Why expense tracking won't help you save

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A few weeks ago, in anticipation of New Year's and drawing up my 11 resolutions for 2011, I decided that I would start to keep track of my spending. Doing so in December is a little crazy: Not only was I buying gifts, but it seemed like every day I was meeting someone for coffee, lunch or dinner. That all showed up on my spending spreadsheet and explained why my eating-out category topped $350 in less than three weeks.

But despite the holiday, I was surprised at how much I spend on certain things – like books and magazines, which can add up to about $150 each month. My spending brought to mind personal finance author David Bach's "latte factor." He advises people to stop wasting money on things like lattes, fast food and bottled water and save and invest the money instead.

The problem is, I like reading books and magazines, and I love having an apartment full of them. Does that make them a high-priority expenditure, and should I be looking for some other way to save money? Like maybe lattes, fast food and bottled water?

I brought up these issues with **Sheila Walkington, a money coach and co-founder of the Women's Financial Learning Centre in Vancouver.** Her first piece of advice – don't keep track of what you spend – was quite surprising given that I can't recall a personal finance author who doesn't recommend doing so.

Ms. Walkington believes that for most people, keeping track of what you spend is a failed experiment. People hate doing it, so they miss receipts and make mistakes and don't really know how to analyze the numbers even if they do manage to add them up right.

"So what I usually suggest [to my clients] is they look forward – think about what they're going to spend in the next week, the next month and the next year," she says.

Instead of looking to the past, she says, look to the future. The first step for me, then, should have been to set clearly defined priorities, not figure out how much I'm spending on meals out or those expensive British magazines.

The process she describes is quite sensible, but it seems anything but easy. She works with clients to set their financial priorities – whether it's to buy a house, save for their children's education or plan a trip to Hawaii. Those priorities have to be top of mind when putting together a "spending and savings plan" – Ms. Walkington doesn't use the word "budget" – which is a detailed list of every expense that will crop up over the year.

"When you put travel and RRSPs and kids' education as the top priorities – or buying a house and things like that – things like coffee seem like a small thing," she says. "It's not really appropriate to be spending $80 on coffee when you're not saving for your kids' education."

There's another advantage to setting big priorities: "No one wants to spend less on coffee if it is just going to go to the hydro bill. That's not motivating. But they're willing to spend less if they can go to Hawaii or they can buy a house," she says.

After setting priorities, Ms. Walkington works with clients "to go through absolutely every expense that we think is going to happen in the next 12 months – from coffee to dinners out to groceries to pet care to haircuts, clothes, gifts, travel." For items like car insurance or property taxes, she takes the annual number and divides it by 12. She does the same for every other item.

Then, using priorities as a guide, she works with clients to set numbers for each category. The next step is setting up bank accounts for each major expenditure on the list. For example, if you decided to spend $2,000 on clothing for the year, you would set up a clothing account and deposit $167 each month. That makes decision-making easy, Ms. Walkington says: If you want to buy something, you need only to check if there's money in the account. If there is, it's yours to spend; if there isn't, you need to wait until next month for the next $167. And so on.

Ms. Walkington advises her clients to talk to their banks about setting up cheap accounts before starting this system. And set up ones that you can't write a cheque or use a debit card with – when it comes time to spend the money, you move it into your chequing account.

Setting priorities makes the process a lot easier. "I try to find the motivating carrot that's going to make them spend appropriately and make it easy for them to tell their friends, 'You know what, I can go for a drink on Friday, but I can't go for dinner as well because I'm going to Hawaii in March and I'm saving for that.' "

The system works, she says, but it can't be done in a day or in a sitting. "When I work with clients, it's over four months, not four minutes," she says.