00:00:09:20 - 00:00:32:02

Speaker 1

Welcome. My name is Andrew Baron, and this is Well… It Depends! The podcast where I address financial decisions that can't be answered with simple yes or no. In this episode, I ask the question, What can I afford? But before we begin, a short disclaimer.

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Speaker 1

This is being recorded on January 31st, 2025. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice.

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Speaker 1

It is important to consult with a professional before making any financial decisions as the strategies discussed may not be suitable for you specifically.

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Speaker 1

Getting into it. What can I afford? Well… It Depends! What does affordable even mean? Most people think affordability is just about whether you got the cash or can make the monthly payments. But it's more than that. True affordability takes into account your income, your fixed expenses, your savings schools, your financial stability, and most importantly, your priorities. Think about it this way.

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Two people making the exact same salary can still have vastly different definitions of what's affordable. One might have no debt and a solid emergency fund, while the other is juggling student loans, credit card payments, and is in an unstable job situation. Same income, totally different affordability.

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Speaker 1

Now let's discuss the trade offs of buying big. Let's say you're eyeing a big purchase, such as a house, a car, or perhaps even a luxury vacation.

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Speaker 1

What's the trade off? More spending today means less flexibility tomorrow. A bigger mortgage means fewer spontaneous trips and nights dining out. A high car payment might mean putting off investing, or perhaps even saving for your future retirement. What about the risk versus reward? If you stretch your budget too thin, you might struggle in the situation that an emergency hits.

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Speaker 1

On the flip side, sometimes spending more is a smart move. Like spending a little bit more and a reliable car to avoid costly repairs. What about your future self? Just because a lender says you can borrow a certain amount doesn't mean that it's a good idea. Lenders don't factor in your retirement goals, future job changes, or how much you enjoy a stress free financial life.

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Speaker 1

So how do you determine your own affordability? Here's a framework. Check your cash flow. How much money comes in and how much money goes out? If you're barely saving anything at the end of the month, you're already stretched. Then know your priorities. Are you focused on tasks such as homeownership? Traveling? Retiring early? Your budget should reflect these goals.

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Speaker 1

Stress test your budget. What happens if you were to lose your job? Take a small pay cut or an unexpected costs that pop up? Would you still be comfortable? Avoid lifestyle creep. Just because you make more money from a recent raise doesn't mean you have to spend more money. Think about smart affordability, since it isn't about what you could buy.

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Speaker 1

It's it helps you live your life to the fullest.

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Speaker 1

To recap, to determine what’s affordable means, you will depend on your income, your expenses, your goals, and what tradeoffs you're willing to make. The key isn't just about making the numbers work, but ensure that your spending choices align with the life you want. So to answer the question, what can I afford?

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Speaker 1

Well… It Depends!

Speaker 1: Andrew Baron, CFP®, EA