

# STEP 1

## Review Your Current Financial Situation

*“To secure a solid financial future, you must know the condition of your finances today and make a plan for tomorrow.”*

**I**F SOMEONE YOU TRUSTED SAID TO YOU: *“Please tell me how much you owe and also tell me the value of what you own,”* would you know the answer? Most people either don’t know the answer to this question or are unable to provide an accurate response because they don’t know the amount of debt they have and they don’t know the value of the assets they possess. To complete **Step 1** in your journey to financial wellness, it’s essential for you to know the answer to this question. When you know how much you owe and the value of what you own, you’ll have the two necessary ingredients for building financial wellness—it’s called your personal financial net worth.

### What’s Your Financial Net Worth?

In a given year, most people will spend more time planning a vacation than they will examining their daily spending decisions. Why? I believe that most people just don’t know where to start when planning their finances.

*A Personal Financial Net Worth Statement* can be found in **Appendix 1-1** (located in the Appendix Section in the back of the book). Completing this Statement will allow you to find out your net worth. Caution: you might find this exercise to be a sobering experience! My experience with people of all ages has taught me that most people find that the debts they owe are much more than they estimated and the value of what they own is less than anticipated. In fact in a study released January 6, 2006 by the Consumer Federation of America and

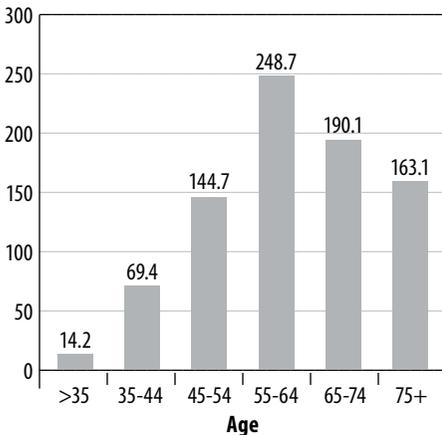
the Financial Planning Association, 49 percent of Americans don't know how to estimate their net worth.<sup>1</sup> **Appendix 1-1** will provide the format you'll need to calculate your financial net worth. Take the time to complete this step, as it will serve as a key benchmark in your journey toward financial wellness.

Whatever your financial "net worth" happens to be on the last line of **Appendix 1-1**, understand that what you've accomplished puts you in a special category of people. Most people simply don't take the time or just don't know where to begin in pulling together the necessary information to determine their overall net worth. By completing this exercise, you've taken a giant step in your journey toward attaining financial wellness. The significance of knowing your current net worth is that it will give you a critical "baseline" from which you can measure annual progress in measuring a hopefully growing financial net worth.

The median net worth of all U.S. households (half the households had less) was \$93,100 in 2004.<sup>2</sup> When a median value is used, half of the households had less net worth and half had more. The most affluent 10% of U.S. households had a median net worth of \$1,430,000. Note that these median net worth estimates include the equity amount in homes owned and the value of retirement accounts. Taking a closer look at net worth, **Exhibit 1-1** shows median net worth by age. **Exhibit 1-2** charts median net worth by the level of household income. The extensive analysis of household net worth is conducted by the Federal Reserve every three years. Since 1995, family net worth has increased at an annual rate of about 2.5%. Assuming this growth rate in annual net worth continues at annual growth rate of 2.5%, median net worth for U.S. households in 2007 should be around \$100,259.

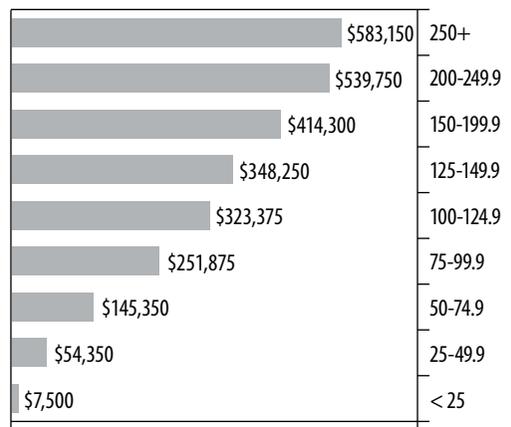
*When you examine these charts, where do you currently stack up?*

