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How to have a good relationship with money

7 steps toward financial freedom

Index

The secret to having a good relationship with money is taking care of it. But where do you start? It's simpler than you think. You just need to listen to that little voice that occasionally whispers for you to take a closer look at your finances. **And then, follow these seven steps.**

STEP 1

DEFINE YOUR FINANCIAL GOALS

The philosophy that financial experts repeat is that to be in control of your money, you must set a financial goal. But what exactly is a financial goal? It simply **means setting one or more targets to reach**, and from there, developing a strategy. As simple as it may sound, it's essential because only with a goal can you define the path to follow. However, setting goals is not always easy. Sometimes, we struggle to identify them, or we set too many, often in conflict with each other, or they could be too ambitious or too short-term.

So, how do you do it?

- **Start with your life goals and turn them into financial goals:** after all, money is meant to help you achieve what you desire. You don't have to think big, like buying a house. A goal could be simple as taking a special trip or attending a training course.
- **Set achievable goals:** aim for realistic objectives. If you set an unrealistic goal, such as "becoming rich in one year," when you try to follow that path and realize you're not getting anywhere, it will lead to disappointment and frustration. The first thing to do, therefore, is a reality check: a realistic view of your possibilities is the first step toward lasting success.

Now that you have converted life goals into financial goals, remember this rule: financial experts say that for a financial goal to be real, **it must be SMART**, meaning it should have five characteristics.

S	M	A	R	T
Specific	**Measurable**	**Attainable**	**Relevant**	**Timebound**

This applies to everything, but when it comes to personal finance, the meaning of these characteristics is even clearer. It's not enough to say, "I would like to increase my salary", it's necessary to set clear boundaries and, therefore, be specific about how much this increase will be and why we want it.

In practice, you can try this exercise...

Let's assume your goal is simply to save money for your emergency fund. As it is presented, it's a vague wish, but you can make it SMART by asking yourself a few questions. Here's the framework to follow:

- **S (Specificity) = Why am I saving? Define the motivation**
  (e.g., To have a protection or financial security in case of unexpected events, because I don't have a family that can help me)
- **M (Measurability) = How much do I need?**
  (e.g., € 10,000)
- **A (Achievability) = Is it a realistic goal? Is it feasible?**
  (e.g., Yes, considering that if I work two Saturdays a month, I will earn € 300 more, and if I replace the gym with jogging for six months, I will save another € 70 per month, etc.)
- **R (Relevance for me) = Is it worth it? Is it important to me?**
  (e.g., Yes, because I already have a mortgage to pay)
- **T (Deadline) = How much time do I need to achieve the result?**
  (e.g., I need 2 years)

S ______________________________

M ______________________________

A ______________________________

R ______________________________

T ______________________________

STEP 2

MONITOR YOUR INCOME AND EXPENSES

Learning to save is one of the main financial goals for all of us. Regardless of how we will use the saved money, being able to reach the desired amount is essential to achieving our goals. But **in order to save money methodically, we need to have control over our expenses and set up a good plan**. In other words, we must know with some precision how much money is coming in, how much is going out, and, most important, where it is going.

Let's see how to achieve this result.

- **Understand how much you spend:** each of us has our own way of keeping track, some use paper and pen, others use an Excel spreadsheet, some use the Kakebo agenda, or apps. There is no one way to track our income and expenses, but it's essential to start doing it, because without a 360° view of what we are spending, it's impossible to intervene. → Therefore, if you haven't started tracking your financial activities yet, the simplest thing to do is to start with your bank statement from the last three months and try to analyze the expenses by dividing them into categories (house, bills, car and other fixed expenses, but also clothing, entertainment, restaurants, etc.). Why start with the financial statement? Because across-the-board-cuts are not always effective and often involve sacrifices that could be avoided.

- **Define your priorities:** write a list of needs and things you don't want to give up; because there are not only expenses related to needs, but also expenses born from desires, those that we commonly consider indulgent. The point, when we review the various categories, is not so much to ask ourselves whether to trim or eliminate them, but to reflect on the feeling each of them gave us. The ideal would be to connect each expense to the emotion it gave us, dividing them between those that made us feel good and those we regret.

- **Choose what to cut:** the next step after taking a snapshot of your average monthly expenses is to review the various expense categories and determine what can be cut and by how much. Let's start with "necessary" expenses, those that arise from a need. The question to ask for each item is: "Can this cost be reduced, even partially?" It's not about making a value judgment or performing complex calculations. It's simply about considering whether an expense is potentially reducible or not, and, if so, how.

