

Cherry Tree Wealth Management

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CHERRY TREE WEALTH INSIGHTS: Published by Conner Kolodge, Investment advisor at Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.

INVESTING QUOTE OF THE MONTH:

“If we command our wealth, we shall be rich & free. If our wealth commands us, we are poor indeed.”
—Edmund Burke (author and philosopher)



How much do you spend per year? It's a simple, straightforward question that can often require a complicated process to answer precisely.

Sure, you may know your mortgage payment off the top of your head, approximately how much you spend on utilities per month, and you may notice when your car or SUV costs a little more to fill up with gas at the pump. But really, do you know where all of your money goes? You may not need to know where every nickel and dime go each month, but there is, in my opinion, a happy medium.

When you add up all of your “regular” monthly expenses, you can get a pretty good idea of where your money goes. You can compile a baseline of expenses that can help you forecast your potential savings and/or potential cash flow issues down the line. To create a more accurate portrayal of “an average month,” you may have to add in those pesky twice a year or annual payments for home owner's insurance or property taxes (if you don't ESCROW), and perhaps a car & life insurance or long-term care policy. Did you remember to add birthday/holiday/annual gifts? Once you've compiled the expenses and savings from a long enough time period (think 3-9 months), this information becomes much more valuable.



WHY DOES IT MATTER?

Prioritizes Your Spending

From my perspective, an on-going budget allows me to either confirm I'm on the right track or shows, in real-time, my regressions. A visible budget may allow for further thought on a single purchase or a string of many purchases. A phrase I've stated hundreds of times in financial planning meetings and seminars, is that I believe “it is very difficult to make better use of your financial resources today if you don't know what you have done in the past.” Your prioritizing of your future dollars begins with your understanding of how you are prioritizing today.

Often Translates into a Higher Savings Rate

From an actual spending standpoint, knowing where your money has gone in the past allows for you to change your daily decisions and modify your behaviors going forward. Putting a monetary value on a certain product, experience, or future benefit (retirement), you can easily compare and contrast where your dollars should be allocated towards ideally versus your reality. Each day, you make small financial decisions like choosing whether to stop for coffee or brew some at home. Over a lifetime, you make much larger choices such as which college to attend, what house to buy, or when to retire.

THIS OR THAT

The beauty of money is that it provides a common denominator. Every dollar can be compared. There are plenty of human elements that get in the way of viewing money in such a straight forward manner.

What would you personally rather have?

A cup of artisan coffee every day for a year or a modest long-weekend vacation for two to just about anywhere in the continental US?

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Based on my quick research, both should cost just about \$1,500. If the cost is the same, shouldn't they be viewed as equivalents? Financially, the answer is yes. Realistically, your answer will clearly show your preference. Envisioning the two options can be important in your decision process and depending on how much you value what you can envision, you will choose accordingly.

Let's make the question a bit tougher.

A cup of artisan coffee every day for 15 years or \$34,000?

For the non-coffee drinkers out there, \$34,000 may be a very easy decision and I need to think up a better example... but even for the coffee fanatics who wake up early each morning visualizing their cup of joe, numbers and questions like that above force them to think twice. For those wondering, \$34,000 is simply the straight-line growth of \$1,500 at a 5% rate of return over a 15-year time period.

Questions you can ask yourself may include:

A lifetime country club membership or a secure and comfortable retirement?

A "keeping up with the Jones" house or retiring 10 years earlier?

An upgraded model year vehicle or funding grandchildren's education?

In the three choices above, there is no right answer. Fortunately, your financial decisions don't always have to pit two things you highly value against one another. Where a budget provides tremendous value, in my opinion, is finding which of the line items in your monthly expenses you don't highly value; an expense that you don't value as much as its current cost. A budget review can allow you to make tradeoffs today so your hands aren't forced when you are approaching or are in retirement.

WAYS TO MAKE BUDGETING EASY

Keeping in mind your personal and financial data security, there are plenty of resources and software available to help you create a budget over time without a tremendous amount of legwork.

Applications and websites, including the free one I utilize, Mint (mint.com), aggregates all of your financial data, letting you leverage the information to make better decisions for tomorrow. As the app pulls data from all of your connected financial institutions, you can see your financial self and your spending habits day by day and month by month. This may be the easiest and best way to start tracking your spending.

CONCLUSION

A budget has no value unless you use that information to better your financial self. Each financial decision you make will create a ripple effect that can either force your hand in the future or create an abundance of flexibility. It is incredibly important to allocate your income and dollars today in an efficient manner to satisfy your needs in the present while saving for the longer term. Your personal and family budget already exists today, it's simply a matter of if you are aware of it or not.

Let us help you make the most of your dollars today, and tomorrow.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Conner Kolodge, CPA/PFS, CFP®, CPWA®, is approaching a decade of experience in the financial planning fields of insurance, tax, and investment management. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at <http://www.cherrytree.com>.

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