



Your Financial Game Plan

SECTION 1: CASH FLOW MANAGEMENT

Cash flow management is the most important part of your financial game plan. Do you make more than you spend? How much should you be earning? How much should you be spending? These are questions you need to know the answers to, and using an Excel Cash Flow Worksheet like the one provided will help.

Using The Cash Flow Worksheet

The Expenses are listed at the top of the worksheet (money going out) and Revenues are listed at the bottom (money coming in). The goal is to write down how much you spend and earn for each month in the blank columns provided. To make the process easier, try getting in the habit of always saving your receipts and putting them in an envelope. Then, at the end of each month write your totals in the applicable categories on the Excel Cash Flow Worksheet.

At the bottom of the worksheet are rows for you to add up your total expenses and total revenues. Then you can find your monthly profit (or loss). Now, for the first time, you'll have a clear picture of exactly how much you spend and earn each month. If you have a profit, that will be used to start your savings plan or investment portfolio. If you have a loss, you'll know where your spending pitfalls or "leakages" are, and where you need to cut back.

SECTION 2: MAINTAINING A CASH RESERVE

Now that you've found how much you spend each month, it's time to set up your safety net, or *cash reserve*. It's a vital part of your financial game plan because it's designed to get you through the hard times when you have extra expenses or decreased revenue.

How Much Is Enough?

Look at your Cash Flow Worksheet and calculate your total monthly expenses. Multiply your monthly expenses by 3 and this will tell you the minimum cash reserve you should have set aside for emergencies. If you want to be more cautious, keep 6 to 8 months of living expenses set aside instead.

You should keep your cash reserve in a savings account at a bank or credit union where it will earn interest but still be accessible when you need it.

If you want to have your cash reserve grow at a maximum rate while still keeping your money safe, try this strategy:

- 1) Estimate your living expenses for the next 3 months.
- 2) Put the money you'll need to meet your living expenses for the next 3 months into a savings account where you can withdraw money at any time. This will be your "operating account" to make daily, weekly, or monthly purchases.
- 3) Place any money in excess of your living expenses into a 3 month CD, which you can purchase at most banks or through a credit union. The minimum deposit required for a CD is usually \$100 and it will pay a higher interest rate than a savings account. You won't be able to access the money in your CD for 3 months (without incurring a penalty), which will reduce your ability to make impulse purchases.
- 4) Once the 3 month CD matures, recalculate your living expenses and repeat the process. You'll see the size of your cash reserve grow and you'll also be taking advantage of compound interest – the Rule of 72! The Rule of 72 tells you how long it takes for your money to double in value at a given interest rate (or rate of return).

Interest Rate	Years to Double Investment
2	36
4	18
6	12
8	9
10	7.2
12	6
15	4.8
20	3.6
25	2.88

The Rule of 72

SECTION 3: CREDIT CARDS AND DEBT MANAGEMENT

Credit card debt can quickly escalate and get you into trouble. It's devastating to your financial game plan because the interest rates charged by credit card companies are usually much higher than other interest rates you're paying (student loans, car payment, mortgage, etc.). It's not uncommon for credit cards to charge interest rates as high as 20%, 25%, or even 30%!

If you have credit card debt, always think about where your money will be best utilized when deciding whether to pay off your debt first or invest your money. Assume that you can earn an 8% annual return in the stock market (historical average), and compare this to the credit card interest rate you are being charged. If your credit card interest rate is over 8%, then your money will be best used eliminating the credit card debt first. If your interest rate is below 8%, consider investing your money and making a smaller debt payment instead.

Using the interest rate approach is a good method for deciding which debts to pay off first. Always pay off the highest interest rate debt first and work backwards. If the interest rate on any of your debt is 8% or more, paying that debt off quickly should be your first priority.

SECTION 4: INVESTING

When you think about investing, you should always keep two words in mind: risk and return. The goal of investing is to reduce the risk you are taking while increasing your investment return at the same time. Even if you have a very small portfolio today, you should start trying to reduce your investment risk and increase your return. The first thing you need to know is what an investment portfolio really is.

What Is A Portfolio?

A portfolio is a just a collection of investments. There are many different kinds of investments, including stocks, mutual funds, options, real estate, commodities, CDs, money market accounts, bonds, and treasury bills. The two basic investments you should focus on while you're young and have a long time horizon are stocks and mutual funds.



Stock: A stock represents ownership in a company. For example, if a company is worth \$1,000 dollars and issues 100 shares of stock, then each share of stock is worth \$10. If you buy one share of stock, you have bought 1/100th of the company.

