

Cashflow

WANTS VS. NEEDS

Cash-flow management is the starting point of all wealth creation. It is the most basic and most crucial aspect of your finances - and is often seen as the most unattractive. It is this discipline alone that will define your success in both personal finances as well as investing on a broader level.

The basic reasoning behind this is that if you are unable to take some of your income and put it aside, if you are unable to endure delayed gratification, then ultimately it is impossible to improve your financial position. Investing requires you to commit your savings into growth assets - something which cannot be achieved if you are unable to save in the first instance.

In this publication we will talk about wants vs. needs analysis, how to setup and maintain a budget and how to apply this budget when setting goals. We will also add in 10 simple tips for improving cash flow

The most basic issue that we all face with our finances, is deciding what we need to spend our money on right now, and what can wait. Often things may seem as though they are an immediate requirement when they are in fact, simply a want.

Take for example, food. Obviously food is a necessity in all of our lives, however exactly what we spend on food is where we can split the difference between wants and needs. Imagine a scenario in which one person ate out regularly and another infrequently. The person (let's call them Person A) who prepares all of their own food might get away spending \$120 a week on food. The person (Person B) who eats out frequently would have a very different budget. Let's imagine they didn't eat expensive food, they just didn't cook very often breakfast might be \$10, lunch might be \$15 and dinner might be another \$15. That's \$40 a day which is \$280 a week. Comparing the two Person A would spend \$6,240 per annum whereas Person B would spend \$14,560 per annum. We know this sounds like an obvious notion however making this simple change alone would save you \$8,320 each year, which, if invested correctly for 30 years, could turn into over \$1.3 million.

Now, we're not suggesting that you should never eat out or enjoy yourself, or that avoiding these things will make you a millionaire by itself, but if eating habits alone can make this large of a difference imagine you were to reevaluate all spending choices in your life.

In the following table, we will outline the basic spending patterns of most Australians and you can see what are wants and what are needs:

	Want	Need
Food	Cafe lunch	Home cooked meal
Car	Car loan / New car	Second hand car
Coffee	Barista	Instant / Coffee machine at work (perhaps not a need at all!)
Commute	Drive	Public transport / bicycle

Obviously, you do not have to sacrifice everything in your life that is considered discretionary spending however the purpose of this guide is to get you thinking about what you could substitute to save more money and get it working harder for your future.

BUDGETING

Often when people think of budgeting they think that it only involves cutting out expenses so that there is little left to enjoy in life however this is not the case. Budgeting also offers an important insight into how your finances are operating. For example, one great function of writing out your current incomes vs. expenses is that you get a realistic idea of your capacity to save each month or year. Understanding how much you can reasonably put away, right now, will form the basis of your investment strategy. For example, if you were able to save \$20,000 per annum comfortably, then you know you could afford an investment property even if there was a vacancy issue for whatever reason. Alternatively, you could do the math on \$20,000 per annum invested at 10% for 20 years = \$1,145,000. Depending on what your end goal was you could then decide you don't need 10% and therefore could reduce your risk exposure, or perhaps you could retire earlier than you thought, or perhaps you need to find a way to start saving more.

In any event, it is easy to see that budgeting underpins most of what we do with our finances.

As an exercise, try filling out the below table (using estimates) to figure out what your annual surplus would look like:

Expense/Frequency **Weekly** **Fortnightly** **Monthly** **Quarterly**

Rent/Mortgage

Insurances (incl. car)

Utilities

Internet / Phone

Petrol

Car service

Car registration

Education / Childcare

Groceries

Clothing

Gifts

Holidays

Liquor / Tobacco

Entertainment

Other

Other

TOTALS

TOTAL ANNUAL INCOME =

TOTAL ANNUAL EXPENSES =

BUDGET SURPLUS=

9 TIPS FOR SAVING MONEY

At this stage you're probably in one of two categories:

"Great! After looking at my budget, and doing the math, looks like I should be able to achieve my financial goals through investing"; or

"At this stage I'm going to be working forever! I need to find a way to put a little extra away"

This section is largely aimed at category 2 however is useful for both - so here's our top ten tips for saving some extra cash!

The 30 Day Rule - when you are thinking about a discretionary purchase (shoes, nice bottle of whiskey etc.) wait 30 days and then decide if it's still a good idea. Often we have light bulb moments about how we want to spend our money, only to have buyer's remorse a week later when we are uninterested in our new purchase.

Use compare and save websites. If you are currently paying your utilities and internet/phone bills without having researched and compared other providers, you are more than likely donating money to these companies. While it may not seem like much, saving 10-20% on each of these will add up over the course of the year. Let's say doing this saves you \$1000 in a year. That's not a huge difference over the year, sure, but what if you did the same in 9 other areas of your finances (e.g. quit smoking, eat out less, use public transport) - all of a sudden you are saving \$10,000 a year more!

Check your bank account. More than ever modern society is discouraging your awareness of how much your spending. With the introduction of tap and go style payment methods and automatic direct debits for bills, we are often unaware of how much we are actually spending - until it's too late. So next time you're thinking of going out for a beer with colleagues or dinner with a friend, perhaps check your bank balance first and then make your future decisions based off that information.

Regularly review the interest rate on your mortgage. Admittedly this one sounds obvious but it would surprise you just how few Australians actually do this. In fact, why not start by asking yourself "does my interest rate start with a 3? When was the last time I called my bank and threaten to leave?". This may sound aggressive but then also ask yourself "why do I have loyalty to one particular corporation?" At the end of the day it's your money, if another bank can take care of you better then why not look into it? At the end of the day, little work will be required as your banks retention team are likely to contact you with a great rate if they catch wind of your intention to leave!

Quit smoking... or at least think about reducing it. Have you tried not smoking at work? Or maybe only smoking on weekends? If you currently smoke, be honest, this is going to be a major barrier to achieving your financial goals!

Increase your income - and not just at your job. Apps such as Spacer allow you to rent out unused space such as a garage for storage which could increase your yearly surplus by around \$3-4,000. You could rent out a room on Airbnb or Flatmates.com, or even take up a hobby that allows you to make money while enjoying yourself.

Free events. If you live in or near cities such as Melbourne, Sydney or Brisbane there are constantly free events in and around CBD areas that can offer the same entertainment as \$50 tickets to another event.

Buy a used car. This doesn't mean you have to purchase an old rust bucket however purchasing something with even just 20,000 - 40,000km's on the clock will significantly reduce the cost of purchasing from the showroom.

Commit money towards an investment. There is no better way to save than having to. Just like paying back that car loan you have, repaying a loan on an investment property or putting money into a managed fund each pay cheque will force you to grow your savings.