

Six steps to your financial foundation

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Financial Planning Tips
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Each year, you should pull all your records together and take a close look at your entire financial picture.

Here are six steps that can help you put your financial affairs in order:

1. **Analyze your cash flow.** In your budget, does your income equal or exceed the amount you put into savings and fixed or variable expenses? If it exceeds, by how much? The amount of income that exceeds what you saved or spent is called positive cash flow. If your expenses exceed your income, you have negative cash flow. If your cash flow is negative, it may be time to reorganize and minimize any unnecessary expenses in your budget.

2. **Provide money for special goals.** For every financial goal you establish, you need to address the projected cost, the amount of time until your goal is to be realized (time horizon) and your funding method (a scheduled savings plan, liquidating some assets or taking a loan). You should plan your goals on three tiers. On the first tier, create an emergency fund of at least three months of income. On the second tier, establish a savings plan for your children's weddings or educational expenses.

Finally, on the third tier are more flexible goals, such as purchasing automobiles, enacting renovations and planning vacations.

3. **Enrich your retirement.** Are you going to have enough money when you retire? Pensions and government-supplied benefits may provide insufficient income to maintain existing lifestyles during your retirement years. Consequently, review your retirement needs and plan a disciplined savings program for your retirement.

4. **Minimize income taxes.** Every taxpayer can benefit from developing strategies to reduce taxes. Lowering your tax bill can increase the amount you are able to save.

5. **Beat inflation.** Let's say the inflation rate is currently 3 percent. In order to maintain your buying power "" just to break even "" you need a 3 per cent annual wage increase.

A decline in your buying power will certainly lower your standard of living and affect your lifestyle. In the end, you'll have less money if inflation starts to beat you. Consequently, you need to put your money to work to beat inflation.

6. **Manage unexpected risks.** You are probably well aware that life sometimes throws

us unexpected "curve balls" "" that is, unforeseen risks. Suddenly and unexpectedly, your potential risk may become a financial loss (i.e. you become disabled without income, or an untimely death causes financial hardship for your family). As a result, risk management (insurance coverages) should be the cornerstone of your overall finances because it offers protection that can help cover unforeseen liabilities and risks.

These six steps will help you focus on the important issues that affect your finances. If you faithfully keep track of your progress in these important areas, you may be able to both afford your future and finance your dreams. Speak to your financial advisor to learn more about how to plan and track your financial performance.

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