

How to Build a Better Budget: Jesse Mecham

Creator of the popular software *You Need A Budget*

JD Roth: Hey everybody it's JD Roth again and today I'm taking with Jesse Mecham of You Need A Budget and naturally enough we're going to talk about budgeting. Hey Jesse, thanks for talking with me.

Jesse Mecham: Oh, absolutely. You bet.

JD Roth: So you know budgeting is one of those personal finance tasks that everybody tends to dislike as I'm sure you know. It gets a lot of bad press. But before we'd talk about budgeting basics and methods to do it, why don't you give us a little bit of background about you and your story and You Need A Budget which is the software that you've created to help people manage their budgets more effectively.

Jesse Mecham: Absolutely. The start for my budgeting was when I was just about to be married and I was looking at my wife's – I knew what she made per hour working at the university where we were going to school. I think it was maybe \$8.00 an hour or something and I was making \$10.00 and so I looked at our combined hourly rate and it was pretty bad and I had three years of school left so I just thought you know, I think we need a budget. I was taking a spreadsheet course at the time learning all about spreadsheets and thought, "Well this seems like a great thing to use to build one." So I built one and just plugged in numbers and my wife and I used it for just about a year and it worked really well for us.

And so through that first year of marriage, which can be a tough – first year's probably tough for most just 'cause you're learning all about how to do this crazy thing you know with being married and part of it's money related and I thought, "Man, we have this money thing really dialed down like we just seem to be going really smooth for us." So I asked Julie if she thought I could maybe sell this. Originally it was a spreadsheet, now it's quite fancy software but at the time I thought you know could I just sell this spreadsheet and she goes, "No, I don't think so." But I ignored her and I did it anyway and I basically kind of stumbled upon – I wish I could say it was inspiration but just kinda stumbled upon four rules that we had followed and that I now have been teaching for the last nine years or so.

JD Roth: Oh really, rules for budgeting?

Jesse Mecham: Rules for budgeting yeah, just kind of our own method and for the last little while I've been teaching individuals and small business owners just how to apply those rules and kind of think about their money differently.

JD Roth: So what are your four rules for budgeting?

Jesse Mecham: First rule is you give every dollar a job. Nothing escapes that assignment. We find that when you have to weigh things, like if I buy this I can't buy that or if I really want to do vacation I need to cut back here. That type of value judgment is really, really healthy. So operating where you give every dollar an assignment works really well.

JD Roth: Okay.

Jesse Mecham: Second thing we tell people is save for a rainy day which is just a fancy way of saying think of larger, less frequent expenses and break them into monthly chunks like the holidays that spending always increases or a vacation you want to go on or property taxes, whatever it may be. Once you have a good idea of what your larger expenses are and how those break down monthly, then you can start to decide oh, here's where my spending money is. Here's you know where I can make this or that decision against better information 'cause you're looking at all of your expenses as a whole instead of just thinking through your normal monthly cable, cell phone, stuff like that.

JD Roth: Right, right. So look at a year at a time.

Jesse Mecham: Exactly and kind of be able to break it up and say these are my true expenses. You know vacation is an expense even though you maybe only have it during the summer, it's something that you could treat as a monthly expense. Our third rule is to be flexible and forgiving to yourself. We call it rolling with the punches. You aren't clairvoyant. You don't have a crystal ball, you don't have to be a psychic so if you say, "I'll spend \$300.00 eating out," and then you spend \$350.00 because a friend came into town unexpectedly, that's okay, you know you have better information now. Your friend arrived at your door so you would adjust accordingly. So –

JD Roth: And plus people make mistakes. I mean that's one thing that I find when I talk to people about budgeting is for some reason they expect themselves to be perfect and once they've drafted this budget they expect to follow it to the letter and then when they don't –

Jesse Mecham: That's so wrong. Yeah.

JD Roth: They get upset.

