

Back to Basics: Helping Clients Manage Cash Flow

by Eric H. Kies, CFP®

Eric H. Kies, CFP®, is a partner at The Planning Center Inc. and First Step Cash Management LLC in Moline, Illinois. He can be reached at eric@theplanningcenter.com.

It is September 29, 2008. I am a financial planner sitting in an airport waiting for a connecting flight on my way home from a wedding. The wedding was a terrific success and many great memories were shared and created as two families were officially joined. Something was different at this particular event, however, and it had nothing to do with the bride and the groom. As I write this, it is the beginning of week three of the current financial crisis. During the weekend, almost every conversation I had with friends and family members revolved around the financial markets, my opinion of the markets, and the actions they should be taking. On the plane from Denver to Atlanta, I looked down at a copy of *Barron's*, whose headline read, "How Taxpayers Can Profit on the Bailout." Beside that was a copy of *Your Money and Your Brain* by Jason Zweig. I couldn't help but laugh to myself as I realized the irony of the situation. On one side was a periodical portraying all the noise and chaos of the financial markets. On the other side was a book to help me understand how people's minds react and process situations just like this.

Over the course of the weekend, my response centered on the theme of "control what you can control, make the best decisions you can, and everything else will sort itself out." While very simple advice, from

Introduction by Courtney Pullen

In my history of writing this column, I've never "given up" a slot in my rotation. But after reading this timely and thought-provoking article on cash flow management by Eric Kies, you will see why I asked him to make this contribution.

Courtney Pullen is a family wealth counselor and business advisor/coach based in Denver, Colorado, who works primarily with financial services professionals. He can be reached at courtney@pullenconsulting.com.

the blank stares I received back it was obvious that those who were asking were looking for a much more sophisticated answer. An interesting observation came to me: While we often seek technical and complicated solutions to problems, often what we need is to simply get back to the basics. For the past several years, our practice has begun to focus on helping our clients understand and manage their cash flow. At first, this might seem like the most mundane, fundamental process that a financial planner can undertake. But on further investigation, when I talk to those within the industry, what I find is that virtually no one is really digging into their clients' cash flow and helping them truly understand what it looks like today, and what could be different as they explore and define their various goals. Some planners

will occasionally mention Quicken software, some use an Excel worksheet, while others simply take adjusted gross income and back out taxes and after-tax savings for their calculations. Most of those I talk to

“How is it that something as simple yet powerful as cash flow has gone largely unexplored?”

dread having conversations about cash flow because of the dysfunction that can quickly arise between couples when the conversation begins about spending or budgeting.

Cash Flow as a Bridge

What is fascinating about the responses from planners is that they are in direct

conflict with our experience in working with clients. As we explain our cash management system and the philosophy behind it to clients and prospects, they are eager to finally understand their spending. In an environment where planners discuss how to manage “fat tails” or how their software vendor’s stochastic modeling functions, we have found that our clients really want to know where their money is going, and what that means to them long term. The sheer number of breakthrough

“How much, if any, of the current financial crisis would even exist if both clients and the providers of financial advice took the time to proactively manage cash flow?”

appointments we have had after really helping them with something as basic as managing their cash is staggering.

A second duality exists in all of this. While cash flow is a basic building block of a financial plan, the conversations that arise from working in this arena are anything but simple. After attending multiple workshops on life planning, the most vivid and exciting doorway into a client’s life that I have yet to find is examining their cash flows. Everything is exposed; there is no place to hide. By focusing on what is real, and what is now, they stare directly into reality—often for the first time.

We have clients think of their cash in three different buckets, or accounts:

1. **The static account** is their 30-day money. This is what it takes to run their household for a month—the mortgage, utilities, car payments, insurance.
2. **The control account** is their seven-day

money. These are the funds that they will spend today or within the next week. These are lifestyle types of expenses—dining, recreation, hobbies, groceries, and gas for the car.

3. **The dynamic account** funds all future expenses, from trips and gifts, to cars, education, and retirement.

While the dynamic account funds their future, the static account is a reflection of past decisions and the control account illustrates the present. By showing them a

simple analysis of three numbers and a corresponding bar chart, they begin to understand their money for the first time in their lives. From the planner’s perspective, many things begin to emerge. Money scripts begin to pop out without probing. The figures themselves describe the client’s values and pri-

orities. From something as basic as cash flow, we understand clients’ money decisions better than we ever could have before.

As clients look at that simple bar chart, the conversation changes from frustration, confusion, or even fear, to their goals, what is important, and what they want more of in their lives. They understand that not only is net worth built from the dynamic account, but that they have control over their financial lives, and they start to work toward the goals that have been discussed and developed. It would seem that by simply looking at a client’s cash flows, a bridge is formed between the classic, technically oriented form of financial planning, and the softer, interior-oriented life planning. A space is created for both the planner and the client to examine what is real, what their choices really are, and what can be changed to bring them closer to the financial life they would like to have.

Can It Be This Simple?

I look up as the news headlines pour across the television screen in the airport. The House of Representatives has just voted down the bill to bail out the financial system. The Dow is plunging. I notice that only those who need to catch a plane are moving. Everyone else stands and watches the television. Few are talking. Their brain is hammering as they try to comprehend how this might affect them. I stare out onto the tarmac at the planes and wonder what it would look like if everyone in the United States actually understood their cash flow. What would it look like if people thought about their goals, and then used their cash flow to intentionally work toward them? What would a nation of savers, who were not overburdened by debt, look like? How much, if any, of the current financial crisis would even exist if both clients and the providers of financial advice took the time to proactively manage cash flow? How is it that something as simple yet powerful as cash flow has gone largely unexplored? Can it really be this simple? Don’t things have to be more complicated than managing cash?

The Buddhist monk Thich Nhat Hanh said that “the present moment is the only one over which we have dominion.” It has become apparent to me over the past few years, and especially the last few weeks, that one of the few things clients and planners can truly influence is the decision-making process involving cash flow. Perhaps we would all be better off if we centered on the basics and focused on how each of us can make our decisions more intentionally. Something tells me that little of the noise of the past few weeks would have existed, and that the questions at the wedding I attended would have revolved more around catching up on each other’s lives and less around staying up with the news headlines.

