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GUIDE TO

CASHFLOW MODELLING

IS IT TIME TO BRING YOUR MONEY TO LIFE?

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GUIDE TO

CASHFLOW MODELLING

Is it time to bring your money to life?

Wealth is more than money. Managed the right way, it should be a tool that gets you closer to your goals, to serve you at different stages of your life.

Cashflow modelling as part of the financial planning process is also vital if financial goals are to be achieved, such as repaying your mortgage, buying a holiday home, paying for school and university fees and being able to retire when you want to. It is also important that you have sufficient funds for emergencies to provide for unexpected expenses, such as a job loss or long-term illness.

Clarity over your goals

Key to this is analysis based on your goals and desired future lifestyle. How much is enough money for every scenario? Can you afford to retire early and still live the life you want? What impact will choices made today have on your lifestyle in the future?

In order to develop your financial plan, you need clarity over your goals, your objectives and your motivations. Cashflow modelling illustrates what might happen to your finances in the future, and enables you to plan to ensure that you make the most of your money and achieve your financial objectives.

Your preferred position

It's about strategically using money to not only live your life but to create more income sources for yourself. Cashflow modelling enables you to become and remain financially well organised, determine your lifetime goals, create a lifetime cashflow plan and control tax liabilities. It focuses on where your money needs to go to fulfil your future goals.

The process shows your current position relative to your preferred position and your goals by assessing your current and forecasted wealth, along with income inflows and expenditure outflows to create a picture of your finances, both now and in the future.

Visualise your financial future

This detailed picture of your assets includes investments, debts, income and expenditure, which are projected forward, year by year, using calculated rates of growth, income, inflation, wage rises and interest rates.

In order to implement a detailed plan that outlines how to deliver your financial future, communication is vital. The process and planning is only as good and as comprehensive as the information provided.

Achieve the necessary growth rate

Cashflow modelling software helps you to visualise your financial future with easy-to-understand charts and graphs. It can determine what recommendations and best course of action are appropriate for your particular situation and point the way to the right asset allocation mix.

The growth rate you require is calculated to meet your investment objectives. This rate is then cross-referenced with your attitude to investment risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Where cashflow modelling becomes particularly useful is the analysis of different scenarios based on decisions you may make – this could be lifestyle choices or perhaps investment decisions. By matching your present and expected future liabilities with your income and capital, recommendations can be made to ensure that you don't run out of money throughout your life.

Regular reviews and reassessments

A snapshot in time is taken of your finances. The calculated rates of growth, income, tax and so on are used to form the basis of your cashflow modelling analysis. Therefore, regular reviews and reassessments are essential to ensure your goals remain on track.

Nearly all decisions are based on what is contained within the cashflow forecast. This can range from how much to save and spend to how funds should be invested to achieve the required return, so there is a lot that needs to be managed.

Do you have a forecast of your finances for every year of your life?

A lifetime cashflow forecast should enable you to:

- Produce a clear and detailed summary of your financial arrangements
- Define your family's version of the good life and begin working towards it
- Work towards achieving and maintaining financial independence
- Ensure adequate provision is made for the financial consequences of the death or disablement of you or your partner
- Plan to minimise your tax liabilities
- Produce an analysis of your personal expenditure planning assumptions, balancing your cash inflows and your desired cash outflows

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- Estimate future cashflow on realistic assumptions
- Develop an investment strategy for your capital and surplus income in accordance with risk and return expectations, flexibility and accessibility with which you are comfortable
- Become aware of the tax issues that are likely to arise on your own death and that of your partner

Planning to achieve your goals

With every financial corner you turn, it is important to 'run through the numbers', which will help you make the right financial decisions. It is important to be specific. For example, it is not enough to say, 'I want to have enough to retire comfortably.' You need to think realistically about how much you will need – the more specific you are, the easier it will be to come up with a plan to achieve your goals.

If your needs are not accurately established, then the cashflow modelling forecast will not be seen as personal, and therefore you are unlikely to perceive value in it. Some years, there may not be any change, or just small tweaks. However, in other years, there may be something significant. Either way, you will need to ensure things are up to date in order to keep your own peace of mind knowing your plans are still on track. ■

WILL YOUR CURRENT PLANS GET YOU TO WHERE YOU WANT TO BE FINANCIALLY?

Whatever wealth means to you – now and in the future – we can help you achieve your goals for it in every area and stage of your life. For more information, or to discuss how we can help you to achieve your goals and take financial control, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

ARE YOU PLANNING FOR THE LIFE YOU WANT?

Do you have a forecast of your finances for every year of your life? Let us show you the value of your assets in the future so you can plan and achieve all the goals you have in life.

To find out more - please contact us to find out more.

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