Independent Investor

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Making Your Holidays Fun--and Affordable

The holidays can be a wonderful time of year, filled with family and friends and the joy of giving--or receiving--the perfect gift. But if you're not careful, the holidays can also be a financial drain--leaving bills that linger long after the season has ended.

The key to managing holiday spending is to treat it as you would any other financial goal: plan, budget and save. Financially happy holidays are a year-long endeavor.

Start With Savings

Not having enough money during the holidays can make you reach for your credit card, adding interest payments to your holiday expenses if you can't pay the bills off in January. Remember, even a low interest rate adds to the cost of every purchase you make and could negate any bargains you may find.

To avoid credit card use, try setting aside a little money from each paycheck beginning in January in a special account reserved for holiday expenses. Saving just $10 a week will give you a nearly $500 head start when December rolls around. Check with your bank or credit union to see if they offer special holiday savings accounts, or consider a direct deposit from your paycheck. If you never see the money, you're less likely to miss it.

Build a Budget

With a savings plan underway, your next step is to start planning for holiday expenses. A holiday budget can help you figure out where the money goes and target a savings goal. Don't forget those other expenses besides gifts, such as meals out, decorations and babysitting. If you still have receipts from last December, you can use them to help plan the coming year's expenses.

Your goal should be to bring your holiday budget in line with what you will be able to save before the holidays. If you find a sizable gap between savings and expenses, try to find ways to reduce costs or save more. Bringing your lunch to work is an excellent way to free up money for savings. Also examine your gift list and non-gift expenses. Do you really need to buy more Christmas lights? Can you eat fewer meals out during the holidays?

Given these general tax rules, now may be a good time to review your portfolio and your investment transactions to see where you stand from a gain/loss perspective.

Cutting Back on Spending

Last-minute shopping is the easiest way to wind up in debt during the holidays. Start shopping for the following year as soon as the holiday season winds down. Post-holiday sales offer deep discounts on wrapping paper, cards and decorations.

The same strategy can be used for gifts. If your family spends a lot of time at the beach, stock up on seasonal outdoor gifts in September, when these items are greatly reduced. Watch for sales and clearances to find the best prices throughout the year.

You can also look for bargains online. Many online retailers offer lower prices than their brick-and-mortar counterparts, and some offer free shipping to a local store or even your home. But don't assume that you'll always get a better deal online. Compare online prices with those of local retailers who may offer special sales or promotions.

Gift Giving Alternatives

Creativity is a key ally in managing holiday expenses. One of the easiest ways to reduce gift costs is to give the gift of time. Homemade coupons for a home-cooked meal, an afternoon at the beach, or a pledge to mow the lawn, paint or clean the house, or babysit can be just as valuable as store-bought items. Busy moms and dads can offer coupons promising to take a day off to spend with the kids or to come to school for an event or recital.

If you have a lot of people on your gift list, consider a holiday grab. Similar to the office grab, everyone picks a name of someone to buy for, reducing the number of gifts each person has to purchase while making sure that no one is forgotten. Buying after the holiday can also work to your advantage. If there are people on your gift list you know you won't see until after the holidays, postpone your shopping to take advantage of those late-December discounts.

It's better to give than to receive, especially when you get a tax break. Generous-minded people on your list may be happy with a charitable donation made in their name, and you can potentially pocket a tax deduction.

Planning, budgeting and creativity can help keep holiday bills in check--and keep you from reaching for credit cards. If you must use credit to balance the holiday budget, use the card with the lowest interest rate and work to pay down the balance as soon as possible after the holidays. The holiday season is more joyous when you're not still paying for it when summer arrives.

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