Bank Economists See Rebound from Economic Soft Patch

The U.S. economy will rebound from a lackluster first half with 2.8 percent annualized inflation-adjusted real GDP growth in the second half of this year, according to the Economic Advisory Committee of the American Bankers Association. The committee sees 1.8 percent growth over the four quarters of the year, rising to 2.6 percent in 2016.

The committee, which includes 16 chief economists from among the largest banks in North America, attributes the weak first quarter to a range of temporary factors, including seasonal distortions, bad weather, the West Coast port strike and the sharp drop in oil sector investment. However, the fundamentals remain positive, with healthy household and business balance sheets, low oil prices and interest rates, and strengthening housing and stock prices.

The fiscal and monetary policy environment is also supportive of growth. Fiscal policy is no longer a headwind, as tax and spending policies turn neutral at the federal, state and local level. The group forecasts the federal budget deficit will stabilize at $400 billion in fiscal year 2015.

The committee expects the Federal Reserve to maintain near-zero interest rates until September. Thereafter, the bank economists see a gradual normalization of rates over the next several years.

"The Fed is ready to move once the data show clearly that the weak first quarter was an aberration," said Ethan Harris, chairman of the group and co-head of global economics research at Bank of America Merrill Lynch. "Nonetheless, we see this as a gentle normalization process rather than an attempt to curb growth and stop inflation."

The group sees lower energy prices as a net positive for the economy. Low prices have hurt the oil patch, cutting into mining employment and capital spending. However, the boost to consumers will more than offset this negative.

"Initially, the oil price drop has triggered a sharp drop in the mining sector, but little response from consumers," said Harris. "However, as the year unfolds we expect mining to level off even as consumers spend more of their savings from gas."

While the collapse in mining investment contributed to a 2.8 percent annualized decline in business fixed investment in the first quarter, the committee sees about 5 percent growth in overall capital expenditures over the coming quarters as investments in other industries pick up.

The committee sees monthly job gains of 200,000 or so this year and next, with the unemployment rate expected to decline to about 5 percent over the year ahead. Moreover, the improving labor market is starting to show up in modestly better wage growth.

"The stronger job market is finally giving your average Joe a little bit of wage-negotiating power," said Harris. "Over the next several years, this should help reverse some of the dramatic widening in the income distribution."

The committee expects 2.7 percent real consumption growth in 2015.

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The group's consensus is that 30-year fixed mortgage rates will rise slowly from 3.8 percent today to 4.1 percent by year-end and 4.6 percent a year later.

The group sees improving credit quality and availability. Delinquency and charge-off rates are expected to continue to fall. Consumer bank credit is expected to grow more than 5 percent over the course of this year and next.

"We're optimistic that business lending will continue to grow at a double-digit rate, supporting the rise of business investment ahead of anticipated interest rate increases," said Harris.

Low inflation resulting from falling energy prices has temporarily pushed year-over-year headline inflation into negative territory.

"Outside of energy, the improving domestic economy could put upward pressure on prices, but the weak global backdrop and a strong dollar should limit any inflation acceleration," said Harris. As we move to 2016, the committee expects inflation to settle around 2 percent.

The committee sees some near-term risks to the U.S. economy from outside the country.

"The crisis in Greece is likely to get worse before it gets better," said Harris. "We expect a last minute deal, but in any case we think adequate buffers are in place to limit global contagion."

The committee sees growth in China trending lower, but a relatively low risk of a "hard landing."

"China has big imbalances in its economy with high levels of debt and misallocation of capital," said Harris. "In the near term, the government should be able to stimulate the economy, but the country faces a long period of adjustment."

Overall, while more cautious than at the start of the year, the committee sees a generally positive U.S. economic outlook for 2015 with growth rebounding, low inflation and a go-slow Federal Reserve.

The American Bankers Association is the voice of the nation's $15 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $31 trillion in deposits and extend more than $8 trillion in loans.
By LUKE BARWELL

Most managers think a lot about cash flow. We forecast it, worry about it, discuss it with bankers, and constantly look for ways to improve it. The reason we do these things is that growing businesses need cash—for next week’s payroll, for overdue bills, for C.O.D.s, for the Internal Revenue Service, for loan payments.

There are, however, significant differences between cash and cash flow. One of these differences is that we all know what cash is, but people seem unable to agree about cash flow.

What’s going on here? Many top ranking business owners are presumably intelligent, well educated, and experienced in business analysis. They all agree that positive cash flow is vital to a company, but they can’t agree on what cash flow actually is. If they don’t know, how are you supposed to know what you’re doing when you try to calculate and manage your own flow?

