MACQUARIE

Thrive in a changing environment

Why cash flow matters for achieving your lifestyle goals.

Why manage your cash?

No matter how much money we have, or what stage of life we're at, we all have to make decisions about cash every day. Some of these decisions are small, like buying your daily coffee. Others are bigger, like buying a new car or home. All of these decisions highlight the importance of managing your cash flow.

Cash flow management is an essential building block for a strong financial foundation. In an environment where equity markets continue to fluctuate and there may not be the continued growth in residential property values that we've seen over the past generation, understanding where your money is going will be increasingly important in helping you grow your wealth and reach your lifestyle goals.

The four components of cash flow

Income

Your salary or wages plus your investment income (rent, dividends, etc.)

Expenses

All your living expenses, like bills, food, entertainment, etc.

Assets

Your savings and cash-creating assets like investment properties and equities.

Liabilities

Your home loan, credit cards, personal loans and investment loans.

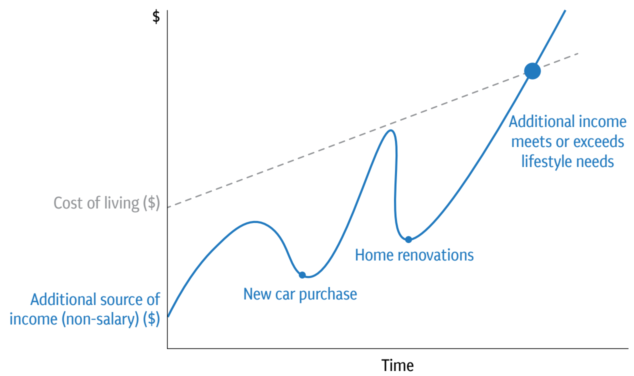
What is positive cash flow?

Positive cash flow means that when you've paid all your bills for the month, you have as much – or more – cash available than you did at the start of the month.

You can then use that additional cash to grow your assets and reduce your liabilities.

Over the longer term, if you're able to create additional income (from things like investments, rather than purely your salary) to meet or exceed your cost of living, then you'll have the freedom to make lifestyle choices like reducing the amount you work (or retiring all together); taking time off work to travel; reducing your hours to spend more time with your children; or taking time off to study or make a career change.

Growing your personal wealth to meet your lifestyle needs*



* Illustrative purposes only

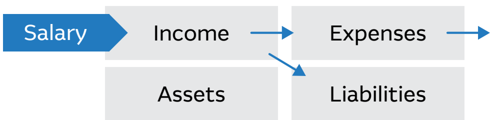
Three common ways people manage cash

1. Living for now

The living for now cash flow pattern is simple – money flows in as wages and flows out to pay expenses. No income is saved or used to buy assets. People using this cash flow pattern don't typically own property or have significant liabilities – but they are exposed to risk, because they don't have savings to draw on if anything goes wrong.

2. Focus on looking rich

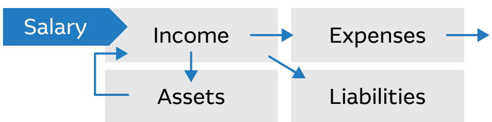
People who use this cash flow pattern tend to divide their cash between their living expenses, and buying – and then paying off – luxury items like cars and high-end consumer goods. The challenge here is often confusion between assets that create income for you over time (like an investment property, shares etc.) and liabilities that depreciate over time (like ars, new technology etc.). People using this cash flow pattern are also exposed to risk, because they don't have savings to draw on if anything goes wrong – or to pay their liabilities if anything happens to their income.



3. Positive cash flow

People who use this cash flow pattern are meeting their living expenses, paying down their liabilities, and investing in income-producing assets. They are also moving towards a point in time when their income from assets will be equal to (or more than) their cost of living.

To create positive cash flow you need to invest in cash-creating assets. By doing this, you can create an additional source of income over and above the income you earn from your salary.



Four steps to better cash flow management

1. Set goals and visualise where you want to be

Make sure you don't limit your goals to what you think is achievable now. Set 'stretch' goals – aspirational ideas that excite you, and will demand continuous improvements on performance, but won't be impossible to achieve.

2. Pay yourself first

Set up a transaction account specifically for covering your daily living expenses. When you get paid, put your salary in a cash management account or high interest savings account, and transfer your living expenses into your transaction account. That way, the remainder of your salary will start to accumulate and work harder for you.

3. Think like a business

All businesses use two common measures to monitor their cash flow – an income statement and a balance sheet.

Income statement: measures income and expenses – what you earn against what you spend.

Balance sheet: compares your assets against your liabilities – what you own versus what you owe.

Income statement	Income	Expenses
Balance sheet	Assets	Liabilities

Businesses then use these measures to make financial decisions about investing, borrowing and spending (or cost-cutting).

Your income statement will also help you understand another key cash flow measure – your cost-to-income ratio. Your cost-to-income ratio is the percentage of your income that is used to meet expenses (housing, food, entertainment etc.). Good businesses look to reduce their cost-to-income ratio. If you can calculate your own cost-to-income ratio, you'll be better placed to save money, reduce debt and start to build positive cash flow.

4. Start budgeting

If you've got clear oversight of where your money is going, you'll be better equipped to manage your cash flow. Your budget should take into account your entire financial position – income, expenses, assets and liabilities. Speak to your financial adviser for some useful tools to get your started.

What's next?

Talk to your financial adviser about how they can help you better manage your cash flow. Your financial adviser has the expertise to give you personalised advice on ways to manage your cash flow more effectively.