Jesse Mecham: Absolutely. You have to be completely forgiving and it's just a living plan. It's just kind of like okay this has now happened. I'll change this. You know this has happened, I'll do this. But it's not this rigid diet. It's supposed to empower you to give you permission to spend guilt-free honestly. So our final rule really quick, we want people to live on their prior month's income. So if

people are hearing this that are freelancing or they have variable incomes, most people do, they have some component of their finances that are variable.

The best thing we can tell you to do is work on saving up a month's of income and it takes about four months for people that use our method, but you work on saving that up and then what you earn in February you spend in March and then what you earn during March you spend in April. Knowing that you're budgeting only what you have on hand and not trying to guess what you'll earn is a great first move at making things simple and simple is really ideal in this situation.

JD Roth: I think that's a fantastic piece of advice. I know that when I was younger and naïve about money before I got control of my finances, one of the problems I had is I would always anticipate what money was going to come. So I knew that every Christmas I got a Christmas bonus at work and so I would anticipate that and then adjust my spending based on what I thought I would get. But you know some years I didn't get a Christmas bonus. And so all of a sudden I've got this extra money that I've spent and it becomes debt because I don't have the money to pay for it. And I now when I give people advice, especially people with variable incomes, I say, "Don't base your budgeting on what you think you'll get. Base it on the past just like you said.

Jesse Mecham: Yeah. Just budget what you have on hand. Look at your checking account, there's \$17.00 in there and say this is what those \$17.00 need to do before more money will land in that account. You – it's really, it's meaningless to assign future dollars any type of authority or any type of job because they aren't there yet. Do that once the money actually lands in your account. It will just overwhelmingly simplify your finances if you just manage the money that is there.

JD Roth: Right. So now the four rules that you've given me, these are applicable for like personal budgeting. One of the things that I'm doing is I write this ebook is I'm talking about how people can become like the chief financial officer of their own life. They can run their personal finances as if they're running business finances. Do you see any similarities between personal and business finances or any differences? What are your experiences with that?

Jesse Mecham: I run, they're I would say the more people could mimic a well run business and its finances, the more they could do that personally the better off they would be. You'll see people that take their business finances very seriously and track every penny mainly perhaps because we're forced to in tax compliance. But nonetheless they're very studious and diligent in that regard and understanding why and what they're doing. But then on a personal side of things they're just letting things fall out like it's a limited or unlimited source of resources. So I would say the more

you could run things like a business, the more you could think like a CFO in that regard is great, great advice.

JD Roth: Right. And so are there things, so obviously You Need A Budget, I guess I should give a little bit of background. You started this as a spreadsheet and it's grown into a business now with thousands of customers into actual piece of software that people love to use to manage their budgets. And you've got a business that produces a substantial income to support your family if I'm correct.

Jesse Mecham: Absolute, yeah mine and about 25 other families. So it's –

JD Roth: Oh that's amazing.

Jesse Mecham: Yeah I mean it scares the heck out of me you know most of the time but yeah.

JD Roth: Right, that's a lot of responsibility Jesse.

Jesse Mecham: Luckily it's grown slowly over time so I've been able to adjust my stress levels and manage things. But yeah it's, yeah it's grown into something fairly substantial from my perspective at least.

JD Roth: So what lessons, are there lessons that you've been able to take from budgeting your business finances or managing your business finances and applied those to your personal finances?

Jesse Mecham: One that was really interesting JD was I used to use Quickbooks for the business books because I thought in my mind, "Well of course I should use that 'cause everyone else does."

JD Roth: Right, I do too.

Jesse Mecham: It was not accurate in my thinking but I did that for a few years and then I thought, "You know I really could probably use my own software, we call it YNAB for short, I could use YNAB for YNAB. And I did it and what it did for me, being able to see – before you know I would keep the checking account balance at a healthy level, whatever healthy meant, at a level that would not keep me up at night let's say that.

