

Control Your Spending: Calculate Your Cash Flow

Calculating your monthly cash flow will help you evaluate your present financial status, so you know where you stand financially as you prepare to invest.

Begin by looking at your monthly net income—the money you take home every month after taxes. This includes your salary and other steady and reliable sources of income, such as income from a second job, child support or alimony that you receive, or social security. If you already own some investments, you may be receiving dividend or interest payments; factor that amount into income, too.

Then calculate your average monthly expenses. These include your rent or mortgage, car lease or loan, personal loan, credit card and child support or alimony payments. Also include money for groceries, utilities, transportation and insurance. Don't forget money that you spend on items that are "discretionary," rather than necessary—for example, cable television subscriptions, gym fees, clothing, gifts, and the like. Average your actual expenses over a three month period to come up with a reliable monthly estimate for your total expenses. Subtract your monthly expense figure from your monthly net income to determine your leftover cash supply. If the result is a negative cash flow, that is, if you spend more than you earn, you'll need to look for ways to cut back on your expenses. Similarly, if the result is a positive cash flow, but your spending nearly equals your earnings, it might be too soon to start investing right now.

To invest, your net income must exceed your expenses—with some to spare. If this is not the case, look for expenses you could eliminate or reduce. Maybe some of your discretionary expenses are luxuries that you could give up. Perhaps a debt refinancing or consolidation could reduce your monthly payments. A financial professional may be able to help you with these matters.

Monthly Income and Expenses Sample Worksheet

Income:

After-tax Salary \$ _____

Investment Income & Interest on Savings \$ _____

Other Income (such as child support or federal benefits) \$ _____

Expenses:

Savings \$ _____

Investments (including contributions to a company retirement savings account or an IRA)

\$ _____

Housing: Rent or Mortgage \$ _____

Electricity \$ _____

Gas/Oil \$ _____

Telephone/Internet/Cable (landline and mobile) \$ _____

Water/Sewer \$ _____

Property Tax \$ _____

Furniture \$ _____

Food \$ _____

Transportation \$ _____

Loans \$ _____

Insurance \$ _____

Education \$ _____

Recreation \$ _____

Health Care \$ _____

Gifts \$ _____

Other \$ _____

Total \$ _____

Call me if you have any question or need help.