STEP 3

CREATE A SAVINGS PLAN

After we understand how to control our income and expenses, we move to action by **putting our savings plan in writing**.

How? Simple:

1. Calculate, item by item (fuel, groceries, outings, cinema, etc.), how much can be cut.
2. Write down how you intend to reach that amount.
3. Total the different items.

Once the total is calculated, check if the amount we have decided to set aside each month matches the initial goal.

And if it doesn't match? There are three options:

- Go back to the budget and make further cuts, which will inevitably be more difficult.
- Find a way to gather the missing money (a few extra hours of work per month, selling items we no longer use).
- Reevaluate the timeline of our goal, extending it.

Advise
The most important aspect, according to experts, is to write down these calculations because it will give them concreteness. Only by having a clear understanding of how much we can spend each month for each category we will be able to achieve our goal and stick to our financial plan.

3 Tips to Stick to Your Savings Plan

1 Do a periodic check.

At least every ten days, it's a good idea to review your expenses and check that everything is on track. This is a smart way to give yourself more room to react if, for example, you realize halfway through the month that you've overspent on "dining out" or have already used up a significant part of your salary.

2 Try the envelope system.

Create "virtual jars" and specify how much to spend for each category of expenses (groceries, rent, clothing, entertainment, etc.), and assign a monthly limit to each item. The goal is to spend only the money available in each "envelope" until the next paycheck.

3 Avoid impulse spending.

We're used to making a shopping list before going to the supermarket, but this is also useful when we go shopping for clothes: instead of opening the fridge, open your wardrobe and take note of what you already own and what you're missing.

STEP 4

BUILD YOUR EMERGENCY FUND

Once you have clear financial goals, know your income and expenses, and are already taking concrete steps to save more each month, it's time to think about the unexpected.

The curious thing about financial emergencies is that we often consider them 'unpredictable', while in most cases, they are quite predictable.

Something always happens – the fridge and the washing machine break down, an expensive car repair, a leak from the bathroom pipes, a hailstorm that destroys half of the roof... – All very realistic scenarios, but we don't know if they will happen to us, or how much impact they will have on our finances. And in doubt, we don't take action.

But if we transform the 'unpredictable' into the 'predicted,' the picture changes, because we can allocate a monthly amount in our budget that – over time – will become our emergency cushion, and this is what will allow our budget to stay on track (or atleast not deviate too much) when what we've planned for actually happens.

But then, how much money should we have in our account to protect ourselves from all these emergencies?

Many experts recommend saving an amount equal to 6 months of salary for emergencies, which can be reduced to 3 months if there are other "safety nets". But to be more precise, it's better to use monthly expenses as a reference, rather than income.

To feel secure, we need to know how much we need each month to live and start from that figure. There's a big difference between 3 and 6 months, but the right number is determined by analyzing our strengths and weaknesses one by one.

You can try this exercise to practice.

Write down a series of questions and try to give yourself an answer.

Here is a possible list.

- ***Do I have a stable job? If I were to lose it, could I benefit from unemployment benefit?***
- ***Is the house where I live mine? And if so, is the building new, or could the condominium assembly decide on renovations, and what kind?***
- ***Is my car and the household appliances in good condition or new, or might I need to replace them at any moment?***
- ***How many other sources of income are there in my family besides my salary?***
- ***What unexpected expenses should I be prepared for each of my children in the coming years? Braces? Private tutoring?***

Consider that not all possible cases – fortunately – will happen, but the more uncertainties there are, the higher the bar rises. For example, if you have a permanent job, three months of savings may be enough. However, if you are self-employed, especially with high fixed expenses, you should aim for six months. This way, even in the worst-case scenario – losing your job with no social safety net – the emergency fund will give you six months of breathing space. In other cases, for any unexpected emergency, you will have the ability to cover the costs in advance without financial stress.

STEP 5

BUILD YOUR INSURANCE PLAN

Insurance is a part of our lives. If chosen carefully, it protects us from financial risks related to unforeseen events, accidents, and various problems. Often, we encounter complex documents and terms that are not immediately clear, so it is important to clarify things and understand how we want to protect ourselves.

First of all, it is important to understand what type of policy is being offered to you, because knowing the type well allows you to immediately determine if the proposal meets your needs and if it is really necessary.

