

**W**HEN all going through a challenging time now

and there's no better time to take stock of what we have. In fact, it's more important than ever that you know exactly where you stand in your finances and start tracking where your money is going. Otherwise, it's hard to survive, what more to achieve your goals.

#### Figuring your net worth

The first step is to determine your Net Worth. This simply means finding out your overall financial condition. Begin with a list of your assets: possessions (and their fair market value) that you own and could sell. (See Worksheet 1: Net Worth Statement).

Then make a list of your debts: the amounts you owe to creditors (banks, finance companies, stores, credit cards and the like).

Subtract your total debt (the total of your debt list) from your assets (the total monetary value of your asset list) and you have your net worth: an indicator of your financial condition.

If the difference between your assets and debts is a positive number, you have a positive net worth. If it is a negative number, you are insolvent.

#### Analyse your monthly cash flow

After determining your overall financial condition, the next step is to analyse your monthly cash flow. This will show you which direction you are headed — whether you are accumulating money, holding steady or going further in debt. You can do this by examining your monthly income and expenses. (See Worksheet 2: Cash Flow Statement).

If you have money left over at the end of the month after paying all your expenses (yes, we understand that many people would need Divine Intervention for this to happen), your net worth is increasing, and you should have money to save or invest. If you are not meeting your expenses, you need to make adjustments so that you can pay your bills.

No matter what your financial direction is, diligent, periodic examination of your expenses is important to successfully manage

your money, especially in challenging times like these.

Here are a few things to consider about some of your major expenses:

#### Education

One of the first issues to consider in a financial plan is education. Although obtaining a college degree or certification in a particular trade costs money, this expense is almost always one of the best investments we can make.

On average, people with higher education and marketable job skills consistently earn more money. Gaining additional education is one of the best financial investments we can make.

#### Managing debt

Going into debt is generally not a bad idea. The challenge with debt is that, in addition to paying back the principal (the amount borrowed), we also have to pay interest on the outstanding balance. Over the course of a typical 30-year loan for a house, for example, the borrower pays more than double the purchase price of the house, as additional money will be required to pay the interest on the loan. The more we can avoid borrowing money, the better off we'll be in the long run.

In some circumstances, it may be necessary to borrow money. You may need it for either your business, buying a house or buying a car. Even when you are borrowing money for these reasons, it is good to be sure you have some extra funds for emergencies within your budget. Emergencies and unexpected expenses always arise.

Therefore, it would be wise to be cautious before committing yourself to any debt. Debts which we cannot immediately repay have a way of compounding.

#### Buying a house

In addition to costs associated with buying a house, such as a down payment (often 10 or 20 per cent of the purchase price) and mortgage fee, you should also consider its maintenance costs, and other fees that come with it.

If you choose to sell your house, you often have to pay fees to a real estate agent. In addition, there are other incidental costs such as stamp duties, legal fees etc and not forgetting, the penalty on your housing loan if the house is sold within the lock-in period of the loan. All these can take a few percentage points off the selling price. Because of these costs, buying a house and living in it for a short time before selling it again must be an informed financial decision.

Other factors you should consider when buying a house are the local market conditions (whether houses in your area are gaining or losing in value), the location (those in desirable areas usually resell better) and whether the house will serve your needs as well as the needs of a future buyer.

#### Transportation

Owning a car is a wonderful convenience, but it can consume a large portion of any household or personal budget. Considering the costs of insurance, repairs and maintenance and car loan re-payments, if you cannot buy a vehicle outright, car expenses can quickly add up to a significant amount. Especially with the rising cost of fuel today, using public transportation (buses, LRTs, trains, etc.) may be a better choice. Although not as convenient, this option is generally less expensive.

However, if we need a car because public transportation is not available or for other valid reasons, we must make sure we are able to pay for all the costs involved while owning a vehicle, especially costs of fuel and maintenance.

#### Food

The cost of food is another significant portion of a household budget. In general, purchasing basic commodities in bulk and preparing meals at home can be relatively cheaper than buying processed items and eating at restaurants. Some families find that having a garden or vegetable patch, is also helpful in stretching their food budget.

#### Clothing

Everyone must have

clothes, yet this area also provides opportunities for economy. A planned wardrobe versus impulsive buying can be less taxing on your clothing budgets. Purchasing good quality, but traditionally styled, clothing will often be the most economical approach in the long run.

Because such clothing will last and remain in style for a long time, it will be less expensive over time than clothing of poorer quality or fashions

#### Savings

Last but not least, one should focus on the habit of saving. Although savings are often considered a luxury or afterthought, they should be included in every household budget from the start. The reason is simple: Emergencies and unexpected expenses will always arise. When we have savings to cushion the blow, the effects of these surprises will not be as devastating. From this perspective, saving can be regarded as delayed spending.

Besides having a savings fund for emergencies, there are many other reasons for saving money, such as planned expenses for a home; a car, personal items, educational plans and even for the aim of leaving an inheritance. These financial goals all require one common element, which is self discipline in ensuring you set aside, regularly, a fixed minimum yet increasing amount towards your savings fund.

Be aware that marketing techniques will try to shift your mind towards the opposite. They encourage you to buy now and pay later and convey a "you deserve it today" mentality and approach to life. Having the self-discipline to save, and then to know when it is appropriate to buy, is one of the most important principles to successfully build up financial reserves.

Hopefully, we've been able to shed some light on how you could manage your Cash Flow better and thus increasing your Net Worth. Next week, we'll revisit some of the ways in which we could cope better with rising prices of goods and services.

Worksheet 1: Net Worth Statement

MY NAME NET WORTH STATEMENT As At.....					
ASSETS	RM	RM	LIABILITIES/ NET WORTH	RM	RM
<b>Cash/Cash Equivalents</b>			<b>Current Liabilities</b>		
Savings A/C			Outstanding Cr. Card Bills		
Fixed-Deposit A/C			Personal Overdraft		
Cash Values (Life Ins)					
<b>Investment Assets</b>			<b>Long-Term Liabilities</b>		
Unit Trusts			Residential Home Loan		
Quoted Shares			Investment Property Loan		
Investment Property			Car Loan Outstanding		
EPF A/C Balance					
<b>Personal-Use Assets</b>			<b>NET WORTH</b>		
Residential Home					
Car					
Home Contents					
<b>TOTAL ASSETS</b>			<b>TOTAL LIABILITIES/ NET WORTH</b>		

Worksheet 2: Monthly Cash Flow Statement

MY NAME CASH FLOW STATEMENT For the Month Ending.....		
INFLOWS	RM	RM
<b>Net Salary &amp; Bonuses</b>		
Dividend income		
<b>Net Rental Income</b>		
Other Income		
<b>Total Inflows</b>		
<b>FIXED OUTFLOWS</b>		
Regular Savings/ Investments		
Life Insurance Premiums		
Home Mortgages		
Car Installments		
Maid's Salary		
<b>Sub Total</b>		
<b>VARIABLE OUTFLOWS</b>		
Taxes Paid		
<b>Food, Clothing &amp; Entertainment Expenses</b>		
Home Expenses (utilities, repairs etc.)		
<b>Transportation Costs (car repairs, road tax, insurance &amp; fuel)</b>		
Children's Expenses (tuition fees, books, toys etc.)		
Parents' Allowance		
<b>Sub Total</b>		
<b>Total Outflows</b>		
<b>NET CASH FLOWS (SURPLUS/ DEFICIT)</b>		

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