

HOW TO MANAGE YOUR MONEY EFFECTIVELY;



50/30/20 RULE



Most of us dread the idea of budgeting and money management. We tend to feel stressed and hence refrain from neither of them. The irony is that money management brings calmness and peace of mind. When your money is under control, you'll realize that you always have enough of it to pay for your needs besides saving for a better future. The best way to manage your money is to set a budget. This article will explain a very simple rule that would help you with setting a budget. It's the 50/20/30 rule Elizabeth Warren explained in her book "All Your Worth" in 2005. This rule has helped a lot of people to not only manage their finances but also, get out of debt.

What is the 50/20/30 rule?

The 50/20/30 rule divides your income over 3 categories; 50% Needs, 20% Savings and 30% Wants. Simple right? The only challenge you might face is to decide on the difference between the needs and wants. So let's walk through each category.

50% NEEDS:

Needs are basically the expenses that you can't compromise, the life essentials. These include, but aren't limited to groceries, rent, medications and minimum debt payment (The amount that if wasn't pay would require extra expenses in the future). In order to figure out if an item is a need or just a want, ask yourself, can I go a month without paying it, or will this delay result in a harmful consequence? These consequences might be health, safety, and being forced to pay unnecessary expenses due to late payment. After defining your needs, allocate no more than 50% of your income to these expenses.

20% SAVINGS:

Savings are super important that they come even before your "wants." 20% of your income should be allocated to your savings and investment. This encompasses depositing money in a saving account, Stock Market, emergency fund and repaying debts. As mentioned earlier, minimum debts are considered to be under the needs, however the rest of the debt that would decrease the amount of principal is paid out of the 20% of the savings.

This category is one of the most forgone despite its high importance. "Don't save what is left after spending; spend what is left after saving" recommended by Warren Buffet – the World's most successful investor and the 3rd wealthiest person in the world. Warren suggests that paying yourself - saving – should

be prioritized over everything else. By paying yourself first you will be creating a wealthier stress-free future.

If you are interested in starting to invest in the Stock Market but you actually know nothing about it, no worries **Noqood** got your back. You could start by reading the “How to Prepare Yourself for Your First Day of Investment” after you’re done; you could easily apply for a brokerage firm over the application.

30% WANTS:

Wants are things you spend money on that are completely unnecessary, such as dining out, unnecessary shopping, movies, highest-internet speed, TV Packages, choosing to buy the latest phone even though yours is working well, choosing BMW over Toyota all these are considered wants. To cut it short, any “extras” you spend just to make your life more enjoyable and entertaining would be under the umbrella a wants. According to Elizabeth Warren, this category shouldn’t exceed 30% of your income.