

Lynch Financial Advisors successfully moves individuals, couples and small business owners from where they are to **where they want to be.**

Winter 2005/2006

Michael S. Lynch

Lynch Financial Advisors

916.772.3103 • 916.772.3104 fax

info@lynchfinancialadvisors.com

www.lynchfinancialadvisors.com

Fee-Only Financial Advice

DEALING WITH DEPRIVATION ANXIETY, Part 2

by Bert Whitehead, MBA, JD and Charles "Chip" Simon, CFP®

In Part 1 of this three-part series, we defined deprivation anxiety, the obsessive fear of running out of money, and described how it can take an emotional toll on your life. We also explained that many product-oriented financial advisors are ill equipped to help their clients find relief. In this installment we introduce the Cambridge Cash Flow Management System, which offers a strategy to help you cope with deprivation anxiety.

Deprivation anxiety is rooted in the fear of living life without enough money. Therefore, if the afflicted can achieve a guaranteed cash flow, it's a solution that goes directly to the heart of the problem.

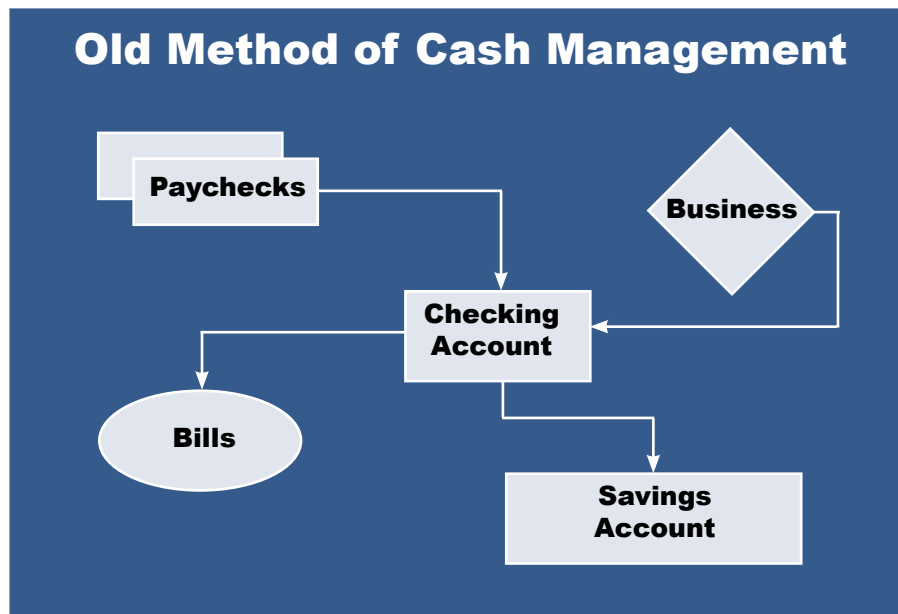
Yet despite how simple this sounds, many people find managing their cash flow almost impossible. Fortunately, the Cambridge Cash Flow Management System is designed to solve this dilemma and put you

on the path to financial serenity.

People typically manage their household finances by depositing all sources of income into a checking account. They pay their bills from the account, and anything left over is put into savings.

But consider the pitfalls to this approach. When you commingle your bill paying with your household's income source, it's easy to sidetrack other financial goals. Savings activity may become an afterthought rather than a priority. You might also forget to save for income taxes (especially costly for the self-employed who need to set aside

Old Method of Cash Management



an additional 15% to pay self-employment tax). Finally, it can be difficult to maintain an emergency fund that provides a cushion against life's uncertainties. When you attempt to fund all these goals through your bill-paying account, it ends up looking like you have more money to spend than you actually do. After all, you rationalize, it's in your spending account!

This is the typical approach to cash flow management. It is reactive rather than proactive and does not advance you toward your personal financial goals. The Cambridge Cash Flow Management System addresses this basic structural problem and realigns your money system with your financial goals.

To begin, you designate one bank account as your working account. Make sure all your income is

