the overspend on electricity and water (and you can separate the two) and shopping, chances are saving money was borrowed to meet the overheads.

The 70-20-10 rule proposes that every month, a person would spend only 70% of the money earned, save 20%, and then donate 10%.

A budget implies that you should know exactly how much money to expect, that is, your total income and your total expenditure. This can be on a daily, weekly, monthly or annual basis. This then allows you to plan for savings and emergencies. When you make a SMART budget, you are certain of being in full control of your finances and their use. The opposite is the case, that the lack of proper planning and a workable budget implies that you have no idea about how to allocate your financial resources, whether for your immediate use (short-term) or future use (long-term).

2. **Prioritise your spending in terms of needs**

The most obvious requirement is to allocate your hard-earned financial resources to cover needs such as basic living expenses, food, housing, clothing, health, transport, school uniform and fees and utilities such as water, gas and electricity. Financial resources for an employee can be generated from many avenues, that is, wages, salaries and allowances to dividends, bonuses and other financial benefits. Business earnings come from sales revenue, consultancy and property sales. Whereas your incomes are the foundation of your solid financial security, you should note that you must plan on how to effectively allocate and secure your finances. This takes you to Step 1 (above), on drawing your budget. Planning empowers you to cut out on avoidable expenditure and losses that lead to financial exposure and financial risks. Things that you require are a necessity and thus need to be prioritised. If you can control your recurring monthly expenses (both fixed and variable) to acceptable trends and within your budget, you will have far less difficulty paying your bills and hence work within the budget, especially in tough economic times that we are currently experiencing. This will also lead you to savings (Step 3).

Ordinary Times

Need ⟷ Want

Basic Needs	**Savings**	**Loans and Mortgage**	**Luxuries**
♦ Food ♦ Shelter ♦ Clothing ♦ Transport ♦ Utilities ♦ School fees	Up to 20% of total earnings	♦ Housing ♦ Car ♦ Other investments	♦ Jewelry ♦ Fancy clothes ♦ Expensive clothes ♦ Outings, trips and road shows

Start by asking yourself if you have a budget, and then after reviewing it, identify the favourable or worrying trends of your spending. Your reactions and responses will be greatly determined by the direction of the trend. It is possible to identify where you might be spending more money than necessary. For instance, in the example provided above, electricity and water bills were too high. You can investigate the same, for example, this may be caused by leaving lights on in several rooms you aren't using throughout the day or night or by letting the water heater or air conditioner throughout even when you are away, shopping too might be very high possibly because of buying an item that was not necessarily anticipated or an identified need but a want. However, you will notice a saving on travel, which helped reduce the overall overspending.

3. **Maximise on your Savings**

You can only make savings if you effectively eliminate expenditures that are not a priority. One also needs to make commitment and self-sacrifice towards such savings and maintain self-discipline. However, you must meet your personal needs and then commit to making savings on the extra monies. Some people will argue that you should make for savings as you spend; thus, saving is a need rather than want. It is important to realise that you need savings in times of crisis. Therefore, you must make conscious attempts to minimise your spending, for example, by avoiding binge spending. Other better alternatives include avoiding paying higher interest rates (not evading) and sourcing out for less interest on borrowings. Higher interest rates are applicable in the now trending App loans, which are easily accessible and highly addictive.

Financial management is an everyday activity rather than what people imagine that they should plan for their money at the beginning of the year or at the end of the month when they receive their salaries. This involves tracking down your money and retracing the steps involved in your spending. Thereafter, you make adjustments accordingly. The good thing is that once you pick up the habit, it works automatically but again when you don't, it is really frustrating in that you feel as if your money is being blown by the wind. This can lead to further frustrations and feelings of disappointment, low self-esteem and feelings of inadequacy, leading to general anxiety and depression.

You must make for savings after you have met your statutory obligations, such as the children's ongoing tuition payments, loans and mortgage. For example, you must pay your debts. This means that you must plan to pay your debts and the accrued interests. The wisdom is finding out how you can still pay off your total debts and obligations (and sometimes faster) and, in several instances, gain some breathing space in your budget. This means that you need to talk to your banker or a financial advisor as required. In addition, you need to make sure that what you save from the lower interest rates is, of course, greater than the balance transfer fee. Thus, you must appropriately negotiate your loan so that, in the end, you can gain and safeguard against sinking into further financial crisis.

Cost Saving Tactics

Cost-saving strategies involve focusing on what you need and what matters the most. The first step is to know where your money is going, and the second is to restructure your finances to suit your needs and the family. Cost-saving is also cost-effective, gives value for money and enables savings. There are several tactics, and you should adopt the ones that work out best for you. These include the following:

- Use cheaper and alternative brands. Expensive is not always superior.
- Buy essential items such as salt and matchboxes from pocket change.
- Go window shopping before settling on quality and less expensive items.
- Buy stuff in bulk. This is more cost-effective (such as tissue, diapers) than daily shopping.
- Look out for special offers, discounted prices and sales. You can save a lot of money on them.
- Pool contributions, buy in bulk (wholesale) and then share the items/goods. This includes the use of pool transport.
- Eat at home and carry packed lunch to work.
- Track down on your expenses so that you can cut on extra costs.
- Switch off unnecessary lights, electric gadgets and close the water taps when not in use.
- Use natural light during the day. You can also buy energy-saving bulbs.
- Try public transport such as train and bus (saves on time and fuel) or take a walk rather than using a personal car (especially one with a high engine capacity) and taxis.
- Avoid impulse buying; instead, plan on your spending.
- Avoid credit cards because they lead you to overspend, leading to accumulative and unnecessary debts.
- Avoid Mobile App loans –They have high interest and penalties
- Be up-to-date with licences and permits to avoid bribes

Cost-effective strategies save money and ensure that you do not spend on ventures that are not worth it. All the money saved should be used for: (1) basic needs (significant issues such as loans and mortgage); (2) savings; and, (2) future emergencies.

