

WISE MONEY MOVES PODCAST
Episode 5: Cash Flow Practicalities



Tracy Theemes: Hello, welcome back. I'm Tracy.

Kamal Basra: And I'm Kamal.

Tracy Theemes: And we are Wise Money Moves. Last week we were talking about Cashflow Connections. A little bit more of the emotional, psychological parts of cashflow, and cashflow tracking. If you recall, even further back just to keep everything in context, that cashflow and network is the first part of the five steps of financial planning. We've talked about this and we will continue to talk about it until you are very old, and very gray, and so are we, because without having that step by step roadmap knowing what you're doing and why, how it fits into the general context of your life To me, you're at risk for other people bossing you around, and taking power over

you. Giving you advice that is not right for you. What we want more than anything is for you to be able to own your own financial situation. To feel powerful, knowledgeable, and wise about how to get to the places in life that you're trying to get to financially.

So this time, we thought we would delve in a little bit deeper. We're not using the word budget, because it was one of our B words. We're still going to continue to use the word cashflow, and cashflow is?

Kamal Basra: Cashflow, is money in and money out. Simple as that.

Tracy Theemes: Can you say that again... Kamal you started the last time that we were together discussing, exactly what money in looks like. Could you talk a little bit about what money in is and about what money out looks like as well?

Kamal Basra: Yeah, so the practicalities of how do you measure it, and how do you track.

Tracy Theemes: Right.

Kamal Basra: I think that's kind of the framework of this podcast.

Tracy Theemes: Data collection, I love this stuff.

Kamal Basra: This is the step, so okay.

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Tracy Theemes: I want to meditate through it but, I just have to flow my energy. I know that all the things will come to this. I mean, I'm still an advisor, but I do think that. But, I always count on you to say, let's put some action into place.

Kamal Basra: So, first thing is to become aware of how much money are you bringing in on a monthly basis? This is usually what I ask people to do. It's sort of a manageable sum of time, it's not overwhelming, it's not the whole year. So, it's just looking at, where is my money coming from, and how much every single month. It can be as simple as your salary. It can be in the deposits from your work, from a business. Could be your business income. It can also be pensions if you're retired, or if you're semi retired. It can also be money from your investments. So, it could be from your savings, or from your investment accounts. Wherever you can take an income now and that's part of the income.

So money in is just all of those transactions. A really simple way is, if you go onto your online banking site. Most people have direct deposits nowadays. So if you just go in, and on your online banking site, they have two columns. One is deposits, and one is withdrawals. If you pull up all your transactions for a month. Just at the bottom, it'll actually just even total it for you. So, it'll tell you all of the deposits that came in.

Tracy Theemes: I was going to say, when I was tracking about 10 or 15 years ago I had a rule. It's still a rule that I have, which is as long as it's black at the end of the month, that there's more coming in than out.

Kamal Basra: Right?

Tracy Theemes: I don't have to track. But, if I have two months in a row where it's red. Then I make myself go back, and track every single thing I'm spending. To make up such a big punishment because, I hate doing it so much, that I do all these special things, sometimes I put an expense into the next month. Knowing that, I'm still going to have to reconcile that month. But, it gives me at least another 29 days, to figure out how to get it all to go black again in that month. But, I give myself two months of staying on or off track, before I start employing some of the more disciplined measures.

Kamal Basra: Right, Just to explain to our listeners, when you talk about being in the red and the black. Red is, if you have a negative balance at the end of the month. Where you're spending more than how much is coming in. Being in the black, means that you're actually bringing money in that's higher than the money that's going out.

Tracy Theemes: Good explanation.

Kamal Basra: It's a really simple way to look at it.

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Tracy Theemes: So, that's money in which is positive cashflow. That's another synonym.

Kamal Basra: Well, money in, is always going to be positive. Absolutely Tracy, the point is that it's money that's being deposited to your bank account. Money out is how much you're spending, and it's spending on goods and services. So, it's things like basic groceries, it's food, it's shelter, it's your rent. It can be your mortgage payments, it could be other services that you choose to use. Your cell phone account, or your Spotify account, your car insurance. See, all of those expenses that we typically have, that's money out. So similarly to track it is, look at your monthly statements, at your bank statements. It'll show, if you're like most people, and you use debit cards a lot, it'll show all your transactions for the month. You'll get us a nice summary at the end of the month, and this is how much money went out.

