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Some tips to help you improve your cash-flow in 2010 include: figure out where you are, set realistic goals, break big goals down into small steps, and monitor your progress.

There are many tools and strategies to help you monitor your spending plan. These include software programs such as Quicken or Mint.com, or systems such as the cash envelope strategy or the credit card/spreadsheet method. The important thing is to find one that works for you.

The Financial Planning Newsletter is mailed periodically to our clients and friends to share our views on topics of personal finance that may appear in the financial media.

Embracing the “New Frugality?”

Happy holiday greetings from all of us at JPH Advisory Group!

This is the second edition of our new financial planning newsletter. Our idea is to give our viewpoint on personal finance issues that you may hear or read about in the financial media.

Given that we have just experienced one of the worst recessions in US history, you may hear talk about the new era of frugality that the US consumer has entered into. I thought that it might be helpful to dedicate this newsletter to this new trend as well as offer some tips on how to manage your own cash-flow in the upcoming New Year.

It is true that millions of Americans in 2009 have made significant changes to their lifestyles in response to the economy. Experts estimate the US households have experienced an average decline of 22% in net worth, and this drop has turned many spenders into savers. On the Friday after Thanksgiving, shoppers spent, on average, \$343 per person compared to \$373 per shopper in 2008. The financial media have caught on to the recent trend – quickly dubbing it the “New Frugality” – and it seems that this trend is not going away quickly. According to a survey by TD Ameritrade, 63% of Americans plan to save more money in 2010. That is in addition to what they have already started to do, which is reflected in the national savings rate nearly doubling in the last year to around 3% today.

Let me be quick to say that in general, our clients are not “average” Americans. You would not be where you are today, unless you already had some financial discipline and ability to

manage cash-flow. Nevertheless, I would imagine many of you are redoubling your efforts to keep a close watch on your finances. Of course, we would applaud and encourage you in this effort. In our combined over 30 years of experience, we have found that the discipline to effectively manage your cash-flow is the single most important ingredient to long-term wealth. Keep up the good work!

So how do those who are serious about sticking to a cash-flow plan in 2010 go about it? Well, here are a few tips that may help.

- 1) ***First, figure out where you are.*** Knowing where you are in the context of your overall goals can really help you get started. As humans, we all tend to overreact to our circumstances, and this often means over-saving when times are bad and under-saving when they are good. But markets go thru cycles, and consistency in following your plan is more important than temporary fads. If you don't know how much you should be saving vs. spending in context of your plan, talk to us. We would be happy to help you review your plan.
- 2) ***Second, be realistic.*** If you have had a serious setback in 2009 because you lost a job or your income is down, the task may seem daunting. We would encourage you to start with some small steps. Start with analyzing your current spending habits, and then move on to a plan to knock out consumer debts first (credit cards, car loans, etc). Except for saving into a 401k to get your full employer matching, don't worry about saving for the long-term until you have positive cash-flow, a rainy day fund, and have met short to intermediate term spending goals.
- 3) ***Third, break down your big goals into small steps.*** We recommend dividing an annual goal down into a monthly amount, and knowing how much you want to save or spend each month. You can be as detailed as you feel comfortable with, but the important thing is that you know what the goal is. For example, don't just think, "I want to save 10% of my income." Instead, have a concrete goal – for example, \$500/month.
- 4) ***Last, monitor your progress.*** This is the part that is the most difficult, because in today's world our financial lives are so complex and fast-moving. One way to help with this step is to consider using a cash-flow management system. There are dozens of good strategies out there to choose from – each one with strengths that would appeal to a different audience. In the section below I give some basic information on several different ones.

Quicken

Quicken, of course, is one of the most popular options. It's relatively affordable, and offers a full suite of budgeting, net worth, and investment tracking. The main drawback to Quicken is the amount of time necessary to fully utilize it. Be prepared to spend a few hours a month categorizing transactions. For serious budgeters, however, this can be a great option.

Mint.com

Mint is the service I currently use. The benefit is that it is fairly simple and automatic, once you set it up. You simply enter your login information to each financial account, and Mint aggregates all the data and analyzes it for you. You do have to spend a little time each week to make sure it categorizes transactions correctly. However, once this is done, Mint does a great job of showing you how much you are spending vs. saving. It can also alert you to a large deposit/withdrawal, purchase, or bank fee. Other features are less helpful, but it does offer some net worth and investment tracking.

Cash Envelope System

This is grandma's tried and true method, and it is especially good for chronic overspenders. The idea is to set a budget, and then each payday withdraw enough cash to fill envelopes for each category of your budget. As you go thru the pay period, use the cash from each category for those purchases. When the cash is gone for that category, it's gone. Try to resist the urge to revisit the ATM before your next payday. Obviously, this method doesn't work for some things, like the mortgage or gas bill. But it works well for categories like food, gas, clothing, and entertainment.

Credit Cards/Spreadsheets

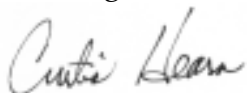
This is perhaps the simplest way to monitor your plan. If you make all your purchases with a credit card(s), and pay them off in full each month, you can get a pretty good idea of your discretionary spending. If you plug these numbers into a spreadsheet along with your fixed costs (mortgage, insurance, etc), you can keep up with things fairly easily. If you need a spreadsheet template, let me know. We have a pretty good one that I can send you.

The bottom line is that no matter what tool you use, you are able to monitor your cash-flow consistently and as easily as possible. The point is to find a solution that works for you, and stick to it.

If you have any questions about these tools or other cash-flow tips, please let me know. I'd also love to know if you have a unique strategy or tool that works well for you. We love success stories!

From all of us at JPH, we hope you have a joy-filled Holiday season and a great start to the New Year. Thank you for your continued trust and confidence in JPH Advisory Group.

Best Regards,

A handwritten signature in cursive script that reads "Curtis Hearn".

Curtis Hearn, MBA, CFP®