<u>Mullooly Asset Show: Episode 52 – Managing Cash Flows</u>

Tom Mullooly: In Episode 52, we talk about the bottom rung of the ladder. The basics when it comes to financial planning, managing cash flow.

Welcome to the Mullooly Assets Show. I'm your host, Tom Mullooly and this is episode number Yoenis Cespedes, 52. If you're following with the Met numbers. We're running out of numbers. With the more videos we do, we may have to move over to the Giants and do football numbers. We appreciate you tuning in and subscribing. If you're watching this on You Tube, you can just hit the red subscribe button. We love to get a lot of followers. Of course, if you've got questions that you would like to see us cover in an upcoming video, by all means get in touch with us.

Tim, what are we going to be talking about today?

Tim: I'm thinking about meeting with a financial planner. Where does a good financial plan even begin?

Tom Mullooly: You know what, such a great question. It's something that, when you're talking about money and numbers, a lot of times we'll sit down with clients and they'll say, "I hate math." Or, "I'm not good with numbers," or whatever. I'm going to give you a little bit of medicine here. Do it. What you need to do when you're beginning with planning your future, or taking a better look at your finances, is putting together your very own personal income statement. That's what we talk about when we're doing cash flow management. It's important. Just like a business would prepare an income statement for 2016 or for the third quarter or for the projected numbers for the future. They also make balance sheets. You should be doing the same thing. It sounds really complicated, but if you are out of school and you're just beginning, you could do this on the back of an envelope, or on the back of your notebook.

It's important to do, though, and it's really something that it sounds complicated, but it's not. We're going to talk about inflows and outflows, okay. Inflows, and we talk about this not only with cash flow management, but we talk about it with portfolio management. We talk about it with option trading, too. I mean, the first thing we do when we sit down with a client when we're talking about portfolio management is we ask them to tell us. When you're selling a stock ... Back up. When we're buying a stock in your account, what happens to the cash? Well, the cash goes out. Right. We're buying something, so money goes out. What do we do when we sell a stock? When we sell something, money comes into the account.

Then we take it a step further when we show them, hey when we're doing options, what happens with the account? You should do the same thing when you're beginning your financial plan. What is an inflow? Well, what happens when you get paid? What happens with your bank account? Money comes into your account. That's an inflow.

There's three basic types of outflows. The first one is savings or investment. The second outflow is fixed outflows. The third one is variable outflows. Savings and investment should always be the first outflow every month, or every period, that you're reviewing this. I'm going to say that again. Savings and investment should be the first outflow every single month. A lot of you have probably heard the old phrase, "Pay yourself first." That is so true. Make sure that you're taking money every month or every week, whenever you get paid, take that money, pay yourself first. You're never going to get ahead unless you do that.

The second type of outflow is a fixed outflow. What's a fixed outflow? Well, do you pay rent? That's fixed. You've got to pay the same amount every month. Do you have car insurance? It's the same amount every month. You get the idea. Those are fixed numbers. They rarely change and you have to pay them every single month. But what is a variable outflow? Well, a variable outflow technically is food. And yeah, we need food to survive, but you can vary the amount of how much food you're buying this week versus next week. If you want to splurge at all on Hershey's chocolate bars, or do you want to buy bread? Variable outflows are things that you can control. You can control your spending on.

While we're talking about spending, when you buy something on a credit card, that's not really an outflow, is it? Because you put something on a credit card, you didn't pay cash. Money didn't come out of your account. When does that show up as an outflow? When you write that check out to Mr. Visa, there's your outflow. Now the problem is a lot of folks will spend, say $1000 on a credit card, but they'll only send in the $49 minimum payment. We've got another video that we'll put together on balance sheets that will help you take the lampshade off of some guys' heads there.

So, understand that there are three types of outflows. There are savings and investment, which you really need to do first. There's fixed outflows. There's then the variable outflows. Are you in a net inflow position each month, or are you in a net outflow position? We sit down with a lot of folks who have, you know, they're just getting started. Maybe they just bought a house and they're starting a family. They're in a net outflow position. I don't even really need to see the details. I can tell what's going on. I've been there, done that. So, are you in a net inflow or a net outflow? Then we can start to really make some decisions.

The next step in managing your cash flow is determining how much of an emergency fund you're going to need to have. Most planners seem to agree, that you need to have somewhere between three and six months as a minimum of your fixed and variable outflows. Three to six months of that number put together as your emergency nest egg. Got to have it. You really shouldn't invest before you have that much socked away. Your stock portfolio really shouldn't take the place of an emergency fund.

You know, one of the things that we ask our clients when they want to do retirement planning is we ask them what's your number? What's your number? You've probably heard this on other videos and podcasts. We are stunned that there are a lot of people who have been out of school and working for 25, 30, 35 years. They can't tell us how much money they spend on a monthly basis. It's a little sad. You need to get a grip on how much you're spending on a monthly basis. What is your number? What's the sum of all of those outflows?

That's enough for episode 52. We appreciate you watching. Thanks again and we look forward to seeing you on episode 53.