So once you know that, the money in and money out. So it's just knowledge, it's not meant to create shame or guilt, as you've talked about. It's not about avoidance of, Oh my gosh is it going to be red, or black? Am I going to be positive, or negative this month? Because, that creates resistance and we don't want to do it.

Tracy Theemes: How long do you think, what do you tell people in terms of, how long they should track for?

Kamal Basra: I think you look at it for at least a quarter, so three months. Because, life happens and there are sporadic expenses that come up. You know, the brakes on the car need to be repaired. The refrigerator needs to be repaired or replaced. So these are sporadic things that I call, life, life happens. So if we can average it over three months, or even six months. It gives us a more, it smooths out those bumps, those blips of extraordinary expenses. It gives you a more realistic figure as to how much money is actually going out from your bank account, how much you're spending.

Tracy Theemes: I remember when I was first (this was before I became a financial advisor) I was first trying to get a handle on my cashflow, and learning about it. I was managing the family finances. I did it three months because the financial advisors all said do it for three months. Then at the end of three months. I went Oh, but that's not real. That was a weird three months. You know, I broke my tooth, and so I'm like, I'll do it another three months.

Kamal Basra: Not good.

Tracy Theemes: And at the end of that three months. I'd go, well that six months was really expensive because the kids broke you know, the upstairs bathroom. I had to get in a plumber and then I was like, okay I'll do it for a year. Then at the end of that year I'm like well, this year was exceptional. Because, I ended up tracking when I first started, I tracked for three straight years every dollar that came in and out.

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Well at that point you've got a psychological disturbance going on. Right?

Kamal Basra: And an overachiever.

Tracy Theemes: Right, so you might as well become a financial advisor.

Kamal Basra: Absolutely.

Tracy Theemes: But, I agree that when you actually take a look at what's going on, it brings up the question of discretionary and non-discretionary. Non-discretionary is the simple stuff, like rent or mortgage, you have to pay your medical. We have prescriptions that are essential. Heat, hot water is so nice in the morning with a shower, and you know how that feels. Then we have the things that we know are kind of like quasi wasteful, right? We don't need to go out four nights a week to eat out, it would probably be better to eat in. So then, we have completely discretionary. The trick is discerning. Because, I think there's some things that are really obvious, and there's some things that aren't. I think it's that middle ground of discernment, that I believe is operating in cashflow, for things to change because you can't change.

Most of us can't change our rent, we can't change what temperature the house has to be at. I mean it doesn't have to be at 74 or at 32 degrees. But, most of the time heat is heat, and that's the way it has to be. The middle ground is do we eat out two nights a week, or five nights a week? How important is organic produce, versus regular produce? We talked about lattes and the latte factor. If having a latte is the difference between you feeling your life is hell, versus it's something that you can live with. Get the latte, spend the five dollars.

So, I think it's the middle ground where the opportunity is, and the tension. There is a creative tension between discretionary, and non-discretionary.

Kamal Basra: I would say, the word I would use is, choice. Is that when you do this tracking for a month, or three months. You look at your money in, and money out you look at the numbers behind the cashflow. What it does is, it just gives you awareness, it gives you information. I love data, you know that. So it just, it's not right, it's not wrong, it's not good. There's no judgment attached to it. Once you have that information, then it allows you to start looking at, okay, this is interesting. This is two months in a row that you know, I've spent \$200 on clothes. You wonder why I can do that. Oh that's right I needed that.

Tracy Theemes: Why are you spending so little?

Kamal Basra: Or that.

Tracy Theemes: I've seen your closet!

Kamal Basra: Yeah. Or it was because it was a business week and we were at a conference.

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Tracy Theemes: Right, right.

Kamal Basra: So that's okay, but it allows us that information. So, we can start having those thoughts, and we can do it from a place of compassion, as we talked about in our last podcast, but not one of judgment. Not of oh my gosh, I did this, and I shouldn't be doing that. As soon as, if we get those emotions away, and we just use that information. It's really powerful, and that's where I get excited.

Tracy Theemes: You do. So I'd like to also talk about, the objectives of cashflow. Which, can vary on the basis of where you are on your financial journey. There is tracking from the past, which is like a forensic accounting, an audit. In which case you employ Kamal's methods, and you decide that you want to see. How did I get into this situation I am now. In which case, we have actually asked people to go back three or six months, and actually pull from their actual behavior. Their credit card statements, and their debit. Their bank account statements and say without tracking, what have we done?

So on track, this is how life has looked for the last six months. Then, there's tracking in the present. Tracking in the present is actually I think, as much a mindfulness exercise as it is anything else. Which is, I'm now slowing things down, and becoming awake and aware.

