

A Budget Meets an Engineer



PROJECTED MONTHLY INCOME		ACTUAL MONTHLY INCOME	
Income 1	€ 1,000.00	Income 1	€ 1,000.00
Extra income	€ 2,000.00	Extra income	€ 2,000.00
Total monthly income	€ 3,000.00	Total monthly income	€ 3,000.00
HOUSING		Projected Cost	Actual Cost
Mortgage or rent	€ 1,000.00	€ 1,000.00	€ 1,000.00
Phone	€ 60.00	€ 100.00	€ 100.00
Electricity	€ 90.00	€ 60.00	€ 20.00
Gas	€ 200.00	€ 180.00	€ 20.00
Water and sewer	€ 50.00	€ 48.00	€ 2.00
Cable			
Mobile internet			
Insurance or repairs			
			€ 1,788.00

In my article, [On the Road Again](#), I explained why it is important to develop investment goals and establish a framework to meet those goals. In this post, I want to discuss how a little reverse engineering or "strategic budgeting" can be used to help you meet your investment and retirement goals.

I have always been a budget-oriented person. Maybe it's because I like to "account" for numbers, but none-the-less it is something I have always done. I am either figuring things up in my head or I formally

track the information through an excel spreadsheet or a budgeting program.

Budgeting is an important activity in that it allows each of us to track monthly expenses against our expected revenue. While not everyone budgets as closely as others do, I like to stress the importance of "strategic budgeting" for all individuals.

Strategic budgeting is different from day-to-day budgeting in that it is utilized to help us achieve a specific longer-term goal. Strategic budgets help us identify how realistic our goals are, project the timeframe needed to meet them, and allocate cash inflows and outflows to meet said goal.

For example, at 40 years of age a person may say, "I want one million dollars when I retire at age 60." We all want that, but how do we assess if we are saving the right amount to meet that retirement goal?

To find out how much to save for retirement, we utilize the *known retirement variables* (time, present value of an asset, future value of an asset, and projected investment returns) and combine that with the *time value of money calculations* to determine a monthly savings rate. Once a monthly savings rate is established, we can use a *strategic budget* to ensure a particular dollar amount is saved each month.

One nice thing about the strategic budgeting method is that it is not isolated to retirement planning. It could be used for buying a car, saving for a child's college education, or purchasing a vacation property. The great thing about applying reverse engineering to a financial goal through this type of strategic budgeting calculation is that it quickly tells us how realistic our goal is and allows us to adjust our budget accordingly.

The hard part for many is not necessarily saving the money to meet the goal, but earning a sustainable rate of return to meet the goal. I believe four things allow someone to meet their investment goals: a consistent rate of return, time, consistently contributing to your investments, and avoiding large losses.

Couple investment returns with a strategic budget and you are well on your way to meeting your financial goals.

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