

In volatile times, return to the fundamentals

Over the last twenty years, the U.S. economy has definitely seen its ups and downs. The inexperienced investor in the late 90's could pick a winning investment only to see it tumble through the recession that began in 2000. The up-and-down process was repeated from then until 2007 and again to 2010.

For many people the economy can be a very emotional topic. With an enormous amount of information being pumped out at a dizzying rate, often including contradictory viewpoints, would-be investors are often left with more questions than answers. How should I react to these reports? Where is our economy headed? Are we going to continue on a path of volatility? How do government decisions affect me?

Whether the markets are up or down or the economy is good or bad, we still need to adhere to the fundamentals in making financial decisions. When was the last time you did a personal Financial Evaluation? This exercise is something that should be done at least once per year.

Your annual Financial Evaluation should be the foundation for your money management and financial decisions. Money management is really very simple. You need to divide your paycheck between (1) paying for what you need today, (2) protecting what you already have through insurance, and (3) saving for the future. By performing a review, you will be able to differentiate between what needs to be done for the future and what is happening now.

Doing an annual Financial Evaluation is a two-step process. You can do this simply by using two sheets of paper. Or, if you are a little more computer savvy, you can use a spreadsheet. The first step is to create a Cash Flow Statement. The second step is to create a Balance Sheet.

A Cash Flow Statement consists of your net monthly income (write it at the top of the page) minus your expenses. At the bottom of the page, hopefully, you will end up with a positive number. This is a great exercise, and you will be able to see exactly where your money is going. If you have money left over, give yourself a round of applause!

If you do not have any money left, it means you are somehow spending too much. Don't panic, as there are simple changes you can make to improve your cash flow. You need to ask yourself questions like: Where can I make reductions? What is absolutely necessary? Am I paying too much for certain items, like insurance? Am I properly covered in the event of an unfortunate occurrence? Is enough money going into savings?

The next sheet of paper (or worksheet) will be your Balance Sheet. Using two columns, list your assets with their approximate value on one side. On the other side, write down your liabilities along with their value. Total up each column and then subtract your liabilities from your assets. If your assets are more than your liabilities, pat yourself on the back. If your liabilities exceed your assets, however, once again there are changes that need to be made to turn things around.

By creating these two basic lists, you will be better equipped to handle both good and bad economies. This process will also help you to set financial goals and make better decisions based on what you want out of life.

If you are having trouble sitting down to do this analysis yourself, seek out a financial professional to help you with the process. If you contact someone who is not interested in helping you with this, find someone else who is. Your financial professional should be able to educate you and help you find the tools to enable you to achieve financial success.

The ultimate benefit of this exercise is that you will know exactly where you are financially. You will know what needs to change and what goals need to be set. You can begin to create a plan to help you reach those goals. Having a plan will allow you to focus on what needs to be done, versus reacting to what the economy is doing today.

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