

The National

Money with emotions

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Taking control of your finances is not just about numbers. Understanding your psychological attitudes towards them is essential. amanaimages / Corbis

Have you ever wondered how money can slip through your fingers? How, at the end of the month, your bank account looks more like a barren wasteland than the rich fields of your dreams?

Understanding exactly where your money goes, and how and why you are spending it, can be the first steps towards controlling your finances rather than having them control you. And a spending diary is essential to exerting some kind of fiscal control on your expenditure.

In its simplest form, a spending diary is a two-column spreadsheet listing your income, which for most people might just be their salary, but for some might also include any additional income. In the second column you should list all your cash, credit card and direct debit expenditures over an extended period of time, usually a month.

You should rigorously record all of your expenditures rather than just the “big ticket” items, such as a trip to the supermarket, so don’t discount the morning coffee you reward yourself with on the way to work and the takeaway you order at the end of the day.

The aim of running a spending diary is to provide a complete footprint of your personal impulses. Only by noting everything can you unravel how cash never quite seems to go as far as you expect.

Laura, British professional in her mid-forties, is one such person who began using a spending diary when she started struggling under the burden of a mountain of personal debt. By the time Laura started tracking the minutiae of her personal expenditure she had accumulated Dh250,000 of debt, mostly piled up while buying clothes and dining out. Now four years later, she has reduced her personal liabilities to Dh50,000 and should be debt-free by the end of this year.

Laura, who blogs at www.NoMoreSpending.net, says tracking her expenditure helped her understand her impulses and “how much she was spending on the little things. At the time, through making bad choices, my debt was more than one and a half times my net salary. Now it is less than a quarter of that figure.” She describes the process of pouring over her own spending diary as “very frightening. It was hard to explain how a seemingly intelligent person could get in such a mess in the first place.”

And, according to Alvin Hall, a personal finance expert and author of several books about improving your wealth, you should keep a spending diary for a month every year even if you are blissfully happy with your bank balance.

“For a person who has no financial problems, keeping a 30-day spending diary perhaps once every year or two can be a useful exercise,” he says. “It will usually reveal how the person’s spending may have changed or how waste has silently crept into the ways you use your money. People assume their money habits stay generally the same, but they do not. The periodic diary exercise can provide important insights that will help a person stay on a prudent financial path.”

Mr Hall, whose most recent works are a children’s book called *Show Me the Money* and a book for grown-ups called *You and Your Money*, says that although a 30-day period might seem a long period to keep track of your expenditure, it “helps you see where your money is actually going, it’s also important because it gives you insights into your own emotionally driven spending habits”.

And, if you have become mired by financial difficulties, keeping a diary is part of the surgery you must undertake to start understanding where your money goes, says Hall.

“Those frequent, small, mindless spends that can add up to a surprising amount of wasted money each month,” he explains.

“It could be food and snacks, takeaways, DVDs, toiletries or trinkets. If a person is going to put his or her finances in order, then they must take control of these demons and exorcise them from the way they unconsciously manage their money. I use the term exorcise because generally these little spends are related to some deep-seated emotion that it may be hard for the person to confront in order to make the needed changes. Taking control of one’s money has never been solely about the numbers; it also about changing the emotions and psychological attitudes behind the numbers, usually in equal parts.”

Those emotions are, ironically, rarely as scrambled as at the time when a pay rise is looming, according to Hall.

“Many people increase their spending in anticipation of a pay raise before the money is ever in their bank accounts,” he says. “Therefore the money is gone before they ever actually earn it. An important goal to building financial security is saving, and what I call ‘anticipatory spending’ undermines that goal. The key to long-term financial satisfaction and security is controlling both the numbers and yourself. You must be your own best financial friend.”

A spending diary will, undoubtedly, improve your understanding of your relationship with money, and help rein in those impulse purchases. Armed with knowledge, it should have a profound impact on your personal financial well-being.