And I'm very risk averse naturally so I would just say, "Okay we've got this expense, can we do this? Can we afford this? Can we afford this?" And it was like yeah we can, we can't but I was very scared of committing anything beyond just kind of the normal day to day expenses. So I would be okay with running some ads here and there but I never wanted to go all in on something and say, "You know I'm going to pay for this big endorsement and go on radio or something," or even things like I'm going to hire this person and build out this other product and invest more there. I was too afraid.

What I ended up noticing once I allocated, gave every dollar a job basically in my own business was I suddenly could take risks that weren't as risky as I had thought they were.

JD Roth: Because you had a certain say pot of money –

Jesse Mecham: Yeah. And I would say like I'm going to put this for paying so and so, this for covering freight costs, this for covering transaction fees. I mean it's just crazy how many transactions run through there. But I looked and said, "We have this extra and I'm paying myself and living happily on what I'm paying myself." And I was able to finally give myself a steady salary which was very nice for me and my family. But beyond that I said, "We have this extra," and it's basically irresponsible of me to not deploy it appropriately.

And I mean I started using the budget and from that point on we've grown the business mainly through personnel because we're you know on the software side of things. And it's been tremendous. I mean we went from three people, it took me let me think, five years to go from me to two more people and then it's taken me four years go to from three people to 27.

JD Roth: That's amazing.

Jesse Mecham: And the difference is honestly the insight I have into my finances for the business. So if I were to apply that personally it, when you can see where your money is going and then you can see what your plan is for the money, suddenly you can maybe take risks and feel some flexibility that you didn't feel before. Like maybe you don't have to take on this client or maybe you could wait a few months to find just the right job. You know what I mean?

JD Roth: Right. And from my perspective I also think applying some of those lessons that you learned in your business life, you could also take it to the personal level and say, "Oh, I can actually afford to indulge in a vacation for example," because –

Jesse Mecham: Absolutely.

JD Roth: So I don't know whether you're familiar with my own budgeting background but I'm one of those people who's just always hated budgeting. I felt it was like a straightjacket and very restrictive. And I think part of the problem was I was trying to get far too detailed. I would have a budget not just for –

Jesse Mecham: Oh yeah.

JD Roth: Not just for books but for personal finance books and for book group books and – it was crazy. And so eventually I read in a book called All Your Worth by Elizabeth Warren and Amelia Tyagi, they have it's not really a budget so much as it is a budget framework that they call the balanced money formula. And there are only three categories in this budget.

Jesse Mecham: Love it.

JD Roth: There are they call them must have's, well I don't know what they called the . I know what I call them. They are needs such as basic housing, basic clothes, basic food. There's savings which includes debt reduction, and there are wants which are the things that are just nice to have in life. And so their advice is that you keep the need spending in your budget below 50 percent of your take-home pay and that you save at least 20 percent of your take-home pay. And beyond that if you're able to get so you're saving, or that you're spending below 50 percent on needs and saving more than 20 percent then anything else you have left over which is roughly 30 percent, you can spend on whatever the heck you want.

Jesse Mecham: Absolutely.

JD Roth: In a way that's kind of a long-winded way of saying hey, this kind of sounds like what Jesse's doing with his business at You Need A Budget.

Jesse Mecham: Yeah we do a meet-up every year or so and the meet-up is basically big excuse to all get together and have fun and eat way too much food and do fun things. So this year it's going to be in November. We're all going to Costa Rica.

JD Roth: Oh wow.

Jesse Mecham: And we're spread all over the world. We have a guy that'll come from Australia, someone from Switzerland, Italy, the UK, Canada, all the –

JD Roth: Are these users or employees?

Jesse Mecham: Employees, yeah.

JD Roth: Okay.

Jesse Mecham: Everybody's – all the employees are coming together and it's like this week-long deal in Costa – I think right now we're going to have this kind of all-inclusive resort you can just have whatever you want, not worry about things. We're going to zip-line through the rainforest, all that stuff. So that is my way of bragging, no, my way of getting job applications is what it is. It's I never could've done that. I never would have at all – and this is expensive, I mean flying people all over the world is expensive and doing it 27 times is expensive but it's totally affordable, it's just every month I set aside money for the meet-up. And by the time we get to November there will be plenty there and we'll just get to enjoy ourselves.

