

26: Budgeting



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With Your Host

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Welcome to The Wealthy Mom MD Podcast, a podcast for women physicians who want to learn how to live a wealthy life. In this podcast you will learn how to make money work for you, how you can have more of it and learn the tools to empower you to live a life on purpose. Get ready to up-level your money and your life. I'm your host, Dr. Bonnie Koo.

Welcome to episode 26. How's everyone doing? I'm recording this episode in mid-September and I just got the news today that I'm going to have to get braces. Okay, I'm not getting the metal stuff. I'm going to get Invisalign. And I won't start for another month. So, if you start hearing some lisping or some weird sounds, you'll know why.

Anyway, today, we're going to talk about cash flow, or spending, or the dreaded B-word, for budget. How many of you cringe when you hear the word budget? I do. When I hear the word budget, I think of deprivation. It's like counting calories on a diet or not being able to eat carbs when I really want to.

So, I teach budgeting inside my paid program, Money for Women Physicians. And almost a whole module is devoted to it, with several lessons within it. I can't spill all the beans on one podcast episode, but I want to talk about my budgeting philosophy, or my philosophy when it comes to cash flow.

I know most of you really don't want to deal with this. And maybe you're about to hit the pause button. Or you'd rather learn how to invest or make more money. But hopefully, by the end of this episode, you'll be convinced that managing your cash flow is critical to building wealth.

I think a lot of stress and anxiety about money is due to not knowing what's going on with your cash. And besides wanting to know where your money is going, the reason why it's so important to get straight on this is because you need to know how much you can put towards building assets or buying assets, right?

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I think a lot of us think of budgeting like this. We should create one, and then we have to stick to it. It sounds like a money diet. You know, I see a lot of women in Facebook groups doing no-spend months, especially after November or in the new year.

And it's basically saying, "Hey, let's go on a diet for a month," but then not actually get to the heart of the matter as to why you're actually overspending. Just like if you want to lose weight, you kind of want to deal with why you're overeating. It's kind of the same thing, actually.

And so, I like to say that the first step is just to collect the data and realize that it's just numbers. You need to know and understand what the numbers are to begin addressing things like debt, overspending, et cetera. Kind of like weight loss. You've got to get on the scale.

You've got to get the, "How much do you weight? Do you have a goal weight? What is that? How many pounds in between?" And honestly, creating a budget – now, I personally like to call this your spending plan. So, creating your spending plan is going to involve getting down and dirty with your numbers.

So, I have a four-step process when it comes to looking at your cash flow. And so, step one is discover; gather the data, which we just talked about. Step two is explore; investigate your spending. Step three is optimize; refine your spending. And step four is implement; create and implement a spending plan you love. Yes, it's possible to have a spending plan you love.

So, I briefly talked about step one, where you're basically gathering data. And this part is pretty simple. You can't make any decisions about how to spend your money without knowing what you have or don't have, right?

Now, some of you might be thinking, how does someone not know what these numbers are? I've met more than a few physicians who actually don't know how much money they take home every month. Some people don't even know exactly how much they make per year.

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I know, I think it's really strange. But a lot of people like that are out there, and maybe you're one of them. First of all, no shame, no embarrassment. You just have to pay attention to it. It's no big deal. But this is really the first step. What's the input? What are the outputs? It's that simple.

Step two, explore or investigate your spending. So, in this step, I usually have my students look back at their last three months of spending. You know, there's going to be certain things that are sort of repetitive, like your monthly mortgage payment or rent payment, that are the same every month, or about the same. And then there are categories that have a lot more wiggle room and kind of shrink and grow and every month is different.

So, I recommend looking at the last three months. And this is just to identify trends. This is not a time for you to judge yourself or how you spent your money in the past, okay.

Now, inside my program, I actually have a whole lesson dedicated to the psychology of overspending. Not all of us are overspending, but some of us overspend from time to time in certain situations or certain categories of things. Maybe it's bags or shoes for you. And we go into the psychology of overspending.

And I have an episode where I talked about overspending and I give you a sneak peek as to how I teach my students how to stop overspending. But, in a nutshell, I teach them how to lessen the desire to overspend. Because it's so simple to stop overspending if you don't want to spend money on something.

It sounds so simple and it also sounds like, "Well, how does that actually happen?" You know, one thing I want to say is a lot of us think our wants, meaning, "I really like that purse..." I don't know why I'm talking about purses. I'm not really a purse person. But we think that's part of our identity, what we like and what we don't like.

But you can actually train yourself, if you want to, to not want something as badly as you used to. And the analogy I love to give for this, because this

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freaks people out when I say it like this, is this – and this is something we can all relate to.

