




Mastering the art *of* cash flow



While many of us nail the more sophisticated side of investing and financial planning, we often let the basics like cash flow management slide.

In an interview with Godfrey Pembroke adviser **Peter Wilson**, also founder of cash flow management service Your Personal CFO, *Outlook's* Lisa Dunne looks at how mastering cash flow can be a cornerstone to wealth.

In business, structured and planned cash flow is the lifeblood of a well-managed company and it's no different for individuals and families. When you understand your monthly inflows and outflows, you can meet your daily financial commitments and grow wealth.

But the high demands of a career and a busy lifestyle can make it difficult to get an overview of income and expenses.

"It's not that people don't understand cash flow management," says Peter Wilson. "It's getting around to doing it without creating another demand on already precious time."

Expanding expenses

As Peter points out, someone's income might be well defined, but their expenditure can vary considerably from month to month. Without a structured budget and way of monitoring it, expenses can grow to a level comparable to what they actually receive.

"It doesn't matter if you're earning \$100,000 or \$1 million," he says, "we see this across a broad spectrum of clients. As your income expands, you see something you want and buy it. It's only when something happens to that employment situation that you realise how the opportunity has been wasted."

It's a situation Peter says he sees frequently, especially when clients have demanding careers that leave little time to focus on the day today expenses, and executives are a classic example.

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“An executive I came across was earning a very good salary, but was made redundant and forced to review his spending. He discovered his three children were spending \$250 a month each on their mobile phones.

Even though they were on capped plans, they were going over the cap, so there were no limitations. When you multiply that by three children, you have this massive expenditure on an ongoing basis,” he explains.

“The thing is, if you save \$1,000 today that can translate into \$18,000 in 40 years time. If you’re a 40 year old executive, that’s a big difference. And if you continue to do that, you will accumulate wealth.”

Keeping track

As well as wealth creation, Peter says there are other drivers for people to get a handle on their current expenses and expectations of where they’ll be in the future.

“Some banks now require a monthly forecast of expenditure in a budget plan as part of the loan lending process, similar to business lending. They want people to clearly show they have the capability to borrow money before lending it.”

Lifestyle and health demands

Ex-pats, the time-poor or those in ill health have a whole different set of needs when it comes to cash management.

“Ex-pats are usually offered an attractive remuneration package because they’re relocating and uprooting their family to a new area. If they take a disciplined approach to managing their money, ex-pats have a fantastic opportunity to return to Australia in a significantly improved financial position,” says Peter.

“On the other hand,” he adds, “if they don’t actively take advantage of the situation, it’s easy to let lifestyle and expenditure grow to match the new income. And if they don’t keep track of their bills back in Australia, credit ratings can become affected.”

It’s a basic part of cash management, but Peter says just staying on top of bill payments can be an issue for those who work long hours or have special needs.

“Take the medical profession for example, where people work very long hours,” he says.

“These professionals may delegate the management of their financial affairs to a personal assistant. But there’s always the potential issue of fraudulent activity; when they’re so busy and their income is high it’s difficult to keep track of it all.”

Peter says it’s the same for those in ill health.

“They might have two issues: they might realise, they need someone to help manage these investments because they might be in hospital tomorrow. Similarly with their bills, if they don’t get paid they run the risk of having the service disconnected or damaging their credit rating.”

While they may be able to call on family or friends to help them manage, they may not necessarily want to.

Most people want to retain a degree of privacy in the management of their financial affairs.

“By outsourcing their financial affairs to a professional cash flow managed service, these people can benefit significantly,” says Peter.

“It sounds simple, but these things can really make or break a financial plan.”



If you'd like to learn more about
mastering your own cash flow, speak
to your Godfrey Pembroke adviser.

