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PLANNING PERSONAL FINANCIAL STABILITY

FINANCIAL difficulties are distracting. They make it difficult for a person to do his best work. They lead to health-destroying worry. They are not of the sort that if you leave them alone they will go away.

Our trouble is that while we plan in some detail for most of life's activities, we neglect a vitally important step if all the other things are to work out well—we fail to make our money behave as it should.

We become irritated when we see men and women with similar or smaller incomes getting more enjoyment out of living than we do. They seem always to have money with which to enjoy the bigger and better things which we miss so much. They have peace of mind, too.

This Monthly Letter is written with the idea of giving hints and outlines of plans leading toward a sound financial system. Having a plan on paper is the only way we know of to tackle the problems of getting out of debt, making ends meet, acquiring the things you want, achieving security, and saving money.

The plan you wish for is one that will help you decide where you want your money to go, send it there, and show you the score.

It will bring your desires and the wishes of your family into focus. That act in itself will help you to decide which attainments mean most to you. From that point you can go on to divide your income to the best advantage, control expenses so as to get greatest life values, and provide the material security which contributes so greatly to serenity of mind.

There is nothing miserly about planning in this way. Some people are inspired by the idea of putting money aside for a rainy day—which is wholly commendable—but they carry their obsession to the point where they seem to be always expecting another deluge. Ring Lardner says in one of his stories about Louis, who was saving for a rainy day: "his wife had long ago given up praying for rain."

Thrift is good management of money. It means getting the most for your money over a long period of

time. Sometimes it means deferring spending now in order that we may have more to spend later.

Making Choices

The important thing is for everyone to decide what is worth most to him, and then lay plans to get it.

Human wants and desires are inexhaustible, but choices must be made between them because our resources for satisfying them are limited. The purpose of a budget plan is to give us a sharp picture of what is available for our desiring, and then show us how to buy the greatest material satisfaction possible.

A survey among stenographers a few years ago showed wide variety in the spending of identical salaries. One girl would skimp on food so that she might have an apartment instead of a room; another would walk to the office to build up a fund for buying books; others saved on these and other items so that they might be always well groomed.

These stenographers had weighed their wants, and had decided that the sum they spent in their way would give them more satisfaction than if they spent it in any other way.

In his popular book *The Mature Mind*, H. A. Overstreet tells of Buddha's search for happiness. Buddha tried out experiments on himself—many of them extreme and more or less futile—like trying to live on a few kernels of corn. He wandered about observing people in all their relationships, trying to get hold of the elusive causes of their miseries. After a while he made what he thought was a decisive discovery: men are miserable because they desire things, and because desire can never wholly be satisfied.

As an example, consider the man who wants a home, a car, and an independent income 15 years hence. From a financial point of view, each will require about the same investment spread over these years. The man whose income will carry only one of them must choose what one. If he tries to handle two of them he automatically hurls himself into financial trouble, depriva-

tion in other areas of life, the spectre of debt, and worry that saps his health so as to destroy his enjoyment.

Security

Mere mention of the word "security" is enough to panic some people into frantic search for a coveted key to happiness. If Abraham Lincoln were living today in the circumstances from which he worked his way to greatness, he would be certified as underprivileged and insecure. H. T. Webster drew a cartoon in his satiric vein, in which he pictured Lincoln's log cabin bearing a sign: "ill-housed, ill-fed, ill-clothed."

Security today too often means being taken care of, and not as in Lincoln's mind and time the outcome of a constant relationship between effort and reward.

Actual security does not exist in human life, but the feeling of stability may be found by every man, each within his own environment. It is relief from tensions and anxieties and the gratification of wishes.

A happy man needs opportunities of adventure almost as much as he needs security, but he requires a stable base from which to operate, and to which to return.

To build personal financial stability lies within ourselves to a greater degree than some like to admit. To spend wisely, to anticipate money needs and prepare to meet them, to avoid obligations which cannot be met: these are steps toward stability of an enduring sort.

A moderate income, wisely used, will enable a man to live reasonably well, to build adequate financial protection for his family, and to provide for his own old age a time relatively free from financial worries. But such a happy state of affairs does not come about by chance: it must be planned.

Emergency Fund

Some persons object to a budget plan because they say something unexpected may happen to upset it. Of course it will. But without a budget you just worry hopelessly: with a budget you know where the squeeze can be applied on routine items so as to take care of the unexpected.

It is a fact uncovered by research people that financial emergency is not so much caused by expenditures on food, clothing and shelter, even on a too-high scale, as it is by failure to provide adequately for emergencies. Everyone should try, as a primary call upon income, to build up a reserve fund.

This is not so difficult as it may appear to the person who is giving his first attention to budgeting. One tabulates all the emergencies he can think of which are likely to occur; then he determines which of them can be shifted to risk-bearing institutions, such as insurance companies, health contracts, and so forth; and finally he determines what amount is needed in liquid form and how much should be put into interest-earning funds.

Many people have written about the size of this reserve fund, but, helpful as such suggestions may be as rough guides, it is impossible to set fixed amounts. No two families have the same conditions, either of income or outgo. No two families encounter the same emergencies, illnesses, fires and accidents. No two families build up the same standards on which they wish to live, standards dictated by business connections, church affiliations, social traditions, school activities, and so on.