Kamal Basra: That's where the power is, and that's where you start to feel powerful.

Tracy Theemes: That's also where tension is remember where power is, there's also tension, right? Because it's just like you're standing there at the Starbucks. You're like, should I get the latte? Do not buy the latte? If I add syrup in does that make me a bad woman? I don't know.

So there's the tracking, that's the present. That's where the opportunities are, and where some of the information that you might need to link your emotions on, link your situational spending. Then there's pro forma cashflow, which is the old fashioned way of saying doing a budget. Which is saying, okay, given what my pattern has been up to now, I've seen over six or 12 months, this is what it is. What do I project for the future? How are things going to look for my family between now, and the end of the year? So we project out, and that is very powerful as well. So it's not telling you, what you're going to do. It's saying, if things continue the way they have been, this is how things will look. It gives me a chance to slow everything down, for my future self as well. So I take a look and I go, well crap, I'm under by \$400 every month. So I'm not just going to be \$10,000 in debt. I'm going to be \$14,800 in debt, if I continue this way. That's a very important piece of information, and that gives me a chance to change this. Which is where we get into some of the choices.

Kamal Basra: Absolutely.

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Tracy Theemes: Which is like making all these choices, that I've made before, and you were talking about spending \$200 on clothes. You know, maybe if we pull that down to \$50. Maybe if we just pull the organic produce down to, the things that we've identified as the top four for our family. You know, we start making some of those choices.

Kamal Basra: It comes back to a case of then what do we do with that information?

Tracy Theemes: Right.

Kamal Basra: There's basically three scenarios that can play out. When you do you're tracking your money in, money out. Number one, you're spending more than what you're bringing in. So your money out, is greater than your money in. So you've got a deficit, plain and simple. There's not enough cash to cover your expenses. That's the scenario you just described with the, going into debt every month because you're \$400 short. The second scenario that could happen, is that you're exactly equal. So the money that's coming in is every month it's going out. So everything is getting covered, everything is fine, and that's fine for now. But, where that doesn't work for, is in the future. Because, what you want to do, and the whole reasoning behind looking at your cashflow, is what we talked about as net worth, which is another way of tracking our financial progress. In order to increase our net worth, and our net worth is just our assets minus or liabilities.

Tracy Theemes: What's an asset.

Kamal Basra: An asset is...

Tracy Theemes: Your perky smile.

Kamal Basra: No, and it's not your shoes and your purses and your toys.

Tracy Theemes: You know people actually have said to me.

Kamal Basra: It's not your line of credit.

Tracy Theemes: No, they've tried to put their shoes in the asset column of their net worth.

Kamal Basra: Even your car is another one that people do, and it's, it's something that can be converted to cash, very liquid. It's something that's not going to drop in value. It's not a depreciating thing like a car, or shoes, or something that you spend and loses value over time. It's, it would be your home, it would be your investment account, it would be your savings account. Those are the typical, it'd be your business if you own a business.

Tracy Theemes: Right.

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Kamal Basra: Business asset, would be another one. So if we, if our money in, and money out is equal, then that's fine. But we're not making progress. Our net worth stays the same because we don't have any additional money to add to our savings. Or our investments, or into shelter, or into the house, or into real estate.

So the third scenario or possible outcome from looking at your cashflow, is that you've got a surplus, which is what you referred to as in the black. Which is you have more money at the end of the month. Still, in your bank account after all the spending, and all the expenses have been done. That's the next step in terms of financial progress. Where you want to be making sure that you're moving ahead. That you're building your financial security, and that you're building your financial future. That has to do with the future. So we tracked it from past, present, to future. With the surplus, then it gets even more exciting. Because, then we can start talking about investing. Or again, we have more choices and options I guess.

Tracy Theemes: So with net worth, we talked last time, that net worth is basically a snapshot of every decision that you've made about cashflow. That's what your net worth adds up to. When the net worth is negative. People come in, and they are very stressed out about this. But I've told them, and I believe that there are three scenarios, where your net worth being negative is positive. Those three situations are, when you're investing in education that has a return on it. So I consider your basic first degree (living close to the, our work here is very close to a couple of universities). So we have to make, help people make some of these choices. Your first degree where you're, you know, between 19 and 25 or whenever it is. Is basically creating a cognitive base, a foundation for whatever career choices or path that you're going to be on. So that's fine, but I have an opinion that further degrees after your base, you have to do a return on investment.

