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GUIDE TO

# CASH FLOW MODELLING

VISUALISING YOUR FUTURE  
FINANCIAL POSITION

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FINANCIAL GUIDE

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# GUIDE TO CASH FLOW MODELLING

## *How to visualise your financial future*

**I**n order to develop your financial plan, you need clarity over your goals, your objectives and your motivations. Cash flow 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 to achieve your financial objectives.

The process of cash flow modelling 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, now and in the 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 you provide.

### **Right asset allocation mix**

Cash flow modelling can determine what recommendations and best course of action are appropriate for your particular situation and 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 risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Where cash flow 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.

### **How much to save, spend and invest**

A snapshot in time is taken of your finances. The calculated rates of growth, income, tax and so on that are used to form the basis of any cash flow modelling exercise will always be assumptions. Therefore, regular reviews and reassessments are required to ensure you remain on track.

Nearly all decisions are based on what is contained within the cash flow: 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.

### **A lifetime cash flow plan 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

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**CASH FLOW MODELLING CAN DETERMINE WHAT RECOMMENDATIONS AND BEST COURSE OF ACTION ARE APPROPRIATE FOR YOUR PARTICULAR SITUATION AND THE RIGHT ASSET ALLOCATION MIX.**

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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
- Estimate future cash flow on realistic assumptions
- Develop an investment strategy for your capital and surplus income in accordance with risk/reward, 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

**Running through the numbers**

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 cash flow 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 and to keep your own peace of mind knowing your plans are still on track.

It is vital that you are made aware that certain assumptions have been made in the making of your plan. Projected inflation and growth rates need to be made clear, and it should be explained that the plan and cash flow model is only as good as the information provided, so it is critical that it is reviewed.

**ARE YOUR FUTURE FINANCIAL PLANS ON TRACK?**

Cash flow modelling helps you stay in control of your financial future by giving a more holistic planning approach and clearer picture of the consequences of change on an ongoing basis. It also helps to give an idea of when certain key decisions should be made, such as retiring early or downsizing a property. For more information, or to discuss how we could assist you to achieve the financial control and freedom you require, 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*

## **TIME TO FORMULATE A CLEARER UNDERSTANDING OF YOUR LIFETIME CASH FLOW?**

We can assist you to formulate a clearer understanding of your lifetime cash flow so that you can make sure you have the right provisions in place now, and to ensure that your money doesn't run out in the future, which could have a considerable impact on your eventual retirement. For more information or to discuss your requirements, please contact us today – we look forward to hearing from you.

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