Think of someone you used to have the biggest crush on. Remember him? When was the last time you thought about him? Probably not since you were crazy about him, or her, right? It's kind of like that. You used to be crazy about someone and now you're not. It's kind of like that. Anyway, it's totally possible when it comes to overspending. It's the same concept.

I also want to say that I have a lot of under-spenders in my program, because they're underspending from a place of scarcity. And then I have everyone in between. I consider myself an over-spender.

Okay, step three is optimize or refine your spending. This is where we take the stuff from step one and step two and we start to make some decisions about how and what we'll spend in the future. This is where you make a first draft at your ideal spending plan.

Notice, I said the word, "Ideal." Meaning not always reality, but we have an ideal spending plan. This is also when we address things like debt, what's your debt pay-off plan? This is where we address creating or funding an emergency fund if you don't have one yet, things like that. And this is also where we talk about how much money per month are you going to devote to buying assets? Basically, paying yourself first.

So, let's talk more about this paying yourself concept. Now, I know this probably isn't news to you. And it wasn't news to me. But it wasn't until actually pretty recently where I truly understood what that concept was. So, I wanted to make sure that you understand as well.

And so, the pay yourself thing makes total sense. Everyone says, "Pay yourself first." But how many of us do that? I think most of us approach our monthly spending like this. Money comes in from a paycheck, whatever, other sources of income. We pay all the bills. And then we kind of see what's left to spend money on for ourselves and for creating wealth.

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So, I think of paying yourself first as making creating wealth your number one priority. Now, it doesn't have to be your number one priority, obviously. But if you're serious about creating wealth and making medicine optional, making practicing medicine on your terms, then you really need to put wealth as a top priority. And I think this makes total sense, right?

But how many of us are paying ourselves first, paying our future wealth first before paying everyone else? No, I think many of us are paying everyone else, paying all the bills, and then we see what's left over after we go out for a vacation or whatever we like to spend money on, fun spending. Then we see what's left, if there is anything left, to invest.

And you need to kind of look at it the other way around. Now, depending where you are in life and depending what you, sort of, created so far – what I mean by that is you might have an expensive mortgage. You might have some other expensive things, or just things that you're paying for. And so, you might not be able to whittle this down overnight. But can start taking some steps today to start prioritizing your cash flow towards wealth.

Now, you might want to listen to a prior episode I did with Dr. Latifat, where we talked about automating, or automation. And this is something that could go so well with making yourself, your wealth a priority. So, I know a lot of people, for example, and I think she talked about it specifically, you know, having monthly automatic payments or transfers to your taxable brokerage account. Out of sight, out of mind.

A lot of us have automatic payments for our employer's 401K where it's taken out of our paycheck, which means we don't have to be worried about spending that money because it automatically goes to that account. That's kind of what I'm talking about. But I hope I'm beating a dead horse here, obviously. But really, you need to prioritize paying yourself first so you can start creating wealth.

And, before we go onto step four, I also want people to identify what they call their joy spending; the areas that we love to spend money on that really gives us joy. These aren't necessarily expensive things, but I think it's

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important because I think when we think of budgets or spending plans, we often focus on the things we have to pay for, right? Instead of thinking about, “Well, going on three trips a year really makes me happy...”

Kind of like when you’re planning your schedule for the week. How many of us are prioritizing us, our self-care? And so, that is the same concept when it comes to your spending. And so, these are COVID times, so obviously my family and I, we’re not really traveling. So, that sort of spending area has decreased almost to zero, frankly.

We did take a few local road trips recently. But obviously, we’re not flying anywhere or things like that. And so, the area that I love to spend money on is actually food. We’re not going out so much. But I actually like to cook a lot. I like to try cooking new things. And I like to buy good quality food.

We like to shop at Whole Foods for example, including Costco. And I’ve been buying a lot of flour. I’ve been doing a lot of baking. Not super-expensive. I’ve been buying a few baking tools from Amazon. Again, not super-expensive. But spending in these areas really makes me happy. And so, I’m happy to include that. So, those are just some examples. But we all have different areas in our life where we love spending money on that gives us a lot of joy.

Okay, step four is implement. And this is where you kind of put everything together and then you actually implement the spending plan. Now, remember, I said this is an ideal spending plan. Meaning it’s not going to be perfect every month.

And also, once you start going through the first iteration, you’re going to make changes. You’re going to make tweaks. And so, this is where I see a lot of people veer off track. They create this, quote unquote perfect budget, it doesn’t go as planned. And then they give up and say, “See, it doesn’t work. I can’t do this.”