Mutual Fund: A mutual fund is a collection of different stocks. A mutual fund can own anywhere from a few stocks to a few thousand stocks.

Building Your Portfolio

There are two steps you should take to build a strong investment portfolio.

Step 1: Pick the sectors you want to invest in.

Step 2: Pick investments *within* the sectors you chose.

Step 1: Picking The Right Sector

A sector is a group of businesses or a particular segment of the economy. Some common sectors include: Food, Energy, Consumer Goods, Technology, and Natural Resources. The list goes on, of course.

You need to pick the sectors you're interested in and then find the companies that make products you believe in or use every day within that sector. The goal is to pick stocks from different sectors in order to achieve *diversification*. You've heard the expression, "Don't put all your eggs in one basket." Diversification can increase investment return while reducing risk.

Step 2: Pick The Right Investments

Now it's time to decide what individual stocks or mutual funds are right for your portfolio. The first thing you need to know is how to look up a stock. Each stock is given its own unique identifier, known as a ticker symbol. No two are alike. There are thousands of different stocks and ticker symbols to choose from, but you should focus on the list of companies and sectors you selected in Step 1.

Let's assume one of the stocks you're considering is Nike, ticker symbol NKE. Go to a free stock research website like www.morningstar.com and find the "Quotes" section at the top of the screen. Type in "Nike" and an information page will appear. You'll see a lot of charts, graphs, and ratios. There are a few important details you need to find . . .

Important Stock Information

- Price
- Industry
- Sector
- 5-year Performance Chart
- Financial Statement Analysis

Price: Can you afford to buy the stock?

The price listed will be how much it costs to buy one share of stock.

Stocks are bought and sold on *exchanges*. There are three main exchanges:

1. NYSE: New York Stock Exchange
2. NASDAQ: National Association of Securities Dealers Automated Quotations (normally smaller companies)
3. S & P 500: Standard and Poor's 500 Large Cap Companies

Industry & Sector: Nike, for example, is in the Shoes industry and the Consumer Goods sector. Try picking stocks in different industries and sectors. This will give your portfolio some much needed diversification to weather fluctuations in the overall economy and stock market.

5-year Performance Chart: The 5-year performance chart will show you what kind of investment history the stock has experienced. Is the line smooth? Does it trend mostly up or down? These observations can be important, but if you focus on companies you use every day and then diversify by selecting stocks

in different industries and sectors, the historical investment returns are not as important. Remember, past investment history does not predict future results.

Financial Statement Analysis: Financial statement analysis is another filter that will help you separate the winners from the losers. It involves studying a company's Balance Sheet (assets vs. liabilities) and Income Statement (income vs. expenses). You'll need to determine, "Are the companies I've chosen in good financial standing? Are sales growing or expanding in the United States and overseas? What are the companies' strengths and weaknesses compared to competitors in the same industry or sector?" Also, be sure to research each company's management style, business approach, and key executives. Remember: Championship teams are *always* led by great coaches.

Using Nike again as an example, try going to a search engine like www.google.com and type in "Nike" as the keyword. You'll be directed to the Nike company website, along with over 155,000,000 other web pages with information about Nike! You need to do enough research to decide whether the company you're considering is worth your money. Do your homework!!

Try These Free Websites To Research Stocks

- www.morningstar.com
- www.marketwatch.com
- www.finance.yahoo.com
- www.bigcharts.com
- www.fidelity.com

Once you've found a handful of stocks you want to invest in, it's time to decide how much of each you should buy. A good rule of thumb is to never invest more than 10% of your investment portfolio in any single stock or mutual fund. Before getting started, we recommend using a hypothetical amount of money to test your investment strategy, \$100,000 for example. This will get you prepared for the "real game," which you can enter at your own pace!

How To Monitor Your Portfolio

Once you've put together your portfolio, you'll need to monitor its performance on a regular basis. There are many free websites that are great for tracking your portfolio. One of the best is <http://my.yahoo.com>. You should try this website by setting up a free account and entering your investment holdings into the Stock Portfolios section. You'll be provided with live pricing updates, recent headlines about your investments, and plenty of research data. Best of all, it's free!

You can also sign up for free email alerts at www.morningstar.com. To do this, go to their website and enter the ticker symbols of the stocks you've selected for your portfolio. Once the stocks appear on your screen, click the option titled "Email Alert". The email alerts are excellent. You can set them up to automatically send you an email any time one of your stocks is in the news or releases new financial data.

