

Start Planning For Financial Success

The road to financial security starts with a plan beginning with the creation of cash flow and net worth statements. These two documents form the cornerstone of any financial plan and are important for three reasons. First, they provide you a snapshot of where you stand financially. Second, they are used in every area of your financial plan. Third, when updated annually, they allow you to measure your progress over time. Used properly, they can give you a greater sense of control, help you establish realistic goals and enable you to make better financial decisions. Let's briefly take a look at each one.

A **Cash Flow Statement** shows how much money you earn and spend, and how you earn and spend it. If you currently keep a budget, you are already using a cash flow statement. The purpose of determining your cash inflows and outflows is to find your *net cash flow*, which is the difference between how much you earn and how much you spend. For most people, the only way to successfully fund future goals and to achieve financial independence is to have a positive net cash flow. You can do this by increasing your income and decreasing your expenses. Since your cash flow impacts every area of your finances, and small errors can have big effects as they compound over long periods, it is worth spending the extra time to insure that your cash flow statement is as accurate as possible.

A **Net Worth Statement** is a summary of what you own and what you owe. *What you own* refers to your financial assets (e.g. savings and investments) and personal use assets (e.g. home, cars, jewelry, etc.). *What you owe* refers to your liabilities including loans, credit card debt, unpaid bills and mortgages. Your net worth is the difference between what you own and what you owe and is therefore a measure of your wealth.

Increasing your assets and decreasing your liabilities are two ways to increase your net worth. One of the most effective ways within your control to accomplish this is through saving and investing. Maximizing savings and minimizing spending will gradually shift the value of *what you owe* to *what you own*. You can track your progress by updating your net worth statement once a year and comparing it with the previous year.

While a positive net worth is the goal you want to achieve, and a negative net worth needs to be addressed, if your net worth mainly consists of personal use assets, you will need to devise a plan to start increasing your net worth with financial assets. After all, it will be your financial assets that you will use to fund your future goals.

Although cash flow and net worth statements provide different information, they are closely related. Increasing your positive cash flow by decreasing expenses and increasing income will help your savings and investments grow, enabling you to pay down your debts and build your net worth. Spending less than you earn and saving and investing the rest is one of the most powerful and simple wealth building tools available.

Preparing and using the cash flow and net worth statements will make you more aware of your spending habits and the impact they have on your net worth. By using these documents and making the necessary changes they indicate, you will be well on your way to achieving greater financial security and peace of mind.

Written by John Spoto 2009

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15 New England Executive Park • Burlington, MA 01803 • (781) 685-4928***