Here is a list of the most common policy:

- Car insurance: It insures the vehicle and covers liability towards third parties (mandatory), and optionally covers damages such as theft, natural events, etc.
- Life insurance: It guarantees compensation to the beneficiaries in the event of the insured's death.
- Home insurance: It protects your home against fires, theft, and structural damage. If included, it also provides liability coverage for damages to third parties.
- Health insurance: It covers medical expenses, hospital bills, and surgical procedures.
- Accident insurance: It provides compensation in case of accidents or injuries, meaning, accidental events that temporarily or permanently impair the ability to work.

Next, it will be necessary to consider some key fundamental aspects.

- **The insurance premium:** the amount you need to pay to keep your insurance active. It is important to immediately check how much you will need to pay, whether the payment will be annual, semi-annual, or monthly, and if there are any splitting or installment costs.
- **Payment method:** some companies offer discounts if you choose to pay the premium in a single annual payment rather than in installments. Check if there is flexibility in payments and what types are accepted (direct debit/SEPA/financing).

- **Limits and deductibles:** each policy has coverage limits, which are the maximum amount of compensation the company is willing to pay in case of a claim. It is essential to understand what this limit is and if it is sufficient to cover potential damages or losses. This limit is always clearly stated in the policy. It is also important to check the deductible, which is the amount you are responsible for paying in the case of a claim. For example, if the deductible is € 500 and the damage is € 2,000, the company will only reimburse you € 1,500. Opting for a higher deductible can lower the insurance premium, but it also means you will have to pay more in case of an accident. The choice depends on what you prefer: saving on the premium by accepting a higher risk, or paying a bit more for more complete coverage.
- **Exclusions:** one of the most important aspects to check in an insurance policy is the exclusions, or the situations in which the insurance company does not provide compensation for the damages suffered. Exclusions vary from policy to policy, but some are very common. For example, in car liability insurance (RC Auto), driving under the influence of alcohol or without a valid driver's license is always a cause for exclusion in case of an accident. Generally, damage insurance policies do not cover damages caused by the policy holder's negligence. Similarly, in home insurance policies that protect against theft, the contract may only provide coverage in cases of forced entry or burglary. In health insurance, companies usually do not reimburse medical expenses related to pre-existing conditions that the policyholder had before signing the contract. Lastly, disaster-related insurance policies often exclude extreme occurrences such as earthquakes, landslides, floods, and inundations. For these cases, there are specific insurance coverages designed to protect against catastrophic events.

Advise

The key is to have a clear understanding of what you are purchasing and how the policy works in detail. Don't rush to sign – take the time you need to read, compare, and ask for explanations whenever something is unclear. If you need to ask the same question five times, don't hesitate – professionals and consultants are there to clarify any doubts. Choosing an insurance policy is not just about the price but about real protection and peace of mind.

STEP 6

INVEST BASED ON YOUR FINANCIAL GOALS

The secret to making good investments? **Start, as always, with your life goals. This is the sentence that all financial education experts repeat, but for many of us, it remains just theory.** Perhaps it's because, when we sit in front of a financial advisor, we talk a lot about products and returns but less about ourselves. However, the message is very clear: our investment strategy should be almost entirely based on our goals—on what we plan to do with our money in 2, 5, or 15 years.

The rule states that goals should be divided into short, medium, and long term. While long-term goals are crucial, short-term planning helps maintain motivation. Closer milestones are more manageable and psychologically more rewarding. So, plan a short-term strategy, even for what is far ahead.

Short-Term Goals

Nowadays, market fluctuations are so rapid that when your investment horizon is less than three years, it is not advisable to invest in complex financial products, as there would be little time to recover any losses. To understand how to navigate this, remember that the ideal product should have these three characteristics:

1) **Stability:** your investment should not fluctuate in value. You should not risk of withdrawing less than what you initially invested.
2) **Liquidity:** when you need money, you should be able to access your invested funds without penalties.
3) **Low Costs:** the product should not have high entry or exit fees.

Distinction must be made: **having a definite deadline**, **is one thing**, even if it is close: for example, knowing that in a year, my child will go to university and I will need to pay for their education. Another, is **not knowing exactly when you will need to access your capital**.

