Checking Your Financial Pulse

Have you ever given much thought as to what the consequences could be if you did not go to the doctor for ten years? We all know that an annual check-up with a physician is important in maintaining proper health and physical fitness. Well, the same holds true with *fiscal* fitness, too.

Regularly checking your financial pulse can show whether you are on solid financial ground, or whether you have strayed a bit from your goals and objectives. There are two simple examinations that can help you better understand your financial well-being. In addition to showing you where you stand (financially) today, they can provide the basis for important financial comparisons in the future.

Looking for Symptoms

The two examinations you are going to perform are the **balance sheet** (or **net worth statement**) and the **cash flow statement**. Although many personal finance books have sample worksheets, you can easily formulate your own.

To create a balance sheet, simply draw a line down the center of a blank piece of paper and label one column **Assets** and the other **Liabilities**. Assets are everything that you *own,* and liabilities are everything that you *owe.*

You can add a little structure by grouping assets in three categories: **cash/cash equivalents** (e.g., checking and savings accounts, money market funds, certificates of deposit); **invested assets** (e.g., stocks, bonds, mutual fund accounts, retirement accounts); and **personal use assets** (e.g., your house, home furnishings, autos, boats, personal property). Liabilities can be labeled *short-term* (e.g., auto loans, most personal loans, credit card debt) and *long-term* (e.g., home mortgages, home equity loans, some educational loans).

Just plug in all the relevant numbers (you might have to dig a little through your records) and add up the two columns.

Now for the cash flow statement. Again, divide a piece of paper down the middle and label one column **Cash Inflows** and the other **Cash Outflows**. On the inflow side of the ledger, list monthly (or yearly) income from all sources such as wages, self-employment, rental activities, and investment income (e.g., interest and dividends). On the outflow side, list all monthly (or yearly) expenditures separating fixed expenses (e.g., mortgage payments, other periodic loan payments, insurance premiums) and variable expenses (e.g., utilities, food, clothing, entertainment, vacations, hobbies, personal care). You might want to put taxes (federal, state, FICA) in a separate category.

Again, plug in the relevant numbers and total the columns.

Diagnosing Your Condition

A Strong Pulse. . . Your balance sheet shows your assets exceeding your liabilities, the difference being your **net worth**; and your cash flow statement shows more inflow than outflow. A strong pulse tells you that you are solvent and you are spending within your means. The degree of strength depends on the size of your surpluses.

A Weak Pulse. . .Your balance sheet shows your liabilities exceeding your assets and/or your cash flow statement shows more outflow than inflow. A weak pulse can indicate that you are spending beyond your means. The lack of strength depends on the severity of your deficits.

Two goals worth pursuing: increasing your net worth each year and keeping your annual expenditures under control. If your pulse is not where it should be, you can take action now to better your financial health. When you take new readings a year from now, and compare them to the previous year's, you will be able to chart your progress at a glance.

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