Insurance offers the easiest way to provide what is decided upon as protection against life's usual hazards. People insure to protect dependents; their insurance is a system of transferring the individual risk to a group in exchange for payment of a premium. "Insurance brings the magic of averages to the rescue of millions," as Churchill once phrased it.

That is for protection. To get ahead financially, a person needs a savings programme.

Savings and Investments

There is little satisfaction in putting away \$5 or \$50 a month just to see the money accumulate. The real joy is in having an objective, a desire for the future which our saving will enable us to satisfy. There is true contentment in looking back at the end of a year and seeing how, by refraining from frittering away money on things not really needed at the time, or not wanted very much, we have money in the bank to apply toward something ardently desired.

Savings should not be left lying around in dresser drawers or in desks. That practice has led to many heartbreaks because of theft, and it is dangerous, too, in the temptation it gives the owner to break into the savings for something of momentary appeal. A bank savings account is easily opened; the pass book becomes not only a good record of savings and accumulated interest but a source of inspiration and confidence.

Samuel Pepys wrote in his diary on February 16th, 1660: "I by having but 3d in my pocket made shift to spend no more, whereas if I had had more I had spent more as the rest did, so that I see it is an advantage to a man to carry little in his pocket."

With the emergency fund and savings taken care of, it is time to think of investment in securities.

To be classified as an investment, any stock or bond should possess at least these three qualities: safety of principal, conservative income, and saleability. While saving is a programme of gathering funds for specific purposes, investing is a programme of using funds to earn money which will be available when wanted.

Formerly a matter for only the rich, today sees investment open to every worker. This spreading of ownership in corporate enterprises is one of the better features of our recent industrial and financial history. Canadian banks, for example, have some 66,000 shareholders, ranging from men and women with one \$10 share each to some families which have many shares.

On Looking Ahead

Many of our financial difficulties are caused by failure to make proper provision for the expenses which must be met periodically during the year, such as insurance premiums, taxes, Christmas, furniture, fuel, clothing, vacation, and retirement fund or annuity payments. The budget is planned for yearly spending. It is hopeless to try to operate a budget on a weekly or monthly basis, because all weeks or months have not the same obligations.

The best way is to set up an annual estimate of your expenses and then divide it into periods corresponding to your income receipt, weekly or semi-monthly or monthly. The sums being collected toward items which come up infrequently should be set aside every pay day in cash or in a bank account ear-marked for the purposes they are to serve.

Count the number of pay days from now until the time the bill falls due, and figure the amount it will be necessary to save each pay day. If \$25 will be due in five months, you will need to put aside an average of \$5 a month; but once you get your budget rolling the \$25 obligation recurring a year later will take only a little over \$2 a month.

In all this planning it is well to allow a margin to cover short guesses. Few of us can see clearly enough into the future to be certain of all our calculations. A saving and investment programme is a great protection and comfort, because the fund accumulated there can be switched at will to meet new demands or changes in desires.

When and How to Start

When you decide to budget, start right now. The time of year doesn't matter, nor age, nor the state of your finances. Your only chance to control your money is before it is spent, and that applies whether you are a freshman in university or looking forward to retirement. Cato, the old Roman, started studying Greek when he was around eighty. Somebody asked him why he was beginning so large a task at such an advanced age. Cato said dryly that it was the youngest age he had left—and went on studying.

Budgeting can be undertaken by degrees, and enlarged from time to time. The longest part of the journey is the first step. It is difficult because usually there are no adequate accounts of the preceding year's experience from which to take off.

Most family expenses fall into a fairly constant pattern, repeated month after month, and a skeleton can be built up from receipted bills and the family's recollections. Then proceed to jockey the items around until estimates of expenditure match income.

There is no such thing as a "standard" budget that will exactly fit your circumstances. No one else can know as well as you yourself what you need and want.

The object—to make your money do what you want it to do in catching up with the past, caring for present needs, and building your happiness for the future—

should be achieved with as little detail as possible. All you need for budgeting are a simple budget book and a place to keep papers. Don't go in for involved bookkeeping; don't buy an elaborate and expensive set of books (some institutions, including this bank, provide adequate budget books free); don't set limits that are impossible to keep; don't be so stern with your impulses that your budget becomes a kill-joy (remember, you are keeping it in order to get more of what you want most); and don't be afraid to revise your budget in accord with what experience teaches.

Why Budgets Fail

It is probably safe to say that most failures in budget making are due to one of two things: trying to make a budget fit into some preconceived form or formula, or getting discouraged after too short a trial.

Obviously, no formula budget, based perhaps on percentages of income to be spent for various items, will suit all families. Desires, standards and resources vary too greatly—and it should be recognized, too, that not all persons are able to exercise the same degree of restraint in spending.

Some families get off to a bad start because they try to save too much. Favourite dishes disappear from the table, the children's pocket money is cut, tempers become frayed, and everyone is thoroughly uncomfortable until the good intentions collapse and a retreat is made to the old haphazard way of operating.