4. Closely Manage Your Bills

Once you plan on your money (Step 1), you actually minimise your spending (Step 2) by prioritising your needs, thus leading to savings (Step 3). In essence, there is no reason why you should fail to enjoy your hard-earned money. The only way to manage your money, and hence your bills, is through prudent use of your money. In that case, you need to identify areas where you lose your money, such as wasting money on late fees or financial charges that lead to (obvious and apparent) penalties. In that case, get rid of interest payment fees so that you can put your money toward more important things. In times of financial crisis, financial institutions are very strict on financial regulations and conditions, while your finances may not be as stable. Do not neglect rewards points and gift cards. In that case, you should be extra careful in times of financial crisis by being more organised and financially disciplined.

The rule of the thumb in times of financial crisis is to have a grip of all your money and control the bills. Remember, budgeting (Step 1), minimising spending (Step 2), and saving (Step 3) is your security. Still, you can save a lot of money when it comes to your daily, weekly and monthly bills. This includes all the steps outlined in Step 3 above, including carefully looking into all your accounts. Also, do not miss out on any due dates and this is possible by scheduled payments (including having reminders) so that all your payments arrive early enough or even before they are due. Another suggestion is to compile a list of all your financial obligations, and when the list is complete, you can use it to make your priorities. In addition, you can combine or closeout those that are unnecessary.

5. Take stock of what you have and seek ways to protect yourself and family.

Steps 1 to 4 ensure that you have full control of your finances. Now, you need to move further and take stock of your assets, both cash, property, stock shares and others and maximise on their value. This includes your health, family and safeguarding your home and property. This is because you cannot afford new things or repairs such as mobile phones, laptops, iPads and cars; and other household goods and services such as washing machines, fridges, television or microwave. For example, you can sell off a few of the extra cars you own, which might end up generating extra money for school fees and other basic needs. When you don't buy additional food, you find out that your store has space for more worthwhile things such as potatoes, beans and maize. All these liabilities and assets can help lower your weekly, monthly and yearly expenses. The rule of thumb is that you need to make wise decisions, and this is by knowing what you have and what you need.

Economic Crisis

Need			Want
Basic Needs ♦ Food ♦ Shelter ♦ Clothing ♦ Transport ♦ Utilities ♦ School fees	**Loans and Mortgage** ♦ Housing ♦ Car ♦ Other investments	**Savings** Up to 20% of total earnings	**Luxuries** ♦ Jewelry ♦ Fancy clothes ♦ Expensive clothes ♦ Outings, trips and road shows
➢ *Basic necessities* ➢ *Reduced spending (to a minimum)*	➢ *Obligatory / mandatory loans and payments* ➢ *Renegotiation of loan including amount and payment period* ➢ *Borrowing from family and friends* ➢ *Soft loans such as salary advance*	➢ *Savings from all sectors* ➢ *Saving for crisis* ➢ *Automatic savings not necessary*	➢ *House and garden parties* ➢ *Home snacks*

During economic crises, many people forget to do routine maintenance work, which can be extremely costly. Ensure that your home and compound, office and company premises are well kept. This is because components such as physical and psychological health, family, home, office, car and others can have problems leading to exorbitant repair and maintenance costs. Yet, most of these costs could have been avoided. Take care of minor repairs, trimming the fence, eating healthy, exercise and all. This way, you avoid major disruptions of your life and eventually save on time and finances.

Counsellors, therapists, psychologists and other social workers are highly encouraged to acquaint themselves with basic financial knowledge. The new field of financial counselling indicates that financial problems are major and largely contribute to our psychological and mental health problems.

6. **Seek Ways to Earn Extra Cash**

Stretch yourself a little bit. Yes, if there is anything legal, of course, that you can engage in to earn extra money, then you can try it out. There are several ways through which you can earn money, including selling possessions you no longer use (either online or in a garage sale), babysitting, or private consultancy in your area of expertise. You can also try out freelancing during your free time or getting a second job where applicable. The extra money you earn from these and other activities may seem insignificant compared to what you want; however, even small amounts can add up to something meaningful over time. You can also make a saving by doing away with credit cards you no longer need as these attract annual fees and extra bank accounts that only attract bank charges and ledger fees.

In conclusion, we want to insist that for one to generate wealth, it has more to do with commitment and self-discipline and little to do with your huge income. Binge spenders, for instance, have huge amounts of money, but they equally spend vast sums of monies on items they don't need. Savings can be achieved by good financial planning (and budgets) and of course, by spending less. You can also spend less if you desire less and want less. This is a personal choice and relates to our choice of behaviour. Binge spending, otherwise referred to as compulsive spending, is a behavioural disorder related to spending on things beyond the necessary. This may accumulate to huge debts, which in many instances lead to financial crises, and yet there is a need to be careful in times of financial crises.

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