Jules Knox, Evalesco Financial Services

Jules Knox is a director and financial Adviser at Evalesco Financial Services, a Sydney-based advice firm whose purpose is to empower clients to be healthy, wealthy and happy. As a financial adviser, Jules develops plans to help her clients achieve their goals and provides ongoing advice to ensure they stay on the path, adapting their strategies as life changes, always commencing with a budget.

Why 'budget' is not a dirty word

Jules Knox

A fellow advice professional I met recently said he avoids the term 'budget' when meeting with clients as they see it as a dirty word. He went on to explain that if you ask clients to complete a budget, they will think that they are going to have to give up the things they love or their lifestyle will suffer. For instance, they will not be able to buy the kids the Christmas presents they want or have their annual family holiday, and baked beans will be a regular event at mealtime.

I was shocked. How could anyone possibly think that budget is a dirty word? It may sound a little nerdy, but I believe that budget is a beautiful word, and I often discuss the importance of budgeting and cash flow management with clients and colleagues.

Creating balance and opportunity

Many clients believe that budgeting is all about sacrifice. In other words, they will have to cut back and forgo the lifestyle they enjoy now so that they can have the lifestyle they want in retirement, or some other future date.

I would argue that effective budgeting is actually about balance and opportunity.

First, it is about finding that balance between the lifestyle that clients want now versus the lifestyle they aspire to have in the future. By knowing how much to budget for their current living expenses, we can start planning and setting aside funds for their goals or other things they tell us are important to them. These could be short term—like having the Christmas they want for their family, or the annual holiday—as well as longer-term goals like paying off the home loan, buying an investment property, or enjoying a comfortable retirement.

A means for client reflection and engagement

Budgeting gives clients the opportunity to review their current expenses. By taking stock of all their outgoings, they can often find ways to save money or look for opportunities to negotiate the 'fixed' expenses down (such as home loan interest, insurances, phone plans, etc.).

Completing a budget also assists clients to stop and think about how much they want to be spending, in contrast to how much they are spending, on various discretionary expenses. Often there is a mismatch between what clients value as important for their quality of life compared with how much they are currently spending on other not-so-important items.

After accounting for these fixed and discretionary expenses, the budget can often reveal surplus money that could be used for important goals or wealth creation rather than just 'disappearing' through unconscious spending.

Completing a budget before the initial meeting

Before meeting with a new client, part of their 'homework' prior to the first meeting is to complete a client snapshot and a budget. This is for two reasons. First, rather than being a 'data collection' meeting, I'd much prefer to spend my time getting to know what is truly important to a new client, learn more about them than just the

numbers, and, by having some initial data, be able to tailor the meeting based on their circumstances.

The second reason I ask new clients to complete a budget before the first meeting is that it provides them with some tangible value right from the beginning of the relationship. Clients who spend some time to fully complete a budget always say what a valuable exercise it was, are usually 'shocked' at how much they spend, and come to the meeting more motivated to make some changes to their spending habits or to establish some structure.

Helping clients stay within their means

I met with prospective new clients this morning, a busy working couple with two kids, a mortgage, good incomes, and lots of expenses. They commented that, sure, completing the budget was hard, but that it had already changed the way they thought about their spending.

Further, they had already commenced tracking the actual spending from their bank statements against their budget, and found that there was quite a lot of 'spending without purpose' that did not add to their lifestyle. They said they would much rather have this surplus removed from their spending bucket and directed into a savings or investment bucket instead. They commented, "If it's not there, we won't spend it."

Keeping something in reserve

This is where a budget works hand in hand with the right cash flow and account structures. With the right structure, funds are set aside so that all the budgeted expenses are provisioned for, as well as funds for the client's short-to-medium-term goals (for instance, holidays, milestone birthdays, renovations, a new car), longer-term goals (such as children's education, paying down the home loan sooner, semi- or full retirement) and an emergency buffer. A client knowing that they have provisioned for all their outgoings and are on track to achieve their goals, means that whatever is left over can be spent guilt-free.

I firmly believe that our ability to create wealth is not a factor of what we earn, or even how we invest our money (although we need to be smart about this), but it is to what degree we can spend less than we earn. In other words, it is our ability to save that determines our end wealth position.

When discussing financial plans with clients, I like to make sure they understand that I cannot predict the future—indeed, projections regarding their plans are for modelling purposes, and assumptions are based on past trends. I will never be able to affirm to them that 'now' is the right time in the sharemarket to buy up big, or conversely the right time to sell down shares to cash in on recent gains, or even answer the question, 'Should I buy shares or property?' I'll always say you should own both for different reasons.

A foundation for investment strategies

As an adviser, I believe that a substantial part of my role involves educating and guiding my clients to make the right financial decisions for the right reasons, and formulating a long-term wealth creation plan incorporating a range of strategies depending on their goals, life stage and risk tolerance, among other things.

Increasing contributions into superannuation, investing regularly into a professionally managed share portfolio, buying the right investment property, paying down the home loan sooner through additional repayments (and the right loan structures) are all great strategies to create wealth, depending on the client's given situation and goals. Some of these may also have some tax benefits along the way.

However, if you do not know how much you have available to create wealth, how can you commit to any of these strategies, let alone ensure that you have a range of options in your plan to offer diversification and flexibility to adapt should your circumstances change? Choosing an investment strategy is only possible if you know how much you have to work with.

The way forward

If you do not like the word 'budget', call it whatever else you want, whether it be 'cash flow management', 'savings plan', 'spending plan', or something else, but we need to make clients more aware of where their hard-earned money is going, and how it is (or is not) working for them towards achieving their goals.

Once clients have a budget that they are happy with, they feel more in control and motivated knowing they are on track to achieving what is important to them. And as their advisers, we know that our financial plan and investment strategies are manageable and sustainable, have the client's buy-in and commitment, and can enable them to have the lifestyle they want, both now and in the future. FS

The quote

Often there is a mismatch between what clients value as important for their quality of life compared with how much they are currently spending on other not-so-important items.