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The Best Way to Stick to a Budget

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A boot camp—or a daily ritual?

Those choices are at the heart of a debate among financial planners about setting up budgets. Should people make an ongoing habit of tracking everything they spend and save? Or should they do shorter, focused programs of budgeting and reflecting to spark a change in spending behavior?

The long-termers say that ongoing tracking, like stepping on the scale each morning, provides a crucial reality check, ensuring that savers stay on course for certain goals. The short-termers argue that people tend to fall off the wagon of long-term tracking. So, it's better to give people manageable short-term goals that they can actually accomplish, which can lead to insight that they'll incorporate into their lives.

The questions are taking on new force as two trends come together. It's getting easier to track what you spend through any number of free online tools—and Americans seem to need budgets more than ever, with median household income down and the economy still staggering along.

Here's a closer look at both budgeting strategies and the logic behind them.

Day in and Day Out

The basic argument for scrupulously recording everything you spend is discipline.

Most people, the thinking goes, make spending decisions on the spur of the moment and never keep track of what all those decisions end up costing. While they may have a general sense of how much their regular expenses—such as phone or cable bills—run from month to month, they never break any of those other expenses down to find ways to economize.

Recording every expenditure you make, the advocates say, forces you to be aware of where your money goes. And that makes you more reluctant to let it go in the first place. "The more we focus on our spending and are conscious of it, the more likely we will be to not overspend," says Ken Weingarten, a Lawrenceville, N.J., financial planner.

Tracking everything also helps with long-term planning, many pros say. It's easier to identify where you can cut back to meet savings and debt-paydown goals, and then follow your progress over time. And the more you do that, advocates say, the more budgeting becomes second nature—and you incorporate good financial habits into your daily life.

Indeed, the proponents of ongoing tracking say it's the only way for a client to stay on a budget in the long term. Rick Salmeron, a certified financial planner and president of Salmeron Financial in Dallas, is wary of budgeting for a brief period, because it might not account for hefty periodic expenses like Christmas or birthday shopping.

Mr. Salmeron says that the technique of budgeting just for a few weeks or months reminds him of when he took a brief CPR course. While he remembered everything he had learned immediately after the class, "one month later, the only thing I could remember about CPR is how to spell CPR," he says.

Like many boosters of this method, Mr. Salmeron recommends his clients use a tracking tool like Mint.com or Quicken, both from Intuit Inc. Online services typically are free and allow you to sync up your credit and debit cards and bank and brokerage accounts, so much of your spending and saving shows up automatically. Other transactions, like cash spending, can typically be entered manually.
The services also allow you to do things like graph your spending and put it into customizable categories, so you know what's going where. In some cases, you can

also set goals and monitor your progress toward them. At least one site, LearnVest Inc.'s LearnVest,com, for instance, sells financial-planning services on top of tracking.
Whether you use one of these sites or simply grab a pen and write down everything you spend, boosters say long-term tracking can have a tremendous impact. Mr. Salmeron says he has seen it work wonders for his clients.

"As people strengthened their willpower with their money, that strength spilled over into other areas of their lives," Mr. Salmeron says. "When financial willpower becomes stronger, it can touch everything."

Short-Term Shock Therapy

The big argument for going short term is simple: Long-term tracking is just too tough for a lot of people to maintain.

It takes more time, attention and honesty than many people can muster, says Sherman Hanna, a professor at Ohio State University who studies financial habits. So, people tend to fib on spending, or they fall prey to budgeting burnout—and stop tracking their activity altogether.

Keeping track of expenses for a short time is a more motivating and manageable task than tracking indefinitely, proponents say, which means it's more likely to inspire them to change their ways.

Even tracking expenses for a few months can jolt people into being more careful with their spending. For instance, some experts say, many people are shocked to see how much of a bill they ring up on things like restaurants and gifts.

After the short program, people can start to plan for goals and know when they need to cut back—without tracking every single expense indefinitely.

Jeremy Kisner, a certified financial planner in Phoenix, says that ongoing tracking can benefit a client, but that "as a realist, I know that it's much easier to get a short-term commitment," he says.

Mr. Kisner asks clients to track every single expense for three months, either with an online program like Mint.com or by writing the expenses down in a notebook. That exercise is "very eye opening and leads to changes in spending behavior," he says.

Once he knows how much clients are spending, Mr. Kisner can estimate how much the firm will need to distribute from their portfolio to maintain their lifestyle in retirement.

"Once we know the figure, I don't really care what they spend it on or if they are over in one category and under in another," he says.

At NestWise, a financial-planning firm owned by LPL Financial Holdings Inc. that offers many services online, clients who opt for the "budget builder" program are asked to track their expenditures for brief periods. (The firm says it doesn't object to clients using long-term tracking tools, but doesn't offer a specific program that employs them.)
Jodi Gold, NestWise's chief engagement officer, says the idea for the short-term plans was influenced by Stanford University researcher BJ Fogg's model of behavioral change—which Ms. Gold says involves giving people simple tasks that they can accomplish.

Within NestWise's 90-day budget-builder program, clients will typically do multiple brief budgeting challenges, where they track all of their expenses in an online work sheet. Those workshops are meant to give people the insights they need to change behavior, such as seeing that their money is going to places they might not realize, says Ms. Gold.

"What's important from tracking is the insight that you glean," says Ms. Gold. "We might suggest that people periodically go back to see if their expenses in their life have changed."

Even some pros who sometimes advocate that people do long-term budgeting acknowledge that going short term has its merits.

For instance, Mr. Weingarten, the adviser in Lawrenceville, N.J., doesn't think that tracking expenses religiously on an ongoing basis is for everyone. While he has all new clients do a cash-flow analysis that looks back at the past year of expenses and see where money was spent, he only recommends detailed ongoing tracking to those who won't be able to maintain their standard of living in retirement unless they cut back on spending and start saving more.

"If they can maintain their standard of living, I'm not worried about them spending $5 atStarbucks , " Mr. Weingarten says.
Mr. Weingarten says that one simple way to control spending without long-term tracking is to set up an automatic alert when your credit-card balance goes over a certain amount. Paying in cash instead of plastic is also a useful tactic, he says. The inconvenience and reality of using cash only can be enough to put a brake on your spending. (This approach also works if you are tracking your spending online, although it typically requires entering transactions manually, which can be a pain.)

"Cash in hand is still going to increase your pain of payment the most. It's harder to track, but it does keep your spending in check more," Mr. Weingarten says.

Some planners use similar real-world tactics rather than focusing on long-term budgeting.

Sheryl Garrett, a financial planner in Eureka Springs, Ark., and founder of the Garrett Planning Network, has ditched ongoing tracking of spending altogether, after years of trying to get clients to do it. She used to ask clients to write down all of their expenses, but found that her estimates of what they had left over to put toward savings or investments was frequently off.

"They would typically exclude the unusual expenditures and average the balance. Not highly scientific or foolproof," she says.

Now she focuses primarily on having them set up automatic bill-pay and meet specific savings goals through automatic deposits each month. The budgeting, she says, then usually falls in line accordingly.