My advice is this: don’t get bogged down in these conflicting interpretations. Your concern is cash, not cash flow. You can’t spend cash flow. In fact, no single measure of cash flow has any meaning; it doesn’t exist. (Neither does “cash flow per share” for that matter—it’s a number with all the precision and significance of, say, “moderately happy customers per share.”)

Now I realize that most bankers and accountants have a standard definition for cash flow. The last time I applied for a business loan, for example, the cash-flow calculation was about halfway down the application form: profits plus depreciation plus other non-cash charges equals cash flow. The calculation on this form looked very official—typewritten and all. And maybe it was useful to the bank. But it was worth zilch to me as a manager.

Granted, with everything else being equal, you’d tend to have more cash if many of your expenses are for non-cash items, such as depreciation. But these accounting entries aren’t only partial calculations that explain the amount of cash you have available each day to meet your financial obligations. And they’re not much help at all if you want to figure out where you should do some fine-tuning to cut down on your cash outflow.

To understand what’s really happening with your cash, you should forget about a single cash-flow number. Instead, think about the various reasons that cash flows in and out of your business. Most people agree there are three general categories: cash flow from operations, from investments, and from financing.

Cash flow from financing is pretty straightforward. It details all your cash transactions involving equity and interest-bearing debt. Your net cash provided by financing activities will be the proceeds from any loans, less loan payments, and the proceeds from issuing common stock, less dividends paid. And that’s it.

In most private companies, cash flow from investments deals primarily with the purchase and sale of fixed assets. As such, it is a category that generally uses cash, rather than supplies it. At least, however, this category can provide cash.

A couple of years ago, for example, I was working with a manufacturer of lawn and garden supplies. Since freight was a significant cost for us, we had started to subcontract manufacturing near our major markets. When a recession hit our industry, we decided to sell our manufacturing plant and simply hire more subcontractors to take over the production.

The net effect was that we raised the cash we needed and were still able to satisfy our customers. That’s not the first time I’ve generated desperately needed cash by liquidating unused assets.

Cash flow from operations—the third category—is what most people are talking about when they look at cash flow. It’s the most difficult of the three categories to get a handle on, though in theory it’s simple enough. You want to measure the cash coming in from customers against payments going out. One reason for the confusion that arises over this number is that outside analysts must back into the calculation because they don’t have access to detailed company records and must rely instead on income statements and balance sheets. They begin with operating profits, add such non-cash expenses as depreciation and amortization, then adjust for changes in the balances of the assets and liabilities associated with company operations.

The problem is, you, too, may lack the information you need to report cash flows from operations the way you’d want to. Ideally, you’d get net cash from operating activities by taking the cash received from customers and deducting from it cash paid for merchandise, administrative and selling expenses, and income taxes. (Since in many ways, the payment of income taxes is a separate issue from day-to-day operations, I occasionally show income taxes as a fourth major category.) This allows you to analyze where your cash is going and to plug leaks if need be.

But if your accounting system is like most, it probably doesn’t detail the amount of cash spent each month for inventory, for example, or for individual operating expenses. Instead, your system merely reports the cash you spend on accounts payable. That will give you a total cash figure, but not in the detail that will be useful to you in managing your operating cash flow.

Still, there is hope for the future. Since the accounting profession has begun to place more emphasis on cash-flow reporting, the chance is good that in the next few years accounting software will become available that will report actual operating cash flows. Until then, you too may be stuck with backing into the numbers.

Now if that is the case, there are a number of ways you might want to modify your cash-flow reports. I sometimes calculate a subtotal of cash flows from operations and investments, often called the free cash flow. Free cash flow is the amount of cash that is available to pay lenders and owners their due. Of course, most businesses, when they’re growing quickly, will experience negative free cash flows. Keeping this subtotal in front of you, however, emphasizes that for long-term viability a business must be able to generate positive free cash flows.

If you are lucky enough to have a business with excess cash, you probably have a portfolio of marketable securities, which is the equivalent of cash. If so, your statement of cash flow probably would be clearer if you made this a category in its own right, separate from the investments category.

To people who, up until now, always thought cash flow meant net income plus depreciation, these methods of reporting cash flow may come as a shock. But they will help you get a better understanding of where your cash went, why it went there, and what you can do to improve those flows in the future.