So if it's going to cost you \$150,000 to get that degree, and there's only two jobs in Canada and they both pay \$20,000 a year... I had somebody who was becoming a piano architecture specialist, and there were two jobs in the world. She was already in a \$140,000 into her PhD. I was like, there's no ROI on this. It's just some expensive hobby. Because to me the discernment by additional degrees, is can you support that investment in education? With some type of growth of the investment.

Kamal Basra: Mmhmm.

Tracy Theemes: But if you can, then having a negative net worth while you're doing that is perfectly acceptable. To me, that's the business of me.

Kamal Basra: Exactly, it's what you're doing is, you're investing in your future career prospects. That's the piece is if it's measurable, and having that degree is going to boost your salary by 20%, 40%, 50% absolutely. Take that debt, take the student loan, and complete that degree, and do it.

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Tracy Theemes: In fact, I think it's the best investment you can make because you're in charge of it.

Kamal Basra: Absolutely.

Tracy Theemes: A lot of what we're talking about is taking power. Well, I take power, if I can find a way to exchange my gifts, my talent, my intelligence, and my education. For remuneration that leads to positive cashflow, and ultimately a positive network that's, that's a good exchange.

Kamal Basra: It's a short term investment. It's four years of being in debt, and it's a lifetime of returns. So there's, you're not going to get any argument from me on that one.

Tracy Theemes: Good, that's good Kamal.

Kamal Basra: Now, what that other one you use as an example?

Tracy Theemes: Business?

Kamal Basra: Yep.

Tracy Theemes: So there's the business of me, which is education. But there's also a business. But again, I have caveats because I'm old and cranky now. The caveat to investing in a business is, I think you have to have a business plan. I don't care if it's one page, I don't care if it's a thousand pages. But you have to have demonstrated to yourself, and at least one other responsible person, that the investment that you're making in this company, or this idea actually has the potential to increase the money that you put in. So just willy-nilly throwing money into courses and online presentations, and this it's not. If you're going to go into debt, and it's going to create a negative net worth, for you, and or your family, I want again, an ROI on that business, and I want to see it demonstrated through a business plan. It doesn't mean you will make money, but at least every intention has been set. Every possible thing that you could do has been done.

Kamal Basra: Again, ROI is return on investments.

Tracy Theemes: Right.

Kamal Basra: So it is having a framework and just, it has to be concrete. It can't just be an idea, has to be concrete has to have numbers attached to it. Here's my expenses, here's my expected revenue, here's my profits at the end of the day, it's got to be concrete.

Tracy Theemes: Yes.

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Kamal Basra: The third one is the mortgage.

Tracy Theemes: Yeah.

Kamal Basra: You know where it's shelter. Again, you're investing now. You're putting capital in now, and you're taking on. In Vancouver, it's a large amount of debt to get into any sort of housing. But it's going to last you for your lifetime. It's not a short term, it's not a short term investment.

Tracy Theemes: Right, and in all of these things, as we wrap up. The whole, the similarity of all of these three examples of when a negative net worth is worthwhile, is that it has been a slow decision, versus when you have a negative cashflow, which tends to be more impulsive, in the moment, and reactive. So if you have a negative net worth that is done through thoughtfulness, and planning, and rational collection of data, then that's the time when you can have, when I think it's acceptable.

Absolutely.

Kamal Basra:

So the other thing as we wrap up, we don't have specific apps. Or to recommend, it's different depending on what country you're in, and what your needs are. But certainly just a quick, last time I looked, there were hundreds and hundreds of apps. Each one seemed to have different, and when I tried them out, and when I've heard from people, it's very idiosyncratic. It's just like where are you going to get your playlists from.

But, the two things we think will also work as a simple Excel spreadsheet. Which if you go into the Sophia Wealth Academy website, you can download. We have the Sophia net worth sheet, and the cashflow sheet, and you can do it by hand. I've had people come in, there's nothing wrong with just scrots. Putting things on a tiny little notebook in the back pocket. That you spend \$30 here and \$29 here. Or envelopes with receipts in them, that you'd go or take photos of at the end of the month.

Kamal Basra: So you're not creating more complexity?

Tracy Theemes: No.

Kamal Basra: It's about simplification.

Tracy Theemes: Simple. Simplification.

Yes, yeah. Being nice to yourself, that's our goal right here.

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Kamal Basra: Well, thank you for joining us today on this podcast and we look forward to talking to you soon.

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