

How Can I Keep My 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 invariably find yourself with either a shortfall 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 \$130,000 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 to ensure that you are on the right track to meet your long-term goals.

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