And I never would've given myself the permission to do that had I not been budgeting. I would've just seen the checking account balance and said no, 'cause there's probably something you know, that's probably spoken for. There's probably expenses that are coming up, never really having a clear vision on what I was allowed to do. And I personally struggle with giving myself permission to you know hey, you don't have to walk around the house and cut off lights all the time. Like you can afford it if your electricity bill is \$5.00 more per month. But I still struggle with kind of the micro management that the extreme frugality in that regard.

JD Roth: And I think this whole concept of permission, it's not just true with budgeting and spending money but personal finance and in life in general, it's something that we all wrestle with. Because you know we grow up expecting our parents or our teachers to give us permission to do what we want and as adults we still have that engrained in us. So when it comes time, if you don't like your job for example you might think, "Oh my gosh, I've got to stay here because on some level you're expecting somebody to give you permission to quit and go do something else."

Jesse Mecham: Absolutely.

JD Roth: Or if you want to start a business for example, a lot of times people are afraid to do it because they're waiting for somebody, a spouse or a friend or somebody to give them some sort of tacit permission. I think a big part of financial maturity and running your personal finances as if they are business is to get over the need for somebody else to give you permission and to just give yourself permission.

Jesse Mecham: Yeah, and when you dig in and you treat your personal finances like a business you say, "Okay, these are resources that I can deploy to my heart's content," you start to be, you know you analyze things. You start to weigh them and say, "Is this according to my values? Do I really care about this? Do I really care about that?"

JD Roth: Right.

Jesse Mecham: And then you can decide and once you decide and your money is kind of doing the things you care about you feel content even though there's no change in income or things like that. It's just a natural feeling of contentment because your money which is you know Joe Dominguez and his book, *Your Money or Your Life*, that's one of my favorites of all time. And when you realize that your money is basically life currency, and you start deploying your money or your life the way you want to, you feel satisfied. And that's a feeling that I think far too many people miss just not giving themselves permission to kind of do what they want to do.

JD Roth: Yeah. Well one final thing I would note is what you're describing to me sounds like what I call conscious spending or mindful spending and I actually came up with this concept – I didn't come up with, Ramit Sethi is the person that I first heard mention it at iwillteachyoutoberich.com, and he talks about making choices based on your values. So conscious spending is saying, okay, I like shoes for example. Not me but just some hypothetical person. I like shoes and it's important for me to have good shoes so I'm going to choose to spend on shoes but in doing so I'm going to consciously choose to give up other things. So like for example maybe I won't own a car. Maybe I'll take public transportation but I'm okay with that because I get the shoes that I want. So conscious spending or mindful spending is giving yourself permission to spend on the things that are important to you because you're going to cut back hard on the things that aren't.

Jesse Mecham: Yeah and not worrying about what other people think about it.

JD Roth: Oh absolutely.

Jesse Mecham: One way or the other whether you think oh, I'm worried that I'm going to drive around in this fancy car and people will think this or whether you're worried that gosh if I don't have this junky car people will think that. I mean it's – we need to relax and be a little more comfortable with ourselves with our money. I think we would see that our money starting to behave a little more and started to actually return some value to our lives instead of just being a source of stress.

JD Roth: I agree. That's outstanding. Well thank you Jesse. Where can listeners find You Need A Budget?

Jesse Mecham: Youneedabudget.com or YNAB.com if they don't want to type so much.

JD Roth: Okay.

Jesse Mecham: And they can – I do a podcast about every week and we've got a great active blog there, active community. They can try out the software for 34 days, see if it fits how they like to run things and yeah. So we try and educate people a lot and then if they like what we teach them then the software kind of sells itself. So education's free and we enjoy providing it.

JD Roth: That's great. Thanks so much for chatting with me.

Jesse Mecham: You bet. Thank you JD, it was a pleasure.

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