

Article - Road to Financial Freedom

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When it comes to personal finance there are a lot of do's and don'ts and knowing what to do and what not to do is key to you and your families financial well-being. Fortunately, the Fanshawe Student Union cares about you and wants to see you succeed. The FSU Finance Coordinator has provided you this step-by-step guide to start getting your finances in order and to become more informed about what it takes to achieve the finish line of the financial freedom road!

1. **Budget and reduce your expenses:** Without measure, there is no growth. In order to become financially free, you need to; measure where you are at the moment, where you want to be, and what steps you will take to get there.

A fundamental of personal finance is budgeting. Creating a budget will help you measure and keep track of every cent that leaves your pocket by tracking down how much money comes in and out every month. Whether it be your rent, groceries, or that daily cup of coffee that helps you start your day, making a budget and keeping track of it consistently will leave you with more money in your pocket for the next steps. To set up your budget, simply list your monthly income and expenses and then determine which expenses are fixed and variable.

Once your budget is in place, then you analyze your expenses and find ways to minimize how much you spend in each category. You will also notice your spending habits which will help you figure out if you are living within your means!

2. **Emergency Fund:** An emergency fund is money kept in a place where you can access it at any time, such as a savings account. Your emergency fund serves as a cushion for you to fall back on when unexpected expenses come up such as loss of work, car repair, or unexpected travel.

This money is strictly for emergencies only, as the name states, and therefore should always be replenished if used. How much you have in your emergency fund depends on your expenses, and now that you have set up your budget you can calculate how much you need set up your emergency fund. To start, aim for 1 month worth of expenses and then work your way up to 3-6 months. By having more months worth of expenses in your emergency fund, you can have some extra time to look for employment if you ever find yourself out of work and with bills to pay.

A savings account with a high interest rate will make that money work for you, so don't choose the first savings account that you get offered and instead do some research to find the one with the highest rate. Compound interest is your friend!

3. **Pay off debt:** Getting rid of your debt is the most significant step in your road of financial freedom. Whether you have debt at the moment or not, throughout your life you will face financial situations where the decision you take will dictate your future. This is a time where most people think short term and not long term. That's a big don't.

Whenever you make a purchase that is going to get you in debt, ask yourself if it is something that you really need. A good rule of thumb is to wait 5 days before making a purchase, that way you can have some time to think and make a more rational decision. When paying down debt, a good way to gain confidence and momentum is to use the debt snowball method. List all of your debts from smallest to largest and attack them in that order. While paying off your smallest debt, try to make minor payments on all other debts to ensure that you eliminate the smallest one first.

Once you pay off the first debt on your list, the snowball will start to roll, and you will feel more in control of your finances. You can do this!

4. **Invest and grow your savings:** You now know where your money is going, have a financial backup in case of emergencies, and are debt free. Congratulations on making it this far, you took control of your finances and became someone better than who you were before!

Now is the time to decide what to do with your leftover money. You can start saving for future goals such as retirement, a down payment for a house, or a vacation. It's all up to you now to make a clear plan of what you want your life to look like in the future and make the right decisions. Apart from a savings account, an investment account is also key to increasing your net worth. In Canada there are a variety of investment options to choose from that will suit your specific needs. Your decision of where to invest and how much to invest should depend on your risk tolerance and time horizon. Risk tolerance simply means how much of your investment you can afford to lose, and your time horizon depends on what long-term goals you have.

Remember, proper investing is not a get rich quick type of thing and should be treated as a long-term tool for financial freedom. Good things take time!