Knowing When To Sell

What if you're tracking your investments and one of them begins to perform poorly? You have to know when it's time to sell. In fact, knowing when to get out of a stock or mutual fund is just as important as knowing when to get in. There are some points you should keep in mind if you're wondering whether it's time to sell. If either of the following apply to your stock, you might want to consider selling . . .

Factor 1: Stock performance trails the S&P 500 and its peers

Factor 2: You find negative news about the stock

Factor 1: Performance Trails

When you were screening a stock to find out whether it was good enough to earn a spot in your portfolio, you checked each stock's 5-year performance history. You should do the same screening every few months to determine if the stock's performance is still good enough to stay in your portfolio. If it lags the S&P 500 or its peers for an extended period of time, you should consider selling. If your stock lags over a

1-year period, put it on your “watch list”. If it goes down for two consecutive years it may be a good candidate to sell.

Factor 2: Negative News About The Stock

It's your job to dig through the internet and newspapers to find any information you can about the stocks or mutual funds you own. If the company whose stock you own gets sued, changes its product, or changes management, it may very well be time to sell. Proceed with caution.

SECTION 5: PROTECTING WHAT YOU HAVE

Insurance provides the foundation the rest of your financial game plan is built on. Without insurance, the rest of your plan won't succeed. You'll need many types of insurance throughout your life. Some of the most popular insurance options available are life, disability, health, home, renter's, auto, umbrella, errors and omissions, malpractice, business owners, and flood insurance. The list is practically endless. Being a young person or college student, you'll need to have at the very least, auto, renter's/homeowner's, and health insurance.

Selecting An Insurance Company

How do you pick a good insurance company? There are 6 things to consider:

- Adequacy of policy limits
- Cost
- Potential gaps in coverage
- Quality of service
- Carrier's financial stability
- Carrier's claim settlement procedure

Premiums and Deductibles:

Once you find a company you like, it's time to work with an agent to purchase a policy that's right for you. Each year you'll have to pay a *premium* to the insurance company to keep your policy in force. In return for your premium payment, the insurance company promises to cover you in case of an accident. Premiums work alongside *deductibles*. A deductible is the amount of money you have to pay out of pocket if you file a claim *before* the insurance company pays you any money. A good deductible to have is \$500 for auto and renter's/homeowner's insurance. This means that if you get in an auto accident, you'll have to pay the first \$500 and the insurance company will pay the amount in excess of that. Deductibles can go as low as \$100 or even \$0, but choosing a low deductible will make your premium much higher. The lower your deductible, the higher the premium.

You may be eligible for discounts on your renter's/homeowner's and auto insurance. You'll have to ask for these, and you should.

Renter's/Homeowner's Insurance Discounts:

- Being claim free
- Having your home and car insured with the same company (the multi-line discount)
- Having a home protective device
- Having smoke detectors
- Living within 1,000 feet of a fire hydrant
- Living within five miles of a fire department
- Age of home discount
- Being a long-term customer

Auto Insurance Discounts:

- Having air bags
- Being claim free

- Having your home and car insured with the same company (the multi-line discount)
- Having multiple cars insured with the same company (the multi-car discount)
- Having an anti-theft device
- Daytime running lights discount
- Vehicle injury rating discount
- Anti-lock braking system discount
- Low mileage discount
- Good student discount
- Being a long-term customer

Health Insurance:

You should *never* go without health insurance. Even if you're healthy, it's a risk you can't afford to take. One of the most important decisions you'll have to make is what your premium and deductible should be. Remember: The lower your deductible, the higher the premium. Again, this point is worth reiterating.

A good strategy to choose the right deductible is to add up your medical expenses over the last 3 years and find the average annual amount. The average can be used as your deductible. If you want to be more conservative, follow the same method but divide the number in half and make that your deductible.

You should consider choosing health insurance policies that offer one or two free doctor visits each year along with an annual checkup. Having prescription drug coverage is also an important consideration. But, the more features you add to your health insurance, the more expensive your premium will be.

CLOSING REMARKS

You've been presented with all the tools you need to put your financial game plan in motion and effectively manage your money. The decision is now up to you. Did you know it takes a financial planner three to five years to erase a new client's past financial mistakes? Think of all the time and money you could save by getting off to the right start today and not having to make up for bad decisions later. Managing your financial game plan can easily become an overwhelming process, but if you break your plan down into the sections highlighted above it will become much more manageable. If you're even unsure of a certain aspect of your financial plan you should consult a competent Certified Financial Planner.

For more information on financial planning and other wealth-building topics, please visit www.LFYO.org.

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