

One Financial Habit That Trumps All The Resolutions

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Most of us look to the new year as an opportunity to “start again,” clean up our bad habits, make big changes, and reach for the stars! We’ll exercise! Lose weight! Save more! And then Monday comes. It’s another start to another week that feels exactly like those that have come before it. The thrill of the promise crumbles when faced with the reality of packing a lunch, forgoing a latte, or passing up those great sales in favor of a workout.

There are many books, websites, and experts who teach that creating a habit is the clear path to lasting success regardless of what we are trying to change or improve in our lives. So what financial habit is the keystone habit? In my opinion: **track your spending**.

If a client is having trouble hitting savings goals, I’ll ask them to review three months of spending (don’t you love downloading!) categorize by Giving, Must Do, Want to Do, Stuff, Savings, and Debt Payments. I then suggest they make a little pie chart showing the totals by category. By making a pie chart, everyone can see how the pie divides leading to some great discussions around how the client feels about where the money is going. That can be a great “look back” exercise to help you identify things you want to change. The categories should be those that are important for you but keep it to a few so as not to get overwhelmed. Maybe you need kids, pets, hobbies or travel. Eating out is an interesting one as well!

Analyzing what *happened* provides some insight but tracking problem areas “in the moment” is what creates awareness and change.



Here are some things to try:

- Track a particular category of spending.
 - Identify your problem area and track it. Eating out tends to be a trouble spot for a lot of people so, for example, every time you eat out, get in the habit of writing it down. This could be the notes section on your phone, a little notepad, or the back of an envelope in the sun visor of the car. Whatever works for you is the best tool. When you know that you are writing it down, you are being accountable to yourself and perhaps to your significant other.
 - It may be helpful to jot down the circumstances like “left lunch in the fridge” or “traveling” or “overslept and went through the drive-through.” You might see patterns of when the spending is happening. This helps you develop strategies to counter these situations.
- Learn from the data that you are collecting.
 - Have a spirit of curiosity and learning around what is happening instead of judgment and condemnation. We don’t thrive when we beat ourselves up mentally so seek understanding and solutions.
 - Don’t expect perfection! Developing a habit and changing behavior is a process and will have ups and downs.
 - Keep trying – knowing what doesn’t work helps us figure out what does work.
- Identify situational triggers that lead to certain types of spending.
 - Author Charles Duhigg describes the “habit cycle,” and it’s clear that a trigger leads to a behavior. If we can identify the trigger and replace the undesirable behavior with a different behavior, we can change a bad habit into a good one or at least a neutral one. For example, if a frantic day at the office triggers the desire for a fast-food fix on the way home, recognize that, and create a new “if I have a frantic day at the office” behavior: “then I’ll go to the gym” or “then I’ll call a friend on the way home.”

Whatever financial goal you have will benefit from having a clear picture of where the money is going. The backward look helps you see what happened and identify what you want to change. Tracking helps you be mindful and aware as it is happening or about to happen. Developing this one habit and looking at it with curiosity and interest can lead you toward a lot of ways to make small, consistent changes that will last long after the resolution has been forgotten.

For Parents

For anyone with children in their lives, modeling some good financial habits teaches kids to be mindful with money. Many of us are fortunate enough to be comfortable with our cash flow and no longer have the need to track every penny. Unfortunately, the “we can spend whatever we want” approach does not help instill in our kids a respect and appreciation for money.

Whether you are flush with cash or barely getting by, it is helpful to discuss money choices with kids. Just because you can afford something doesn't mean it is wise to buy it. Kids need to see you making conscious and thoughtful choices about money and spending. “We decided that we should only eat out once per week so that we can save for our vacation. Should we do that now or wait for Friday night?” Consistently taking that approach helps kids start to understand money choices.

Help your kids develop their own plan for the cash that they receive as gifts or from allowance or chores. If they get to spend every cent on their desires, they won't get in the habit of saving, giving to those less fortunate, or handling some of life's less fun obligations like buying gas for the car or paying for a new tire. At some point we all must learn that every dollar doesn't get to go toward “fun stuff.” Adulting is full of the not-fun stuff!

Look for opportunities to talk about your own saving and investing choices, how you make money decisions, and let them play a part in planning activities within a spending plan. Letting them help research activities and including the cost of those activities helps them start to compare and think about the value of choices from a financial perspective. “This camp costs \$X and this one \$Y – do you think that camp is that much better than the other one? What could we do with that extra money if you went to the cheaper camp?”

Challenging family members to come up with ideas for free activities can create a little fun competition and identify the plethora of activities that don't cost much if anything. This works well for those on a tighter budget or trying to save for a house or trip – get the friends involved in a little competition to replace the happy hour! Perhaps putting the savings into a “Disney” fund (or whatever your kids long to do) will help them see the value of sacrificing smaller things in favor of a bigger goal.

Kids get all kinds of messages about money and most of them are heavy on spending and light on savings, sacrificing, and being frugal. You want to make sure that your values get some airtime as well! In the hustle of daily life, it is hard to be mindful and purposeful about those conversations just as it is hard to be mindful and purposeful about our spending but developing the habit of discussing and deliberating on financial decisions will provide a good model for your kids.

To learn more or get help with your financial habits, please email me at gildea@homrichberg.com.

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