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Cash management



Financial Thoughts

by John Schooler

Have you ever wondered how you made it on what you were paid last year? One of the biggest problems I see people get themselves into is not having a clear understanding of where their money goes.

It seems that for most people, the more money they make, the more they spend. It doesn't have to be this way. I will be discussing cash management in a two-part article covering, first, how much cash you should have, and second, budgeting techniques.

How much money should you have? It is a good idea to have three to six months cash put away in case of an emergency. Emergencies can range from a job transition to a major illness, a family crisis to a natural disaster. This cash amount helps safeguard you from having to liquidate investment assets.

If all of your assets are tied up in investments, an emergency may require a second mortgage on your home or a line of credit which may not be good enough. In most cases, this is far too risky a proposition.

Despite the risk, you may draw from those areas in the case of emergency; however, there are costs associated with them. This can force the liquidation of your hard assets at an inappropriate time. Loans have large holding costs. If unprepared, a situation where you have long-term unemployment or a significant medical condition could quickly put you in financial risk.

Financial management is a difficult process that needs to be taken seriously. It has a lasting impact on your life and should be a high priority.

Putting away a little money each month can do dramatic things. It also teaches children money management skills that will be essential throughout life. Although challenging, good financial stewardship is both profitable and rewarding.

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