Canaccord Genuity
Wealth Management

Spring Cleaning: Do You Have Visibility Over Your Cash Flow?

Do you know how much you spent last year? If so, how much was spent on each type of expenditure? While we may have good visibility over our income, many of us may not have a clear picture of where our funds are going. In fact, a recent study suggests that the majority of people have no idea how much money they spent in the last month alone.[1]

Regardless of your life stage or income level, creating a personal cash flow statement can be a valuable exercise. In a basic sense, it is a snapshot over a certain period of time of your sources of income – your inflows – and your expenditures mapped out in categories – your outflows. Your personal cash flow is generally your income minus your expenses, which equals your savings for that period of time (or the debt you accrue if your expenses exceed your income).

This experience may an eye-opening one. You may discover that your expenses aren't exactly what you thought. Having greater visibility over your inflows and outflows can also help you to plan and think proactively about how to better use funds or balance different spending priorities. For spouses, it can help to provide congruency over spending decisions.

This exercise may also play an important part in planning for the future or preparing for retirement. After all, it is difficult to determine how much money might be needed later in life without having a comprehensive understanding of how much is being spent today.

Where to Start?

To create your personal cash flow statement, begin by choosing a period of time, such as the past year. Generally, a year is a long enough time period to capture those expenditures that may only recur periodically. Then, record your sources of income, such as your salary, spouse's salary, pension income and other sources of income, such as interest or investment income for the period.

Once you have documented your income sources, create a list or spreadsheet of your expenditures. Use credit card bills, banking statements and other records to determine your expenses throughout the year, including everything from clothing to income taxes, under different categories. Some credit card statements organize expenditures into various categories, which may help support this exercise. To better understand your spending habits, you can further sort these expenditures into essential and non-essential expenses (see inset for a sample of expenditure categories).

Having a view of your expenses separated into essential expenditures ("your needs") and non-essential expenditures ("your wants") may provide valuable insight into your current spending habits and prompt changes in how you manage the way you spend. By clearly identifying your non-essential expenditures, you may be surprised at how much you are spending on things that may not be needed.

Valuable for High-Net-Worth Individuals

While high-net-worth individuals often have ample funds to support their spending habits (it is often not a question of affordability!), dissecting your expenses can prompt other questions: What is the right amount to spend on non-essential expenses? How can spending decisions be communicated within the family? For some families, this exercise can help to form the basis for a discussion about intergenerational wealth preservation. A potential concern may be that subsequent generations will fritter funds away. Having good spending habits can send a positive message to future heirs and teach them about maintaining wealth. It may also generate a conversation about where to designate unallocated funds. For instance, this may include philanthropic or charitable initiatives.

Especially Important for Retirees

Since many retirees are constrained by fixed incomes, having a clearer picture of current spending habits can be beneficial. It may help determine whether retirement plans are on track or if adjustments need to be made. For example, small modifications to spending habits may be required,or there may be a need for larger changes such as downsizing a home, or using insurance to help generate cash flow. This may be especially important in these times of higher inflation, in which adjustments may need to be made to account for any increase in prices. It can also be beneficial when planning ahead for unpredictable risks, such as an economic recession or a market downturn.

Two Things We Can Control: Spending and Saving

As investors, we often have little control over what happens in the markets – such as the direction of equity markets, economic growth, interest rates or company performance. However, what we can control is how we spend and save, which can impact our future wealth. Having visibility over your cash flow can be one way to control your expenses, eliminate wasteful spending and improve your savings and wealth position.

If you need support, we have a variety of budgeting and cash flow worksheets and tools available. Please contact us for more information.

Notes:
1. https://mint.intuit.com/blog/budgeting/spending-knowledge-survey/

HOW DO YOU SPEND?

Dissecting Your Expenditures

As you look to understand your spending habits, here are some suggested categories to help organize the different types of expenses. How much do you spend in each of these expenditure categories?

Essential Expenditures

- Housing – rent, mortgage payments, property tax, maintenance
- Transportation – car payments, vehicle insurance, gas, public transit, parking, maintenance
- Food – grocery (essential food and beverages)
- Utilities – water, electricity, gas, cable, phone, internet
- Insurance – life, health, long-term disability
- Healthcare/Medical – drugs, care services, medical supplies, dental work, other personal healthcare costs
- Childcare
- Taxes – income tax
- Other

Non-Essential Expenditures

- Monthly subscriptions or memberships
- Clothing
- Recreation
- Entertainment
- Electronics
- Travel
- Dining out – office lunches, dinners at restaurants, bars
- Other