But you’re putting too much pressure on yourself. It’s going to take time to figure out what works, what doesn’t work, et cetera. And so, I really want

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you to think consciously about creating a spending plan that is in line with your money goals. And then, you want to spend some time reviewing it, maybe just monthly, where you review and adjust. Remember, we don't beat ourselves up when we go off plan.

Now, I get asked all the time, "Which program should I use?" So, you may know by now, if you've been following me for a while, that my favorite budgeting program that I personally use and recommend is called YNAB. It stands for You Need a Budget. Kind of a funny but super-clever name.

Now, this program was created, you know, I don't know how long ago. But I started using it in my last year of residency. And back then, it was a desktop-only program and you had to enter transactions manually.

Now, back in residency, I wasn't making a whole lot of transactions, so I actually kind of enjoyed inputting my transactions. But it's since gone web, meaning that it is fully online and you can synchronize it with your bank accounts and credit cards.

Now, a lot of people tell me that it's complicated to set up, et cetera. And you know, it's hard for me to comment on that because, like I said, I've been using it for a very long time. However, the new version, which is the current version, the web version, you know, it is a little tricky the first time. They have tons of awesome tutorials that you can also look at.

But I've since found a YNAB coach that we've connected. And he's got amazing YouTube videos. So, I'm going to link him in the show notes. His name is Nick True. And I actually thought he was so awesome, I actually invited him to create a custom YNAB tutorial inside my paid program, Money for Women Physicians.

Why do I love YNAB so much? Okay, so, here's the thing. YNAB is the only budgeting program, as far as I know, where you actually create a spending plan ahead of time. And it's the only program where it tells you what you can actually afford right now, versus on credit, versus, "Oh yeah, when that next paycheck comes.

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Because most other programs – people talk about Mint – they’re tracking programs. They just track how you spent your money, meaning they’re looking back at how you spent your money. With YNAB, you literally are looking forward with your money.

And I promise you, once you spend the time to set it up or you can hire Nick, who does one on one YNAB coaching, it’s so easy to maintain. And so, anybody who’s been frustrated with the setup, I just recommend, hey, take another stab. Maybe spend some time with Nick. He’s not super-expensive. Once again, I’ll link him in the show notes. And give it another spin.

I love it. I actually took a break for a few months because I got a little – I’m not sure if arrogant is the word, but I was like, “I don’t need to budget. I’m fine.” And I don’t know, I just really lost touch with how or what my money was doing. And I also noticed that I wasn’t really hitting the goals that I wanted financially.

And for me, YNAB just is easy for me to use. It’s easy to maintain now that it’s already set up correctly. And actually, just recently, with Nick’s help, I actually redid my spending plan in terms of the different categories I use in terms of, you know, how I’m tracking and how I’m planning my money.

I actually use YNAB inside of my business as well. So, I have a bookkeeper/CFO which stands for chief financial officer. So, a fractional, you know, I don’t have a fulltime CFO or bookkeeper. But we use YNAB for my business bookkeeping. Because, like I said, you can just mine so much amazing data. You really can get a pulse on the data.

Now, I’ve previously used Bench. And I don’t have anything against it, but I just felt out of touch with my money. I didn’t really understand where my money was going. I didn’t quite understand, how much was I spending in this category of my business? And now that we’ve brought it all back inside of YNAB, I just feel like I have such a better understanding of my business finances.

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Now, the beauty of YNAB is you can create multiple budgets. So, I've got my personal finances in there. My business is also in there, the same YNAB account. And we also use it for our real estate bookkeeping as well.

So, I do want to say that YNAB is not a free program like Mint is. To be honest, I don't remember how much it costs. It's like five or seven bucks a month. I do not have an affiliate relationship with them at this time. But I just tell everyone, go and get it.

Go and take a spin. It's usually free for the first 34 days. And look at Nick True's YouTube videos to help set it up. He actually has one that's like an hour long on his main YNAB coaching page. And that, I think, is probably enough for 99% of the people listening to this podcast. And if you want some extra help to make sure you really have it set up properly, go ahead and hire Nick.

So, that's all I wanted to cover today with spending or cash flow. So, I just want to quickly go over those four steps I mentioned. Number one, discover where you gather your data. Step two, explore, investigate your spending. Step three, optimize or refine your spending. And step four, create and implement the spending plan you love.

And the program of choice is YNAB, or You Need a Budget. And if you're interested in learning more about it or Nick True's program, go ahead and look at the show notes. And just a reminder that YNAB tutorials are also part of my paid program, Money for Women Physicians. I'll see you next week, everyone.

Hey, if you're a woman physician who is ready to practice medicine on your terms, then you've got to check out my program; Money for Women Physicians. It's part-course and part-coaching and 100% guaranteed to put more money in your pocket. Go to wealthymommd.com/money to learn more.