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NOT JUST DREAMING BUT ACHIEVING

Effectively Implement a Cash Flow Plan

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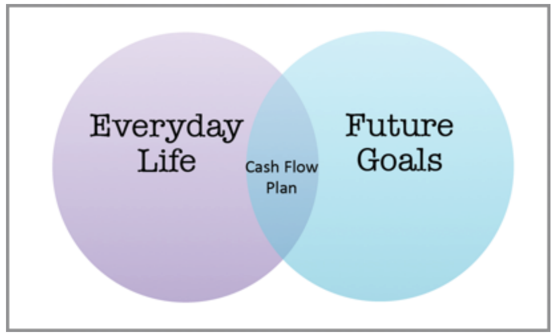
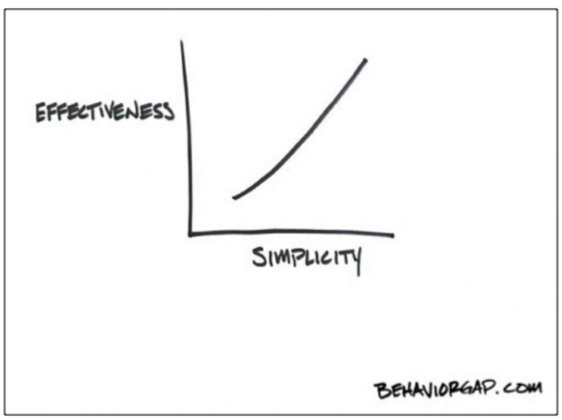
Most people view budgeting as a complicated and frustrating process that is hard to stick with. Sorting through expenses is time consuming, categorizing is confusing and implementing a plan to carryout is by far the most challenging part. The expenses that occur monthly have their place in the budget but the expenses that occur in an unpredictable pattern are difficult to account for. These problems are what lead most of us to cringe when hearing or reading the word "budget". I suggest you start the process by adjusting any constraining thoughts of budgeting you may have and begin to see it as the connection between everyday life and future goals.





Carl Richards, author of the Behavior Gap, illustrates complex financial concepts in easy to understand sketches. His sketch relating effectiveness and simplicity illustrates the idea that making something as simple as possible will result in having the most effective outcome. People may be drawn to having a complex plan because it seems to carry more significance, but boiling it down and allowing one's self to have simple plans to follow will ultimately improve success

Many people track expenses by using programs such as *Mint.com* or *Quicken*. They can be very helpful in evaluating historical spending patterns but are difficult in applying how you should and do spend in the future. Problems will arise with categorizing expenses, when using these programs, and require your time and effort to evaluate. Instead of focusing on understanding where you deviated from the budget you should instead focus on how to maintain control moving forward.

A highly effective method to manage cash flow is to automate and segregate your spending. Utilize current technology to your advantage and set up auto-pay for bills taking away any unnecessary energy on your part. Let me explain a simple way to segregate your spending. Begin to view your expenses in three categories – Static, Control and Dynamic. This concept helps you break up your expenses into smaller and more manageable amounts. It will also allow you to maintain control of your expenses on an ongoing basis and help to clarify decisions on spending.

The Static category consists of expenses that are consistent on a monthly basis, arising from a commitment you have made in the past. Your decision to buy a home, go to school, or take out a loan leads to an ongoing, predictable payment in the future. Because income you bring in is predetermined, the Static commitments have a direct effect on the other two categories. Since these commitments are easy to plan for, and typically have penalties associated with late or non-payments, you should automate as many as possible.

The Dynamic category is made of short-term, medium-term and long-term goals. In simple terms the Dynamic category is savings. You should plan here for items that you know are going to happen but you are not sure when or how to plan for them. Such expenses would be home & auto repairs, home improvements, new car, college, weddings, children, new home, vacations and retirement. Creating an account for each goal will allow you to clearly see how much you have allocated to each goal.

An example of a dynamic category would be the desire to take a $3,000 vacation every year. To fund this category you would simply create an account titled vacation and set aside $250 each month, even easier would be to have an auto transfer every month or week into the account. This will allow you to be absolutely certain you have the money to go on a vacation, worry free, every year. The Dynamic category accounts allow you to make your goals become a reality.

After deciding on amounts to fund the Static and Dynamic categories you are left with the Control category. This consists of all money that is left over and is the only money that you have to exercise control over. You should have separate accounts from the Static and Dynamic accounts so you may clearly track progress. Pay yourself on a weekly basis, derived from the money left over after funding Static and Dynamic accounts from income. The control account should cover all necessities on a weekly basis, such as groceries, fuel, eating out and all other discretionary expenses. If you have trouble making the control account cover necessary expenses for a week or month you will then clearly see the impact on any longer term goals when needing to take money away from the respective account.

The connection between dreaming your future goals and achieving them is accomplished through an effective cash flow plan. This cash flow plan is applicable to people in all stages of life. It will help you to make smarter decisions regarding money and help establish confidence in knowing the life you want to live is achievable. By segregating your spending you will be left with a simple plan to help make your goals a reality.

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