



## Cash Flow Management



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## Cash Flow Management

Every successful business relies on a financial system to carefully control income and expenses.

A business must have a system to know its present financial status, and more important, to plan for its future financial moves. A corporation cannot place a \$40,000 inventory order unless its controller knows next month's receipts will cover the order.

Your personal financial situation is comparable to that of a business. Both have concerns for profit, income and expenses, and spending decisions affected by anticipated circumstances. Consequently, personal cash flow management is designed to handle your financial situation like a business, and you will function as the controller.

### **A System, Not a Budget**

Cash Flow Management is a system, not a budget. It allows you to see your financial situation from a long-term, systematic viewpoint. You will see how one move, such as a periodic tax payment, can affect your disbursements for several months prior to, and following, the actual payment. Budgets are too immediate in scope to allow you to relate a March income to a July expense.

It is essential for you to begin a systematic savings and investment program to accomplish financial and retirement goals. Every successful business relies upon a system to control income and disbursements. Your personal financial situation is comparable to that of a business, and is no less important!

Most people have not saved as much as they would have wished. The reason is not that they did not intend to save, but they did not have a system. Lacking a system makes it very easy to be distracted by the many opportunities to spend earnings.

Your financial needs and desires present unique situations, and your system must be flexible enough to accommodate whatever you require. Tailor it to fit yourself and your family; do not rely on what your neighbor does.

While your friends or neighbors might be managing cash flow to save for a European vacation, you may need to direct cash flow towards current tuition for a degree. Your system should be flexible, but also disciplined enough to guide and point you in the right direction.

If your cash flow system becomes a hindrance, do not abandon it; redesign it. With sensitive shaping to your needs, it will allow financial freedom rather than acting as a financial barrier.

**A Personal Cash Flow Management System**, if used consistently, can be of great value in helping to gain control of your personal financial situation. It will ensure that there is always cash available to pay bills as they come due. It will also help you save more money in a systematic way.

Time is your greatest ally. The more time you have, the less money you will need to save and invest. The less time you have, the more money it will take. Procrastination is a deadly enemy of your goal to retire with financial dignity.

## The Importance of Goals

A cash flow plan functions best if it reflects your goals, whether long-term or short-term. The purchase of a pleasure boat in three years or the decision to remodel your basement next winter should influence your cash flow plans.

The goals that you have already set will help you shape your personal version of this system. Refer to them often.

As you achieve some short-term goals, or begin to see significant progress towards long term-goals, your enthusiasm for this process will increase – and that will make the system even more effective for you.

### Establishing Your System

What should your system contain? There are four factors that will help you establish control over money:

**Income/Expense:** Identify and isolate income and disbursements (referred to as expense). You will consider whether income is gross, or net (the amount you actually have available).

**Category:** Define the kinds of income you receive and the kinds of expense you incur. Categorize them according to the fixed or flexible nature of the item.

**Time:** Your system should be based on a monthly structure. You should quantify your income and expense within a 12-month format.

**Amount:** Income and expenses are expressed in dollars.

Once you have qualified all financial transactions, you will be well on the way to controlling your cash flow, rather than letting it control you.

### Periodic Fixed Expenses

Many people have lost control over cash flow because they have no system to handle periodic known expenses of a substantial nature. Good examples of this type of expense might be a large real estate tax bill of \$1,500 due every March, a life insurance premium of \$840 due in November, or an IRA deposit of \$2,000 which must be made by April 15th.

What people frequently do is remember the bill a month before it is due and start scrimping, but it is too late! So, what happens then? In the ensuing months, they start running behind on bills or they simply do not make the planned payment at all. Interest charges are then added, and their attitude starts to decline.

The solution is to schedule these larger payments and start saving for them on a monthly basis. For example, for a small additional amount, an automatic bank deduction can be made regularly to cover the \$840 life insurance premium.

The \$1,500 tax bill is due again in 10 months. Why not set \$150 aside into a special savings or credit union account? Then when it comes due, you will have the money. Afterwards, you can reduce the monthly savings amount to \$125 since you will have 12 months to accumulate the next payment.

If the IRA \$2,000 deposit is due again in eight months, put aside \$250 each month until then. After it has been paid, the amount to set

aside is only \$166. Furthermore, you will be earning interest on these escrow funds, rather than paying interest as a result of poor money management.

Initial savings (\$150 + \$250) \$400 monthly; thereafter only (\$125 + \$166) \$291.

**Save Regularly  
and Systematically**

It is important to assign a portion of each paycheck for your savings and investment program. Consider it an obligation just as important as any other monthly obligation.

In addition to saving a portion of monthly income, we strongly urge that any money saved by tax planning each year be invested the following year. This will give you an additional source of investment funds as well as a means of reducing income tax liability on a regular basis.

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- To conduct our business according to high standards of equity, honesty and fairness.
- To provide competent, prompt, client focused service which, in the same circumstances, we would expect for ourselves.
- To treat all clients with fairness and equity, to assure the best value possible.
- To remain your life-long financial partner to take care of your ever-changing needs.
- To help you reach your life's financial goals by understanding what is important to you.



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