

Reducing Discretionary Spending to Establish or Increase a Cash Reserve

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What does it mean to reduce discretionary spending?

Discretionary spending is a fancy way of saying "spend less." It is simply the process of curbing current expenses by curtailing or delaying spending on nonessential items and services. Nonstop marketing, stores overflowing with new gadgets and goods, a desire to keep up with your neighbors, and the feeling that we deserve a little reward all tug at our purse strings. In a hectic world, it is no wonder we hardly notice how our spending creeps up. Consequently, spending can often be curtailed without placing the entire family on food rations. Besides helping you achieve your cash reserve goal sooner, you may form a habit that serves you well in future years.

List, review, and weigh the multitude of alternatives

In reality, there are nearly as many ways to save money as there are to spend it. Depending on your level of discretionary income (i.e., that which remains after you pay for necessities), you will find more or fewer expenses that offer ways to save for your cash reserve. Begin by listing non essential expenses, and then estimate the savings you could obtain from each by reducing that spending, even if only temporarily.

Postpone big purchases

You can temporarily delay major expenses (such as the purchase of a new car, furniture, computer, or a home theater system) until you reach your cash reserve goal. While these items may improve your quality of life, you should make them a lower priority than building financial security. Remember, you are just postponing, not omitting, them.

Pare spending across the board

It is important to know where you actually spend your money. To understand this better, you may wish to track your expenses for a week or two. Many people are surprised by the way even small purchases (coffee, snacks, newspapers, lunches, etc.) add up over time. Once you understand your spending patterns, making small reductions across several types of expenses is an excellent and bearable approach to curbing spending. Here are some examples:

- Reduce the amount you spend for lunches eaten away from home, either by bringing them from home or eating more frugally. If you eat lunch out only three times a week instead of five, you can save \$728 over the course of a year (assuming the average lunch out costs about \$7).
- Expand the interval between your barber or hairdresser appointments.
- Find less expensive forms of entertainment. Local theater groups, for example, can be very entertaining and will appreciate your support. Also, a movie rental and homemade popcorn are an inexpensive evening's entertainment.
- Maintain better control over household telephone use, especially for such conveniences as automatic redial and directory information. Remember, using your telephone book is free.
- Cancel infrequently used cable TV services.
- Drop a few of the family's extracurricular activities. A little more free time may even prove very welcome.

Dining and entertainment can add up fast

Eating out and entertainment spending add up to a bigger share of household income than you realize. Many people are shocked at the result when they suddenly tally what they spend in this area. Change the frequency and places where you eat out to save for important needs. Substitute less expensive sporting and entertainment events, or go less often.

Tip: Don't forget to consider all forms of entertainment, including sports events, plus related costs such as food, tips, parking, cab fares, and baby-sitting.

Omit some non essential expenses

You can eliminate certain expenses entirely and, perhaps, barely miss them. Magazines you seldom read, club and organization memberships infrequently used, visits to the astrologer--eliminating these expenses can provide savings, whether you want to build a cash reserve or a portfolio.

Weigh the priorities of individual expense items against building a cash reserve

There are a number of ways to cut spending . However, the mere thought of doing them all is undoubtedly depressing. Unless you have a dire need to save aggressively, you can adopt only the more palatable measures. Compare the items you've listed with the financial protection a cash reserve affords you. It's your money--you should be the one who decides how to use it.

Decide which temporary spending cuts you can live with

Remember that reducing discretionary spending to build a cash reserve is a temporary step. Once you reach the goal, you can resume previous spending patterns if desired. Bearing this in mind makes spending-cut decisions somewhat easier.

Amend your cash reserve plan to reflect money you will save through spending reductions

Tally the money you save through discretionary spending reductions and add it to your cash reserve plan.

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