

Why You Should Reflect on Your Money Habits After the Holidays



John Karaffa — December 26, 2018

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If you watch any TV or listen to the radio, you are well aware of commercialized bombardment you've been subjected to since early November, to Black Friday, and through the Christmas holidays. If you believe everything you see and read through the Media, then you know you have been missing out on countless materialistic things that you simply cannot live without.

If you have some quiet time over the holidays, I suggest you use the downtime to reflect and hit the reset button. Ask yourself what really matters to you...is it all the things that society dictates that you must have...or is it your family, friends, and the necessities?

You may have a stack of bills and credit card statements that need your attention. In America, the tendency is for people to spend 105 percent of what they make. But you can't create savings and wealth spending 105 percent. Instead, you create a mountain of debt that grows larger every year no matter how much you earn. Resolve to make better financial decisions now.

Needs vs. Wants

To combat the habit of overspending, one of the biggest personal financial fundamentals that must be mastered is the distinction between needs and wants.

What are needs?

- A place to live
- Appropriate clothes
- Food on the table
- Transportation
- Basic necessities for living safely and securely

What are wants masquerading as needs?

- A large, new home
- A luxury vehicle
- First-class plane tickets
- Expensive clothing and shoes
- Jewelry

You get the idea.

In my role as a Certified Public Accountant for professional athletes, I've seen a lot of pros convince themselves that they must spend a lot of money to fit into the world of professional sports. They join the world of name-brand clothes, expensive jewelry, flashy cars, and excessive bills at bars and restaurants. Depending on your career or level of income, you can fall into some of those traps as well. Understanding and practicing the distinction between needs and wants provides a foundation for financial well-being.

Budget and Save

Now that you have contemplated your needs vs. wants, it is time for you to decide how you are going to handle your money in 2019. I suggest setting some goals on how much money you are going to save next year.

You have probably been taught that the normal equation is you take how much you earn, subtract out how much you spend, and what's left over is what you can save. I suggest flipping that equation. Let's come up with an aggressive, yet achievable goal of what you will save in 2019. Then subtract that amount from what you expect to earn. The difference then becomes what you have allotted, or budgeted, yourself to spend.

Next, you have to look at the amount left to spend to see if it's enough to meet your needs. Depending on your answer, adjust your decisions accordingly. This is called budgeting, which creates savings. Budgeting and saving have a reputation as some of the least engrossing topics of personal finance. However, budgeting and saving need to become habits that follow simple guidelines and rules leading you to do the right thing consistently over time...and win.

Tracking spending is a lot like counting calories. You need to know where the good and bad decisions are in order to make changes. You've got to be able to answer these questions: How do I spend my money? Was my money spent on the right things? What should I have done? Some expenses, like your mortgage or rent, are easier to track because you pay the same amount every month. What you spend eating out, buying clothes, or traveling is harder to track. Those numbers can vary greatly, and sometimes you grossly underestimate what has been spent. You could be left wondering where all your money has gone.

Budgeting and saving might also seem like tedious practices, but don't overlook them. Practicing and becoming extremely proficient at these fundamentals will help you score points every time. Budgeting and saving are invaluable skills that lead to success, something you can count on to serve you for a lifetime.

As you take the time to reflect on your personal finances over the holidays, know that your decisions and subtle changes in how you handle your money can have an effect. Saving can be a very rewarding experience as you see your bank account grow in direct proportion to the daily decisions you make. You can make changes and realize the benefits in the New Year. Good luck to you in your personal finances!

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