When I worked with the manufacturer of lawn and garden supplies, for instance, by categorizing the sources of cash by operations, financing, and investment, we clearly understood how selling the plant affected cash flow. In the operations section, we had recorded that by eliminating an underused plant, we had reduced operating expenses and had thus saved cash. The investment category showed the cash we had generated by selling the plant. And, according to the finance section, we’d also reduced debt by paying off some of the liabilities.

By categorizing the cash flow this way, it demonstrated in a lot more detail where our cash came from. And, perhaps most important, we couldn’t deceive ourselves that any more came from operations than actually showed up in the operations section.

Luke Barwell is an independent business data training specialist and management consultant.

AN OVERWHELMING MAJORITY OF CREDIT CARD USERS — 83 PERCENT — HAVE REWARDS PROGRAMS ASSOCIATED WITH THEIR CARDS ACCORDING TO A NEW SURVEY RELEASED BY THE AMERICAN BANKERS ASSOCIATION. THIS FIGURE IS AN INCREASE FROM 75 PERCENT A YEAR AGO AND RANKS AMONG THE HIGHEST IN THE LATEST ISSUE OF THE CREDIT LINE, WHICH EXAMINED THE MARKETPLACE FOR REWARDS AND HOW CONSUMERS USE THEM.

According to the survey, nine in 10 cardholders (93 percent) find their rewards programs easy to understand. A majority (57 percent) said they were “very easy to understand,” while 36 percent said they were “somewhat easy to understand.”

“The increased prevalence of rewards cards speaks to a growing prevalence among consumers who appreciate being rewarded for their loyalty,” said Molly Wilkinson, executive director of the ABA’s Card Policy Council.

Cardholders find it easy to take advantage of the best deals based on the type of rewards they value the most. The wide variety of rewards programs and the fact that they’re user-friendly are just two of the many reasons they are so popular in today’s marketplace.”

Cash-Back Is King Among Consumers

The survey found that cash-back is not only the most common type of rewards (utilized by 51 percent of cardholders) — it is also the most appealing to consumers. A majority of cardholders (55 percent) identified cash-back cards as the credit card reward program that appeals to them the most.

General points cards that allow points collected to be redeemed for things like gift cards, merchandise, and travel rank second in cardholder preference (23 percent), followed by airline miles (13 percent), hotel points cards (5 percent) and other types of rewards programs (1 percent). Only 2 percent of credit card holders say that nothing appeals to them when it comes to reward programs offered by credit card issuers.

The primary motivation for cardholders when choosing a credit card varied, but most indicate three factors that come into play: a low APR (35 percent), a valuable rewards program (29 percent), and the absence of a specific type of fee (25 percent).

Consumer Satisfaction: More Than 90 Percent Happy With Their Cards

The survey found that 78 percent of U.S. cardholders have at least one credit card, including 33 percent who have three cards or more. Among respondents who have a credit card, nine in 10 (90 percent) say that they are satisfied with their credit cards, including nearly half (48 percent) who say they are very satisfied.

“Providing excellent customer service is of paramount importance to card issuers,” Wilkinson said. “Valuable rewards programs and rapid response to customer concerns are just two ways issuers are meeting consumer needs day in and day out.”

About the Survey

These are findings from an Ipsos poll conducted March 11 to 13, 2015. For the survey, a sample of 1,000 U.S. adults age 18 and over was interviewed online, including 774 respondents who say that they have a credit card. The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll is accurate plus or minus 3.5 percentage points for all respondents.

Information for this article was provided by the American Bankers Association.
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One-in-Four Americans Victimized by Information Security Breaches

O ne-in-four Americans (25 percent) fell victim to information security breaches in the past year, according to a new survey from the American Institute of CPAs (AICPA) conducted by Harris Poll. This represents more than double the number of people (11 percent) who reported being victimized in a similar survey taken just over a year ago. These widespread incidents, which can have dire consequences on the victims’ finances and credit scores, are shifting Americans’ purchasing decisions and shopping habits, both online and off. The telephone phone survey of over 1,000 U.S. adults was conducted in March as part of the AICPA’s education outreach for National Financial Capability Month.

No age group is safe from personal information security breaches—regardless of their online activity. The survey showed that 34 percent of adults aged 55-64 fell victim to information security breaches in the last year, compared to the 22 percent of Millennials who are typically seen as being the most active age group on digital communications platforms among adults.

Cyber attacks not only put Americans’ information at risk; these breaches can have an adverse effect on consumers’ personal finances. According to the survey, one-in-five Americans (20 percent) said identity theft has negatively affected their credit score. In addition, one-in-four Americans (26 percent) reported that their credit score prevented them from doing at least one thing in the past year, including obtaining a personal loan, a credit card, or a mortgage. Eighty percent reported they were prevented from renting an apartment and five percent were unable to land a job because of their credit score. These numbers underscore the importance of the issue.