**Exhibit 1-1**—Median Net Worth by Age  
(in Thousands)



Source: Federal Reserve Triennial Survey of Consumer Finances, 2004

**Exhibit 1-2**—Median Net Worth by Household Income  
(in Thousands)



Source: Federal Reserve Triennial Survey of Consumer Finances, 2004

## Track Financial Net Worth Progress Annually

**Appendix 1-1** provides you with the simple steps necessary to determine your financial net worth. For those of you who are spreadsheet savvy, you may wish to place this on a spreadsheet for ease of updating in future periods. For most people, I recommend examining financial net worth on an annual basis. I always compare my financial net worth progress on January 1 of each year. I have a hanging file established for this and I've been tracking my progress since 1986. It's really inspirational and motivating for me to look at how my financial net worth has grown since then. After completing my net worth statement on January 1, I set a goal for where I want my net worth to be in the following year and I write it down. When the following year comes, I compare my goal to my actual financial net worth for the year. By listing my goal for the upcoming year, I've found that it serves to give me an overall direction for the year and helps me in my routine assessment of spending and investing throughout the year.

## Examine Your Monthly Cash Flow

Cash flow is either positive or negative over a period of time. That's why it's important to draft a monthly budget, or as I call it, a monthly cash flow statement. **Appendix 1-2** (located in the Appendix Section in the back of the book) is a sample *Monthly Cash Flow/Budget Statement* that you can use to find out whether you are generating positive or negative cash flow each month. It takes positive cash flow to build your financial net worth. If you find that your monthly cash flow is negative, or that it is not high enough to reach your savings and investment goals, take a good look at your discretionary spending. These areas include expenses where you have considerable control including dining out, entertainment, transportation choices and clothing. It's these "discretionary" spending areas that are often the easiest to find additional cash flow to apply to your long-term saving or investing goals. It takes a measure of discipline to get discretionary spending items under control and your monthly cash flow statement will help you to pinpoint discretionary spending patterns.

Make sure that you work with members of your household to get both understanding and agreement on the spending adjustments that will be necessary to build your monthly cash flow statement and your net worth. This requires discipline and ongoing communication. Set a goal for your cash flow each month and take the time to monitor your results at the conclusion of each month. If your income and expenses fluctuate or if you feel that monthly evaluation might be too tedious, commit to at least a quarterly evaluation. If it's the first time you've ever looked at your income and expenses, you should commit to at least 4 months of budgeting before going to a quarterly evaluation period. You simply need to know your overall cash flow patterns over a consistent period of time to build financial wellness. Your monthly cash

flow has a direct impact on your financial net worth. Listed below is how your monthly cash flow will impact your overall financial net worth:

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### **The Monthly Cash Flow/Financial Net Worth Statement Connection:**

Monthly cash flow impacts your net worth statement. Without ongoing positive cash flow, the growth of your financial worth over the long run will be compromised. Consistent, positive monthly cash flow is a requisite to building your financial net worth.

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### **Keep Good Records—Get a Filing Cabinet and a Shredder**

A file cabinet for your financial matters is essential. If you don't have one, get one and devote it to organizing your personal finances. This is a must for keeping good, organized records. A well-organized file cabinet will allow you to keep key financial documents, bills, statements, etc. located in one place for easy reference.

Let's start with how you pay your bills each month. What does your filing system look like? Do you have one? Step one in this area is to set up a bill paying system. The best part here is that it's very easy to set up a system for bill paying.

Here's what I've been doing for the past twenty five years. I have two hanging folders established for bill paying. One file is for bills due in the middle of the month, the second file is for bills due at the end of the month. When my bills trickle in each month, they are immediately placed in the appropriate file. I then pay the vast majority of my bills just twice a month by pulling the appropriate file and paying all the bills in the file. It's simple, easy to remember and keeps me organized. (Hey, it's "low-tech," but it works!)