Budgets may fail because they are only resorted to in time of trouble. It is not fair to panic into budgeting when the family finances are in big red figures, and then, having weathered the storm, to go back to the old way pending a new crisis.

The budget must be made to work out in day-to-day buying. There is no use in cutting your paper estimates for clothing, entertainment or incidentals and then doing nothing practical about it. The expenses do not shrink automatically because you have put down smaller appropriations in your budget.

About Debt

Getting into debt is a destroyer of well-organized budgets. A survey was made by the U.S.A. Bureau of Labour Statistics into the spending habits of 10,813 families in 91 big, middle-sized and small cities. The average family had \$4,300 left to spend after paying about seven per cent of its original income in taxes. It actually spent \$4,700. The \$400 gap between income and outgo was bridged by piling up debts, tapping the family savings, and, in a few cases, by windfalls such as gifts and inheritances.

There are dozens of reasons why families find themselves in debt, but families with spending plans can meet most emergencies and they have fewer unpaid bills than families which run finances haphazard.

The first step toward getting out of debt is to list and total up unpaid bills; then reduce expenditures to a minimum which will not endanger health; then systematically apply net income to reduction of the

debts. If a budget plan is explained to creditors they will be likely to respect your businesslike proposal for regular payments.

Instalment buying has contributed to the extra comforts enjoyed by thousands of families. It is not objectionable if only a manageable part of future earnings is used and if the interest charges are not abnormally high. It is abuse of the plan, buying beyond one's means, that prevents many salaried workers from getting ahead toward financial stability.

To whatever extent a family decides to go into instalment purchases, it must protect its budget position by care and planning. Payments need to be met, and they form a peremptory claim upon income. This same stricture holds true with regard to charge accounts, which may be used safely if the budgeteer knows in advance what purchases are planned, and makes sure that the money will be available to meet the bill.

Personal debt can cause an enormous amount of sorrow, but credit properly managed may be a way of increasing happiness. The difference is, again, one of choices. Borrowing within your capacity to make improvements in property that will enhance its value, or to install a labour-and-money saving machine, or to pay for education which will increase earnings—these are choices which will pay well.

Borrowing to get out of debt—consolidating debts, as it is called—is sometimes justified. If you have bonds or other stock holdings, it will probably be better to borrow from the bank on their security than to sell them. When you sell an investment, you are killing the goose that lays the golden eggs; when you borrow on an investment you simply let the bank hold the goose as security, while you still get the golden interest eggs.

Anyone can find out for himself whether he has good credit. Look at your budget, and if you find anything left over each month after making provision for paying living expenses, meeting future bills, reducing past debts, and building the emergency fund—what is left is the measure of your capacity to meet new credit obligations.

A Family Affair

Budget-making is primarily a family affair, though it can start individually with young people just as soon as they attain the stature of having a personal allowance. A school or university student has the same reason for planning expenditures that everyone has: to make money do the most possible in providing happy living.

Two or three hints may help in budgeting at all ages. Don't let anyone dictate how to spend your money. You know your ambitions: what you have to do is sit down with pencil and paper and devise the means whereby the money you have and what you reasonably expect to get will achieve what you want.

Don't be influenced by your parents' scale of living. They have been many years in reaching that point,

and it is witless to think that you can start out from there, basing your starting scale of living on their attained goal. Be independent of neighbours' and friends' standards of living. Build your own plan to fit your own combination of desires and income.

Throughout this Monthly Letter reference has been made to the budget in terms of the family. That is as it should be, because a budget must be a combined effort. Research in Chicago showed that 40.2 per cent of the desertion cases were rooted in financial tension between husband and wife, while 45 per cent of cases of cruelty had behind them financial tension.

These grim reminders of the disturbing things that may happen when co-operative money management is neglected should spur every family to take united protective action at once.

A budget session, with all the family participating in planning the future realistically, should be more interesting than a radio programme. Naturally, every member of the family cannot have an equal voice. The major contributors to the money income and the real income have a right to a major voice in decisions, and they have acquired skill and experience. But everyone can have a say in deciding what the family and its individual members expect out of life this year, next year, and other years. Then let them make appropriations that are in keeping with the realities of available and expected income.

Is It Worth While?

It may seem like a lot of effort to work out a budget plan for a family and to calculate carefully what will bring the greatest gain, but a valuable thing is all the more precious to us if it has been won by effort and thought.

To provide financial stability by eliminating wasteful spending and encouraging useful saving; to build up toward what a family believes to be its best standard of living; these are what good budgeting offers. To be prepared for jolts, to predict and to influence to some extent the family's future, to fit the economic facts of life to one's possibilities and opportunities: these are achievements that are worth trying for.

To find out, in the process, that the family is a unit in desiring the good of all rather than the greedy pleasure of each; that happiness is won by groups far oftener than individually; and that hospitable entertaining has less to do with extravagant spending than it has with the way you say "come over this evening"—these are by-products of budgeting that are beyond price.

A well carried out budget plan offers stability, freedom from fear and worry, happier family relationships, increased efficiency, and personal satisfaction.

All this results from answering in the affirmative the key question, and then doing something effectively about it: Are we planning our spending on the basis of what we want from life?