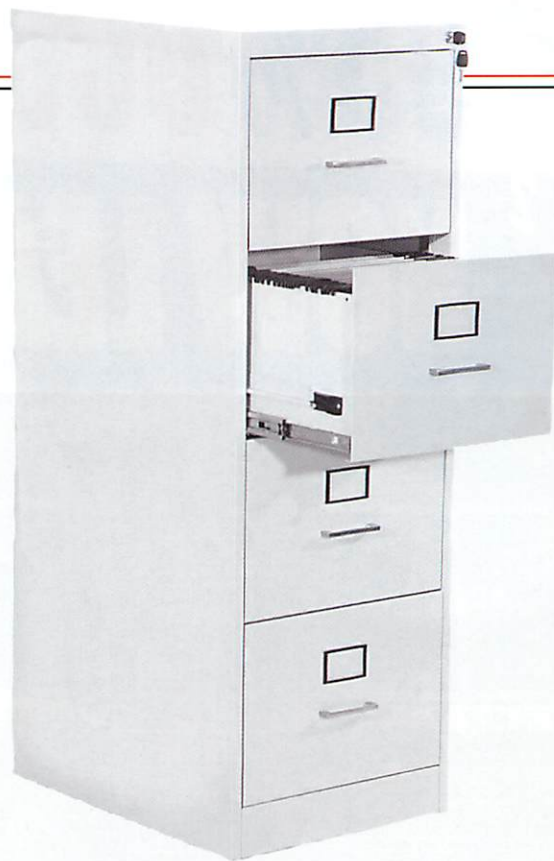


# PERSONAL FINANCES FIRST

It isn't always easy, but organizing your affairs may be one of the smartest investments you ever make. **BY JOHN SPOTO**



Most people lead busy lives that include work, family and managing a household. It's easy to see why some things get put off or ignored.

Unfortunately, for many individuals and small business owners, personal finances take the hit.

When you own your own business, balancing the demands of running an organization while managing family finances is a huge challenge.

It's true that entrepreneurs tend to be focused, goal-oriented people. And yet, intense focus on building a successful business can have negative consequences on personal and family finances, because of the time and attention the business demands.

That's why it's important to have a system. And at the core of this system is organization of personal and financial records.

Choose a simple record-keeping system that is easy to use and maintain. Whether you store your documents in paper or electronic form, use a two-part filing system that includes an active file for current records and an inactive file for storing the previous year's documents.

Periodically review your active file for documents that should either be discarded or transferred to your inactive file.

Frequently used documents that can be replaced easily (e.g. tax returns, insurance policies, etc.) should be kept in a home file,

while those that are not (e.g. birth, marriage, and death certificates) should be kept in a safe deposit box or home safe.

Also, maintain a master list detailing where records are kept and a list of professionals who are important to the family, including physicians, attorneys and insurance agents.

When used effectively, a record-keeping system will save you time and money. It also enables you to take full advantage of available tax deductions and credits.

Above all, once you are organized, it's much easier to determine your financial standing today by creating cash flow and net worth statements.

A cash flow statement shows how much money you earn and spend, and how you earn and spend it. The goal is to determine your net cash flow, which is the difference between how much you earn and how much you spend.

For most people, the only way to successfully fund future goals and achieve financial independence is to maintain a positive net cash flow. The most powerful wealth building tool that most of us have within our control is spending less than we earn and saving and investing the rest. The cash flow statement helps identify what changes in our earning and spending are required to do that.

A net worth statement is a summary of what you own and what you owe. What you own refers to your financial assets (e.g. savings and investments) and personal use assets (e.g.

home, cars, etc.). What you owe refers to your liabilities including loans, credit card debt, and mortgages.

Your net worth is the difference between what you own and what you owe and is therefore a measure of your wealth. Not only should your objective be a positive net worth, it should also consist primarily of financial assets because these are the ones that will fund your future goals.

Although cash flow and net worth statements provide different information, they are closely related. Increasing your positive cash flow will enable you to pay down debt, increase savings and build your net worth. Preparing the cash flow and net worth statements will make you more aware of your spending habits and the impact they have on your wealth.

Together, these two documents form the cornerstone of any financial plan. They are essential for making informed decisions about virtually every aspect of your financial life, including the types of and amount of insurance you need, constructing an appropriate estate plan, building a suitable investment portfolio, and deciding what courses of action are needed to reach your most important financial goals, including retirement.

Getting organized will save time, allowing you to focus on building a more successful business and to translate that success into greater financial security for you and your family. **MB**