

Tips for Creating – and Sticking to -- a Budget

Are you one of the many Americans who don't have a personal budget? Do you find yourself living from paycheck to paycheck, never having anything left over to save for a rainy day?

While it might seem like a chore to build a budget and track all your accounts and purchases, you could be taking unnecessary chances with your standard of living if you don't know where your money is going each month. Perhaps the following tips will help you get a handle on the process.

Tally your expenses

You can start by keeping tabs on your spending and maintaining an accurate record of where you stand with your personal finances. Online tools are a great place to start. They can make the budgeting exercise easier while helping you build confidence and personal satisfaction in the process.

Begin by adding up everything you spend in a month. You can come up with your own ledger or use Wells Fargo's Budget Watch. This online tool pulls data directly from your checking, savings, credit card, and brokerage accounts. That allows you to quickly sort your spending into categories — from groceries to health care — to create a more comprehensive and accurate picture of where your money is going. Divide your monthly spending into two categories: necessities, such as rent, groceries, and utilities; and discretionary costs, such as entertainment and shopping.

Next, total up your monthly income, including paychecks, investment proceeds, and any other earnings. Then subtract your monthly expenses from this figure. If you've got money left over, pat yourself on the back. If you're in the red, proceed directly to the next step.

Adjust your spending

Categorizing your monthly expenses may lead you to rethink your spending habits. For example, you may find that frequent restaurant dinners are siphoning off hundreds of dollars from your end-of-month balance. Also look carefully at other spending decisions. Could the money you spend each month on premium cable channels or new clothes be put to better use elsewhere?

Purchases aren't the only place to look for savings. Review the interest rates on each of your credit cards and, if possible, transfer balances to lower-rate accounts. Likewise, refinancing your mortgage to take advantage of low interest rates may save you hundreds of dollars a month.

Save for emergencies

An unexpected medical bill or house repair can quickly throw a wrench into a budgeting plan. Prepare for these unforeseen setbacks by building an emergency fund large enough to cover living expenses for three to six months. This can help buffer your finances if a catastrophe strikes. Review your budget to see how much you can comfortably allot to an emergency fund each month.

Set up automatic transfers to your savings account

Once you have a savings target, set up automatic transfers from your paycheck to your savings account — and make sure you don't dip into those funds to pay for a dinner out or a spontaneous weekend getaway. For instance, don't let a destination wedding knock your budget off track. Perhaps your best friend is getting married in a vineyard three states away — or at a tropical resort an airplane ride away. If you're hoping to attend, make sure you plan for it the way you should for any other vacation: carefully and ahead of time.

The work you do now to build a sustainable budget will likely pay dividends. You'll manage your day-to-day finances better and free up financial resources to pursue long-term goals such as retiring comfortably or helping fund a child's education.

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