To minimize clutter, I shred the previous invoice when a new invoice arrives, reflecting my previous month's payment. Also establish hanging files for current year income tax items needed for your income taxes. If you itemize your taxes, you might want to set up subfolders to keep track of receipts or important documents, if needed. By setting up hanging folders for key financial documents, you'll be in position to quickly locate appropriate financial documents when needed. You'll also save hours in finding key documents for annual income tax preparation.

### **Keep the Identity Thieves Away!**

Identity theft is a byproduct of the information age we live in. Buy a shredder and use it to shred documents that contain personal information such as your name, Social Security Number, account numbers, passwords, account balances, etc. You can find a good home shredder for under \$50 at an office supply store or on the Internet. Most identity theft occurs due to careless personal disposal of sensitive financial documents. By shredding your personal and financial documents, you'll go a long way to protecting your identity and your personal credit.

With more of us using our personal computers to access banking accounts, financial accounts and to make online purchases, securing your PC from online thieves is crucial. Invest in a comprehensive software security package that includes a “firewall” to protect your PC from “cyber-hacking” from unauthorized sources. There are a number of excellent software security packages available for purchase. Two of the leading companies in this area are Symantec, [www.symantec.com](http://www.symantec.com) and McAfee, [www.mcafee.com](http://www.mcafee.com). After loading the most recently updated software security package on your PC, make sure that you also download periodic updates as soon as they are available. Cyber-thieves work non-stop and software security packages need to be periodically updated to ensure that your PC has the latest protection from the latest virus that can wreak havoc on your software files or compromise your sensitive financial information. Plan to invest \$50 to \$100 per year on PC security software. This can be one of the best investments you can make to protect your software files and financial information from cyber-theft.

## **Financial Wellness—Making the Complex Simple**

I believe that there is a true need to help people deal with their personal finances in a proactive, understandable way that improves their overall wellness. Yes, there is a considerable amount of financial information available to you. To make good financial decisions you must possess a solid financial foundation and develop a mindset that will allow you to make consistently good financial decisions. Understand that you’ll continue to make financial mistakes. But when you have a solid financial foundation and you are consistently building and tracking your financial net worth, you’ll position yourself to minimize your financial mistakes and maximize your financial opportunities. You’ll develop a proactive versus a reactive mindset when it comes to your personal finances. You’ll steadily take the necessary steps to attain financial wellness in your life.

## **Financial Literacy—It’s Up to You**

Think about the formal education you’ve had. Whether you completed high school or have earned an advanced higher education degree, chances are your educational training didn’t address what you need to know about personal finance. Unfortunately our schools do not prepare us for the financial decisions we need to make when we enter the workforce. Most of us learn about personal finance through trial and error. Financial mistakes are often costly and can take years to erase. Look how easy it is to get a credit card. The credit card companies use a variety of sophisticated marketing methods to determine the best “prospects” for their cards. It’s no secret that their best customers use other credit cards generously and typically carry a balance each month. They often extend outrageous lines of credit to people who simply should not incur another dime of debt!

I'll have more to say about credit card debt in Step #4. *The overuse of credit cards is the number one challenge many people have.* If you routinely carry credit card balances you must make elimination of these balances a top priority. If you don't get control of credit card debt, you will more than likely fail to build financial wellness for yourself and your family.

## The Financial Wellness Connection

One of my goals in writing this book is to give you the foundational steps to allow you to stay well ahead of the median net worth benchmark for your age group and your income level. Don't despair if you are below the median benchmark for your age group or income level at this point. Remember, it's how you finish the journey toward long-term financial wellness that counts. By making the right spending, saving and investing decisions, you'll position yourself to gain any lost ground and to build the discipline to stay ahead of the pack when it comes to growing your financial net worth.

A key issue in measuring personal wellness involves how we react to the daily stress in our lives. Stress is a fact of life. We need it to live. In just the right amount it is actually good for us. It motivates us to take action and often gives us a purpose for our actions. But the "dark side" of stress is *distress*. Having too much stress in our lives has a compounding effect that, left unchecked, ultimately becomes distress.