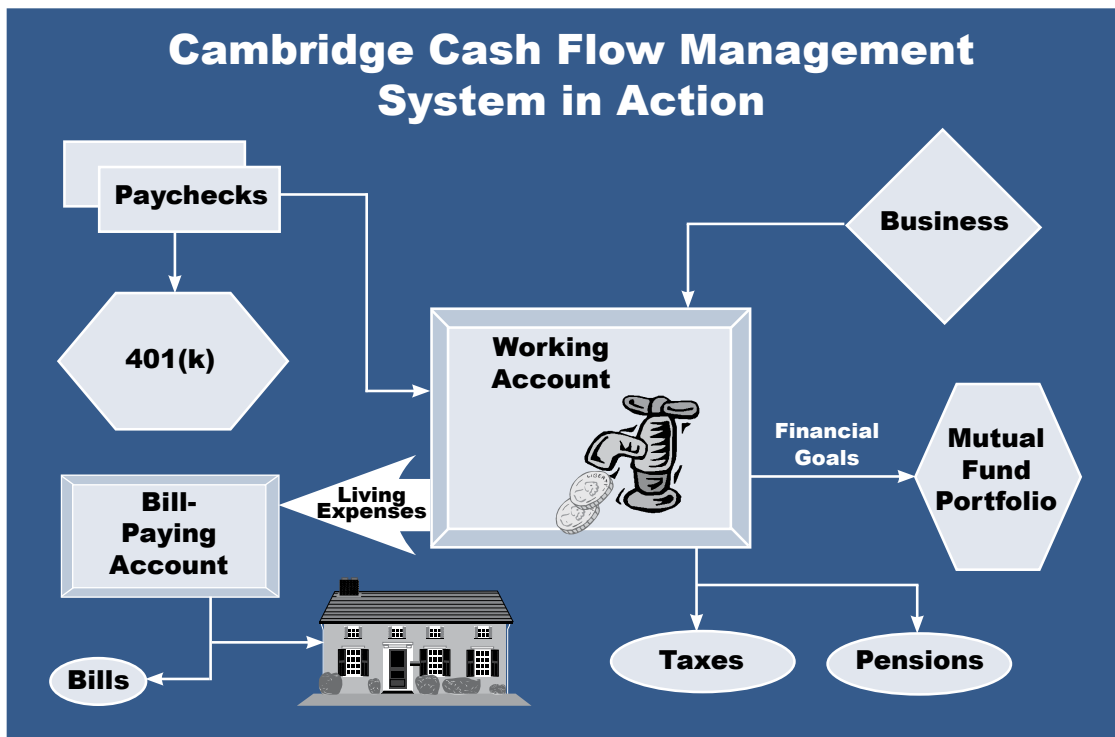
(continued on page 2)

INSIDE THIS ISSUE

- 2 More: Deprivation Anxiety
- 3 Buy Experiences and Invest in Rich Memories
- 4 Ask an Advisor



DEALING WITH DEPRIVATION ANXIETY - Part 2 (continued from page 1)



Cambridge Advisor will help you manage this cash-flow faucet for your financial reservoir.

In the early stages of your personal Financial Lifecycle, you can manage your deprivation anxiety with liquidity, the amount of cash on hand in your working account and bill-paying accounts combined. The more anxious you are, the more liquidity you need. We typically recommend that all clients keep 10% of their salary on hand plus twice

deposited in that account including your net paycheck, refunds, gifts, Social Security, pensions and profit from any side business. This working account becomes your financial reservoir, as it were, and you are the “faucet,” directing money into other designated accounts for bill paying and other financial goals (see Illustration).

You then figure out what it costs you to live every month so you can plan your bill paying. Total monthly living expenses are often overlooked as a financial metric. If you are asked how much you earn, for example, a number probably pops into your mind. If you are asked how much your house is worth, you know the answer. But if you are asked how much it costs you to live each month, you probably draw a blank. Yet knowing that number is critical, especially if you are worried about not having enough money.

Next, designate a bill-paying account (usually a checking account) from which you will pay all your household bills. As a cushion, deposit an amount equal to one month’s expenses. (If needed, you can estimate this amount as four times your monthly housing costs.) On the first of each month simply transfer an additional one month’s expenses from your working account into your bill-paying account.

Over a year or so, you will be able to determine whether the amount transferred each month is adequate, so you can better estimate your living expenses without detailed recordkeeping. Your

that amount as an additional emergency measure. If you have a mortgage, it’s also an important strategy to add to the emergency fund to make sure you can cover 20% of your mortgage balance. This ensures that you can make mortgage payments for two years in the event of a job loss. Those afflicted by deprivation anxiety might even require more funds here, since a mortgage commitment can be fraught with fear. In this situation, ‘safety’ must trump ‘yield’; that is, the security of liquid funds is a higher priority than the expected returns from investing. The comfort that comes from ensuring cash flow must be present at all times. That’s certain to alleviate the fear of running out of money.

By aligning your financial priorities with your emotional needs and creating a point of interaction between you, your Cambridge Advisor, and your personal financial system, the Cambridge Cash Flow Management System reduces stress and anxiety while simultaneously meeting your day-to-day financial needs.

In our final article of this series, we’ll explore how you can adapt this approach to more advanced stages of your personal Financial Lifecycle. You’ll see examples of how the Cambridge Cash Flow Management System reduces stress and anxiety while meeting your day-to-day financial needs in retirement. ■ ■ ■



BUY EXPERIENCES AND INVEST IN RICH MEMORIES

by Kathleen M. Rehl, Ph.D., CFP®

This fall my husband and I brought our three adult sons and a daughter-in-law together for a family retreat. We rented a house along the shores of Lake Michigan, near a friendly small town. There was a lighthouse and a boat-filled harbor, with many special attractions for us to enjoy: a beautiful extended sandy beach, interesting ethnic food, an outdoor music festival, gorgeous evening sunsets across the lake, and an art gallery.

Most importantly, this was a wonderful time to affirm and strengthen our family bonds. There were opportunities for walking and talking along the beach, lingered conversations over cups of fragrant tea and chocolate chip cookies, gales of laughter viewing old family photo albums, shared stories about the kids' dreams for their futures, much giggling over silly games of dominos, and so much more.