The survey also found that 86 percent of adults reported some concern in businesses’ ability to safeguard customers’ financial and other personal information, with a majority (51 percent) saying they are “extremely concerned” or “very concerned.” The latter figure is up from 39 percent a year ago. Perhaps because digital communication, and online payments are so ingrained in their daily life, fewer Millennials (42 percent) reported being extremely concerned or very concerned about businesses’ abilities to protect their data, less than any other age group surveyed.

“The increase in data breaches affecting personal information has given consumers significant cause to be cautious about their activities, both online and off,” said Ernie Almonte, chair of the AICPA’s National CPA Financial Literacy Commission. “Data breaches have the potential to seriously affect consumers’ finances and credit scores. A good news is that we are seeing Americans taking steps to safeguard their information and reduce their susceptibility to these attacks.”

The survey found more than four-in-five Americans (82 percent) are shifting their purchasing behavior in the wake of increased cyber-attacks, a 13 percentage point increase (69 percent) from a year ago. Fifty-six percent said they are now using more cash and/or checks for purchases, and 40 percent have reduced their online presence—including turning off social media accounts or visiting fewer websites. In comparison, only 34 percent of Millennials have reduced their online presence in the wake of increased information security breaches, the least of any age group.

Protecting personal information has become a major concern. The AICPA’s National CPA Financial Literacy Commission offers the following useful tips for keeping your financial information safe and protecting yourself against personal information security breaches:

Be Proactive: Reach out to your bank and credit card companies and ask what safeguards they have available, including fraud alerts and purchase limits. Many companies have these features available, but you may have to opt in.

Avoid Shopping Using a Public Wi-Fi Connection: It’s generally a bad idea to transmit any personal data on a connection that is not secure or in a public place. An unsecured connection means hackers may be able to gain access to any personal information you share with the retailer and use it to make unauthorized purchases.

Secure Your Credit Cards: Make a list of all of your credit cards (including account numbers and emergency phone numbers of each issuer). Secure this information in a safe place. When you use your credit card in a restaurant or store, don’t let it leave your sight.

Avoid Clicking on Unknown Email Links: Don’t click on links in unsolicited emails or social media sites, even if they purport to be from trustworthy retailers, because they may take you to sites that are trying to collect information for identity theft. Instead, type the organization’s website address into your browser’s address bar or find it through a search.

Follow up Quickly: If your financial information has been compromised in any way, ask each credit bureau to place a fraud alert on your credit report. If your wallet or personal identification is stolen, immediately notify the police, your credit card providers, your bank and the three major credit reporting bureaus.

You can find more financial tips on the AICPA’s newly refreshed 360 Degrees of Financial Literacy website at 360financialliteracy.org, as well as the AICPA’s Feed the Pig website, which is designed for Americans aged 18-34.

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Outliving Money is Top Retirement Concern

According to a recent survey by the American Institute of CPAs, the top retirement concern for clients is running out of money in retirement. The survey, which included responses from 548 CPA financial planners, was fielded from February 3 to February 26. When asked about the top three sources of clients’ financial and emotional stress about outliving their money, planners cited healthcare costs (14 percent), market fluctuations (12 percent) and lifestyle expenses (12 percent) as the primary issues. Additional causes for financial stress were unexpected costs (47 percent), the possibility of being a financial burden on their loved ones (24 percent) and the desire to leave inheritance for children (22 percent)

With all of the financial uncertainty surrounding retirement, running out of money is directly tied to a number of issues that high-net worth clients are juggling simultaneously,” said Lyke K. Bisen, CPA/PFS, and chair of the AICPA’s PFP Executive Committee. “To help alleviate their clients’ longevity concerns, CPA financial planners integrate tax planning strategies to maximize income in retirement. This approach considers a client’s current situation and anticipates their lifestyle spending in retirement to ensure they stay on track in the event of an unexpected life event.”

The survey results showed that unexpected events are not abstract concerns; they are having an impact on retirement planning for a large number of clients. These issues include long-term healthcare concerns (impacting 42 percent of clients), caring for aging relatives (28 percent), diminished capacity (26 percent), divorce (18 percent), job loss (18 percent) and adult children returning home (18 percent). Some of these concerns are becoming prevalent. When asked to compare to client experiences five years ago, respondents reported increases in clients being unexpectedly impacted by long-term health care concerns (59 percent), taking care of aging relatives (41 percent) and diminished capacity (39 percent). Taken together, these issues demonstrate the competing challenges individuals face when planning for their retirement and the need for sophisticated planning advice to meet their goals.

