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Part 2: Taking Your Financial Picture

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In last week's "Fiscal Fitness" introduction, I mentioned the importance of becoming proactive in the quest for our financial well-being and acknowledged the difficulties women face when it comes to devoting the necessary time and energy to this task. But I also pointed out that practicing financial avoidance can lead to undesired consequences — including growing levels of financial stress and an uncertain future.

We've all heard that the first step in a daunting task is the hardest. In this case, you might have already taken it. If you are sensing a shift in your focus and a determination to finally conquer your financial challenges, you're on your way. First you need to know what shape you are in now. We start by determining your net worth: the difference between your assets and your liabilities. If you were to sell everything you own and pay off all your debts, what is left would be your net worth.

To get started, look at your cash flow. In preparing an income statement, list all your sources of income: salary, bonuses, child support, rental income, dividends and any others. Then determine your spending, including all monthly, quarterly and annual expenses. This last exercise usually involves going back to your check registers, bank statements, online banking logs and credit card statements. Divide your spending into two categories: fixed living expenses (e.g. mortgage payment, taxes, loan payments and food) and discretionary expenses (e.g. entertainment, vacations and gifts).

While most Americans don't know where 30 percent of their income goes, when you have completed this analysis, you will. You will also be able to determine whether you are living within your means. More importantly, you will be able to make adjustments so that more of your income is directed toward savings — a way to consistently increase your net worth. The concept of paying yourself first, of adding your name to your list of creditors, can't be overstressed — and might hold the master key to your financial security.

According to the Social Security Administration, 4 of every 100 Americans achieve financial independence at age 65. Those who do not are victims of fear, ignorance and lack of initiative. Check in all this month as this series provides the tools to ensure that your future is more productive, purposeful and enjoyable than your past.

Next week: Preparing For A Rainy Day.