Indeed, before the concluding day of our family gathering, everybody agreed that we've started a new tradition. Yes, we've already selected



tentative dates for next year's reunion, and we've identified another part of the country we want to explore together for several days.

We picked up the total tab for the weekend expenses (including transportation costs for everyone) because we knew we would get a great return on this type of "investment." It was our gift to our family. All of us have wonderful memories of this event that will stay with us for a long time.

As you move into the holiday season ahead, you might want to think about how you can spend some of your own money to "buy experiences and invest in rich memories." Forget for the moment the futility of buying "stuff" to please those who probably don't need more things. Instead, consider purchasing a special event, an interesting adventure, or a shared activity that can result in happy memories lasting a lifetime. This is truly a gift that keeps on giving forever. ■ ■ ■

WHAT TO KEEP? WHAT TO TOSS? (continued from page 4)

by Rob Reed, Ph.D., CFP®

Bank checks & statements: Keep only what involves tax records. If someone disputes a payment, you can get copies of anything you need from the bank. If tossing this makes you nervous, keep it all until your taxes are prepared, then shred everything not used in your return.

Mutual fund statements: Keep your quarterly statements until you receive your annual summary. If everything is OK, shred the quarterlies. Hold the annual statements until you close the account (mutual funds) or retire (retirement statements).

Brokerage statements: Most brokerage houses send out annual summaries that recap the year's activity. If so, keep the annual statement and shred the monthly statements. But be sure to check because you need a record of how much you paid for your investments (the basis).

Pay stubs: Keep all pay stubs until you get your W-2 form. If the numbers are correct, shred the stubs. If

your company lists vacation/sick leave carryover on your stub, keep the last one for a year. Notify the company if the information doesn't match.

Tax documents: Keep a copy of your returns and all attachments, receipts, and other documents that you used to prepare the return. The IRS can go back only three years to question a return UNLESS they believe there was deliberate fraud. Then there is no time limitation. If it makes you more comfortable, keep your tax documents forever. After three years, just put them in a box in the attic. (Yeah, yeah, I know that wasn't what I said in the beginning, but it is amazing to pull out a return from twenty years ago and see how little you lived on.) ■ ■ ■





? ? ASK an Advisor ? ?

WHAT TO KEEP? WHAT TO TOSS?

by Rob Reed, Ph.D., CFP®

Q. Lots of general media articles talk about what to keep and what to toss. How about a “Cambridge” review and final answer?

A. Sure.

We are being buried in ever-mounting piles of paper, and we are afraid to dig our way out. Just as we are about to toss something, a nagging voice in our head whispers, “Careful! It might be important.” Throwing away documents you might need later is bad, but just as bad is keeping so many that you have no idea what you have or where anything is. What you’re searching for might as well be gone.

A NOTE ON STORAGE: You can keep most records in a file cabinet. Your important papers deserve a fire-proof box (\$75) or a safe deposit box (the rent is tax deductible). Finally, a paper shredder (\$40) is a good investment for tossing documents containing your name and important numbers.

KEEP (more or less) FOREVER

- *Auto title and driver’s license*
- *Birth and death certificates*
- *Home improvement receipts*
- *Home purchase or refinance documents*
- *Insurance policies (current)*
- *IRA contributions (nondeductible)*
- *Legal documents (in force)*
- *Marriage certificate (even if divorced)*
- *Medicare card*
- *Military discharge papers*
- *Passport*
- *Social Security card*



Auto title and driver’s license: Keep your car title for as long as you own the car. Even if you don’t drive any more, keep your driver’s license; it is a generally accepted ID.

Home improvement receipts: Keep the bills for permanent improvements, such as a room addition. These costs reduce your capital gain when you sell. Keep all records on your home purchase or refinance until you sell your home.

Keep the original and latest renewal statements of any **current insurance policies**.

You need a record of your **nondeductible IRA contributions** to prove to the IRS that you already paid tax on the money (so they can’t tax it again when you take it out).

In-force legal documents include wills, trusts, financial and health-care powers of attorney, living wills, real estate deeds, and divorce papers. It is a good idea to keep copies of these documents with your attorney or a relative and to leave a record of where the copies are. If any documents are no longer in force or binding on you, they can be tossed.

KEEP LESS THAN FOREVER

Since you don’t want to keep all documents forever, you must periodically weed your files.

Bills: Keep bills for major purchases — cars, furniture, and computers are examples — to show proof of their value in case of loss or damage. I staple mine inside the instruction manual. For all other bills, shred them once the payment has cleared or the refund period expires. Shred anything relating to an item you no longer have.

Credit card receipts and statements: Keep your receipts until your monthly statement arrives. If it is correct, shred the receipt. But keep a receipt if you are disputing the bill. Keep statements for six years if they contain tax-related items. It is convenient to keep these with the tax return, so when you shred the return you also shred the (now excess) paper supporting it.



(continued on page 3)