By understanding clients’ fears about running out of money in retirement, planners can provide a more realistic perspective on their financial situations and help alleviate the associated stress.

“The PFP Trends Survey found that the issues impacting retirement planning are constantly evolving, underscoring the need for a sophisticated financial plan that changes with a client’s situation,” said Jeannette Koger, CPA, CGMA, AICPA vice president of Member Specialization and Credentialing. “The AICPA’s Personal Financial Planning Division is dedicated to offering our members tools and up-to-date guidance and resources so they can continue to meet the complex retirement needs of their clients.

CPA financial planners recognize that dealing with these concerns requires a combination of behavioral changes and technical advice. By understanding clients’ fears about running out of money in retirement, planners can provide a more realistic perspective on their financial situations and help alleviate the associated stress. Following are some of the strategies planners are currently using with their high-net worth clients:

- **Lifestyle** – helping clients understand the impact of their lifestyle spending and implementing a plan that balances their current income level and asset base with their retirement goals.
- **Healthcare** – working with clients to understand their Medicare and insurance options so they can better plan for potential healthcare costs they might need to cover.
- **Living situations** – identifying strategies, such as the use of continuing care retirement communities, to both control costs and save on taxes.
- **Tax savings** – coordinating Roth conversions with IRA required minimum distributions, investing in assets with a lower tax rate, and maximizing Social Security income.
- **Diversity** – mitigating the effect of market fluctuations with proper asset allocation, bucket strategies, and use of single premium annuities.
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The Average American’s Monetary Situation Has Improved So Far in 2015

Despite slight advances and declines within the financial pleasure and pain factors in the last quarter, the continued improvement in the PFS score indicates that Americans’ financial opportunities have continued to expand faster than their potential loss in financial well-being,” added Tillery. “Now is an excellent time for Americans to be reviewing their own financial situation with a CPA financial planner. This relationship will help them feel more confident in their decisions and financial strategies going forward.

The PFS, calculated as the Personal Financial Pleasure Index minus the Personal Financial Pain Index represents the financial standing of a typical American, uses both proprietary and normalized official U.S. Government data. Pleasure factors include the proprietary PFS 750 Market Index, comprised of the 750 largest companies by market capitalization trading on the U.S. markets, excluding ADRs, mutual funds and ETFs. The other components are the AICPA’s CPA Outlook Index, Real Home Equity Per Capita and Job Openings Per Capita. Pain factors include inflation, personal taxes, loan delinquencies and underemployment.

Additional information on the PFS can be found at: www.aicpa.org/PFSi

How to Keep Your Money from Slipping Away

As with virtually all financial matters, the easiest way to be successful with a cash management program is to develop a systematic and disciplined approach.

By spending a few minutes each week to maintain your cash management program, you not only have the opportunity to enhance your current financial position, but you can save yourself some money in tax preparation, time, and fees.

Any good cash management system revolves around the four As — Accounting, Analysis, Allocation, and Adjustment.

Accounting quite simply involves gathering all your relevant financial information together and keeping it close at hand for future reference. Gathering all your financial information such as mortgage payments, credit card statements, and auto loans — and listing it systematically will give you a clear picture of your overall situation.

Analysis boils down to reviewing the situation once you have accounted for all your income and expenses. You will almost inevitably find yourself with either a short fall or a surplus. One of the key elements in analyzing your financial situation is to look for ways to reduce your expenses. This can help to free up cash that can either be invested for the long term or used to pay off fixed debt.

For example, if you were to reduce restaurant expenses or spending on non-essential personal items by $100 per month, you could use this extra money to prepay the principal on your mortgage. On a $150,000 30-year mortgage, this extra $100 per month could enable you to pay it off 10 years early and save you thousands of dollars in interest payments.

Allocation involves determining your financial commitments and priorities and distributing your income accordingly. One of the most important factors in allocation is to distinguish between your real needs and your wants. For example, you may want a new home entertainment center, but your real need may be to reduce outstanding credit card debt.

Adjustment involves reviewing your income and expenses periodically and making the changes that your situation demands. For example, as a new parent, you might be wise to shift some assets in order to start a college education fund for your child.

Using the four As is an excellent way to help you monitor your financial situation and ensure that you are on the right track to meet your long-term goals.

This material was written and prepared by Emerald.