

Cash Flow

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The term cash flow is easily tossed around, and promoted. According to Webster's Dictionary, the technical definition is "a measure of liquidity that usually consists of net income after taxes plus noncash charges against income". This is a good place to start. I imagine that to many people cash flow means cash is flowing out the door. Cash and cash equivalents are terms used to describe money that is easily accessible and can be spent. Liquid or liquidity are also terms used for accessible money. But what do these terms mean to the average person and family? I propose that cash flow is the money to pay the bills and to spend; cash in cash out. Often, many feel like money is flowing out and just trickling in.

Financial representatives often start the financial needs assessment process with cash flow because it is the foundation of all financial decisions. Quite frankly, without the sustainable and significant cash flow to support one's goals and objectives, you are doomed to fail.

The start of determining your realistic parameters for achieving your goals is a two-step process that begins with understanding your cash resources and then aligning those resources with your objectives so that they are achievable. The pain involved is that you may have to adjust, modify, and delay your current dreams and hopes. Your present cash resources may be inadequate to achieve and sustain your objectives. Design your cash flow chart and outline your in and out flows.

Cash Resources start with inflow; what is your income, earned and unearned? In other words, what do you have to work with? What income can you conservatively count on weekly, monthly, and annually? That is the baseline. From this knowledge, you can start building your cash flow chart.

Now that you have your income, it is time to review your expenses. First, we begin with your fixed expenses. By fixed expenses, I mean consistent living expenses that have little or no fluctuation and are necessary. Examples would be rent or mortgage, utilities, insurances, current debt related expenses, food, shelter, and clothing. I also propose that in today's world, saving for retirement to cover future essential expenses is a must. I propose at least 10% of your income. These days, retirement investing is not a luxury, but a necessity. Most of the time, employer and government sponsored retirement plans are not going to get the job done for you. Strive to keep fixed costs low as you will then have greater overall flexibility. Consider all costs, not just strictly monthly bills, such as the annual expense of home or rental insurance, property taxes, life insurance, and car and home upkeep.

Flexible spending can be non-essential food, clothing, dining out, travel, entertainment, upgrades, and even cell phones. These are expenses you can increase or decrease as needed. Have the conversation with yourself and your significant other as to what are

impulse wants and what is really meaningful to your quality of life. Come up with your definitions. You have the power of choice in making these expenditures. If your cash inflow does not support this discretionary spending, it should not be purchased. Can you afford the purchase itself along with the related on-going expenses associated with it? In most cases, you're not buying a cell phone, but you're buying an ongoing expense of a cell phone service plan. Season tickets to the local ball team will involve additional transportation costs at a minimum. I suspect you will be buying food at the game and dining out on the way home. Consider the associated expenses, maintenance, upkeep, and other additional costs when making purchases.

Long term goals, such as funds to replace a vehicle, upgrade a bathroom, purchase a four wheeler, or to travel all need consideration as you draw out your cash flow chart.

Determine your commitment to these objectives and what needs to be allocated on a regular basis so you can cover the costs of these goals. The cash flow chart will give you the knowledge and foundation to start building your financial future with intention. You may discover new strengths in your will to improve and focus your activities. You will, by completing this exercise, be able to adjust and connect with your spending habits. The actions you take will determine your commitment and success of achieving your true objectives. The ground work of charting your cash flow is a first step; it is not an end to itself. It is part of the process of becoming and designing the life you want.

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