Take a look at what causes you stress, and if you're like a majority of people, the causes of the stress often have a direct link to financial issues or decisions you've made in your life. When you think about the stress you've encountered in personal and family relationships, there is more than likely some financial component behind the strained relationships. Wellness means different things to different people. Many people believe that wellness is achieved when a person has optimal health. Others may say that wellness is truly a state of mind.

Since individual wellness is a personal issue, what are the key components that will lead to overall personal wellness? I believe that there are three key factors that drive overall personal wellness. Following is a definition of personal wellness based on my 20-plus years of experience and research within the health, wellness and financial professions:

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### Definition of Personal Wellness

Three key factors drive personal wellness. **First**, the individual needs to have, or is striving to attain, good physical and mental health through appropriate lifestyle decisions. **Second**, the individual's spiritual side or deep connection to others or noble causes is developed. **Third**, *the individual demonstrates a level of control over the material needs of life through careful ongoing decisions involving personal finances and the development of financial wellness.*

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The first two listed components from the definition are familiar. Some experts refer to these first two components as fulfilling the mind, body and spirit connection to wellness. I've added the component of financial wellness to this definition. I've added this third component to this definition because your personal finances have a direct impact on the mind, body and spirit components of overall personal wellness. Having step three in place serves to leverage the first two components of the Personal Wellness Definition.

Most current wellness programming is directed to improving our overall physical and mental health, the first component that describes personal wellness. Examples impacting the first component of wellness include lifestyle decisions regarding diet, nutrition, stress management, exercise and health screenings, such as annual physical examinations. The second component is a sensitive one for some people. It's often referred to as the "spiritual side" of wellness. If you consider yourself a spiritual person then this component will likely make sense to you. But, if you don't consider yourself overly spiritual, or your downright non-spiritual, there's room in this definition for you also. If you have a favorite charity or activity that helps others or improves your community in some way then you do have a passion or a "calling" for something beyond yourself. This second area of wellness will help you to find lifelong meaning and is essential for a fulfilling life. *The third area, the development of personal financial wellness is where this book will focus.*

On the next page and at the conclusion of each chapter Step, you'll find an *Action Step Checklist*. Take the time to review each Checklist to ensure that you understand and implement the key concepts outlined in the chapter Step.

Once you've completed your *Action Step Checklist*, go to **Step #2**, where I will share practical ideas you can use to develop yourself and your career options...





# **ACTION STEP CHECKLIST**

## Step #1 Action Step Checklist

The Action Step Checklist will help you to implement some of the key concepts mentioned in this chapter. When you've finished the Action Step, place a ✓ next to the Step to document your progress.

Here is your Action Step Checklist from Step #1:

- ▶ \_\_\_\_ Complete the personal **Financial Net Worth Statement** located in the Appendix Section of this book.
- ▶ \_\_\_\_ Prepare your **Monthly Cash Flow (budget) Statement** located in the Appendix Section of this book.
- ▶ \_\_\_\_ Monitor your Monthly Cash Flow progress each month with members of your household (if applicable) to ensure understanding of spending decisions and to build agreement on adjustments that may need to be made to keep your budget on track.
- ▶ \_\_\_\_ Assess your current health status. Make exercise a part of your lifestyle and commit to eating a balanced diet and get enough rest. If you are out of shape or have health issues, work with your family physician to develop a plan to improve your overall health. Optimal health is a key component to long-term financial wellness.
- ▶ \_\_\_\_ Write down your long-term goals and what is important to you. Are there special causes or spiritual endeavors that matter to you? Identifying the important goals in your life will help you to stay focused while you are building financial wellness.
- ▶ \_\_\_\_ Review your filing system for bill paying and maintenance of personal financial statements. Take the necessary steps to secure a filing cabinet for your key financial items and establish a system for filing and bill paying.
- ▶ \_\_\_\_ Buy a document shredder to properly dispose of financial or health documents that contain personal information. A leading cause of identity theft is careless disposal of sensitive personal documents.
- ▶ \_\_\_\_ Invest in a comprehensive software security package that includes a "firewall" to protect your personal information and software files from viruses and "cyber-theft." Be sure to keep your software security package updated to protect your PC from the latest "cyber-threats."