→ In this second case, flexible options should be selected, allowing you to exit the investment at any time without penalties or exit fees. The most suitable solution for an investor with a short time horizon and a low risk tolerance could be an **unrestricted deposit account**, where returns are lower, but there is the certainty of being able to withdraw funds at any time.

Advice
It is important to diversify the time horizon: let's say you have € 30,000. The suggestion is to divide it into three parts and invest them in deposit accounts with staggered maturities of 1, 2, or 3 years. For example, if interest rates increase in one year, you can immediately withdraw the first segment of investment when it matures and reinvest it at a higher rate. On the other hand, if rates decrease, you will still have the rest of your capital invested at a more favorable interest rate.

Medium-Term Goals

One cannot push yet for more profitable investments: the ideal is to focus on instruments like **bonds or bond funds**.

Advice
Divide the assets into one or more bond funds, some bonds, or even foreign government bonds. It is also useful to leave a portion in a one-year fixed-term deposit account → this way, the following year, you can decide "where to put the money," taking advantage of the market's different trends.

Long-Term Goals

If your time horizon is longer, then you can diversify between more or less risky products – stocks, bonds, funds. Today, for example, **it is definitely the right time to look at companies involved in the energy transition, new technologies, and even the Silver economy**.

Advice
Even in this case, diversification is a must, but a pyramidal approach should be applied. If we take the example of € 30,000, we should not divide them into equal parts, but, based on our risk appetite, allocate larger amounts to "safer" products and progressively smaller amounts to more aggressive products.

STEP 7

FIND AN ALLY

And what if motivation decreases along this journey? Then, **it's important to find someone to be accountable to for what we are doing**. The mere fact of having to meet with someone and report what we've done is a push to be more rigorous, even just the fear of making a bad impression. The "secret" is to schedule a regular meeting with someone who expects results from us. And who, in one way or another, will make us feel the weight of not having kept our commitments.

Yet, even in financial conversations with the person who is supposed to advise us, we struggle, due to feelings of inferiority, embarrassment from not understanding enough, or the belief that certain information is unnecessary.

So, what is the correct approach?

Let's start by looking at money from a different perspective, considering it as an element of well-being in our lives, just as we do with health. When we enter a doctor's office, we are aware that we are there for an essential matter.
We come prepared with what we will say, we ask questions, and we do not leave without understanding. And we are not ashamed to expose ourselves, to talk about ourselves.

It should be the same for financial matters. We need to internalize the concept that money is essential for our lives, and we should take care of it just as we do with our bodies, also planning for the future.

Advise
Leave the misconception at home: women are among the groups that face the most difficulties in their relationship with financial consultant. Various studies tell us that few women visit financial consultants because, when faced with topics like investments, they feel a sense of inadequacy that holds them back.
Yet, the same research shows not only that women have skills and knowledge equal to those of men, but they also have a lower risk tolerance, which exposes them less, and a relationship with money that is more focused on planning rather than status and power, compared to men.

How to recognize an attentive consultant

Just like with health, the seriousness and reliability of the professional we turn to, matters. To recognize them, we can rely on these three elements:

- **The Mifid questionnaire:** a reliable consutant fills it out with the client, explaining the questions and allowing them to answer. They don't say, "I'll fill it out for you, don't worry."
- **Diversification:** a good professional offers a variety of instruments to balance risk, adjusting it to our profile. They do not bet everything on a single product.
- **Hurry:** be warn of those who say, "Sign now, or it's now or never." Someone who has your best interests at heart should give you time to think.

Financial and insurance education: Alleanza's commitment

At Alleanza, we are committed to promoting topics with a high social impact for our clients, families, and communities. One of the topics closest to our hearts is Financial and Insurance Education, which includes the **basic knowledge needed to plan and make more informed financial decisions**, taking care of one's finances and those of loved ones.

Who is Alleanza?

Alleanza Assicurazioni, a company of the Generali Group, operates nationwide. Solidarity, reliability, transparency, and professionalism, combined with an open mindset towards change and sensitivity to innovation, form the value system through which the company interprets and meets every insurance, pension, and savings need of families.

1st digitalized insurance network

Clients 1.9M
40% less than 45 years old

Solvency rate, among the highest in the market, 276%

10K insurance consultants,
more than 40% under 40,
more than 45% women

Data as of 31/12/2024

Would you like to receive a free and personalized consultation to help you assess your investment, savings, pension, and protection needs? Find the nearest Alleanza agency to you at *https://www.alleanza.it/trova-agenzia/*

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