Central Investment Advisors

Investment *Insights*
NEWSLETTER

Build Your Financial Foundation with Regular Reviews

Successful money management requires ongoing discipline. Each year, you should pull all your records together and take a close look at your entire financial picture. Here are six steps that can help you put your financial affairs in order:

1. Analyze your cash flow. In your budget, does your income equal or exceed the amount you put into savings and fixed or variable expenses? If it exceeds the amount, by how much? The amount of income that exceeds what you saved or spent is called positive cash flow. If your expenses exceed your income, you have negative cash flow. If your cash flow is negative, it may be time to reorganize and minimize any unnecessary expenses in your budget.

2. Provide money for special goals. For every financial goal you establish, you need to address the projected cost, the amount of time until your goal is to be realized (time horizon), and your funding method (e.g., a scheduled savings plan, liquidating some assets, or taking a loan).

You should plan your goals on three tiers. On the first tier, you have an emergency fund of at least three months of income. On the second tier, you may have a special goal and may, for example, establish a savings plan for your children's weddings or educational expenses. Finally, on the third tier are more flexible goals such as purchasing an automobile, renovating your house, and planning a vacation.

3. Enrich your retirement. Are you going to have enough money when you retire? Pensions and Social Security may not provide enough income to maintain your current lifestyle during your retirement years. Therefore, review your retirement needs and plan a disciplined savings program for your retirement.

4. Minimize income taxes. Many taxpayers reduce their taxes by taking advantage of tax deductions. Most are familiar with common deductions (e.g., mortgage interest, contributions to retirement plans, and donations to charities). In addition to tax deductions, however, there may be other ways of reducing your income tax bite. For example, under appropriate circumstances, losses or expenses from previous years may be carried over to the next tax year.

5. Beat inflation. Let's say the inflation rate is currently 2%. In order to maintain your buying power—just to break even—you need a 2% annual wage increase. A decline in your buying power will certainly lower your standard of living and affect your lifestyle. In the end, you'll have less money if inflation starts to beat you. Consequently, you need to put your money to work to beat inflation.

6. Manage unexpected risks. You are probably well aware that life sometimes throws us unexpected "curve balls"—that is, unforeseen risks. Suddenly and unexpectedly, your potential risk may become a financial loss (e.g., you become disabled without income or an untimely death causes financial hardship for your family). As a result, many have made insurance the cornerstone of their overall finances because it offers protection that can help cover unforeseen potential liabilities and risks.

These six steps will help you focus on the important issues that affect your finances. If you faithfully keep track of your progress in these important areas, you may be able to both afford your future and finance your dreams.

How's your financial heartbeat?

We meet with doctors frequently for physical check-ups. A financial checkup is as just as important. The right diagnosis today can help you make the right decisions for tomorrow. *Let's talk soon.*

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