



Investment Insights

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Fueling Your Success

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Ongoing savings is the fuel that powers you to financial success. Too often, the focus is on maximizing existing investments: finding the best mutual funds, researching hot stock ideas, etc. But this will only partially contribute to your financial success. The big deciding factor is likely to be how or if you continue to save and invest throughout your lifetime. Not continuing to add to your investments is like having a great paint job on your car, but no gas in the tank: looks good, but won't get you anywhere.

If you're like most people, you are now thinking, "Sounds great, but I don't have any extra money left over at the end of the month to save." In fact, looking at Federal Reserve Bank data for the first 11 months of 2005, the average American actually spent more than they took in. Unless December was a great month for savings (ha, ha), this will be the first time since the Great Depression that the average American household spent more than they made.

If you're serious about reaching your personal financial goals, here are three steps that can enable you to achieve success:

1. Use Quicken or MS Money to track your spending. You can buy a basic version of one of these programs at any electronics retailer for about \$40. Enter in all of your checks, credit cards, etc., either manually (if you're old school like me), or using downloads automatically from your financial institutions. Junk the old paper check register in your checkbook, it's useless. Get all of your info into a financial program where you can manipulate the data, run reports to track spending habits, and set up budgets. If possible, work backwards and build a history of at least a year so you have a decent amount of information to assess. Remember, numbers don't lie: you may be surprised at how much you're spending and on what.
2. In previous columns, I've talked about the notion of "paying yourself first". The idea is to determine your personal goals, and develop "bills to yourself" to pay for these goals. For example, you may have the goal of retiring some day. Determine how much money you'll need in retirement, and thus how much you need to be saving every month from now until you reach that goal. Make that amount a bill to you, and put it at the top of the list, ahead of everything: mortgage, utilities, going out to dinner, etc. This is a critical step: remember, you don't have any

“extra” money at the end of the month, so if you don’t put this bill at the top, chances are it won’t get paid.

3. Set up all of your bills to pay automatically, including bills for your savings and investments. Much like you have taxes withheld from your paychecks, view all of these bills as “withholding”, and whatever is left as income. By automating these payments, you eliminate the feeling that these things are optional. Now it will take an effort to not pay these bills. Best of all, the money that’s left in your bank account truly is income, and can be spent on whatever you want, guilt-free because you know you’ve taken care of what’s most important to you already.

In my role as a life/wealth planner, I spend as much time helping clients develop this process for their situation as I do selecting and monitoring investments, it’s that important.

Remember, an object in motion tends to stay in motion. To break the pattern you’re in, you need to take charge and change things yourself. If you’re frustrated by having a good income but nothing left at the end of the year, and worried that goals such as retirement will never be met, take control of your finances and implement the three steps above.

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