

Getting organized is the first step

Do I have enough to retire when I want to? How much can I spend on a second home? How much can I afford to help support a family member?

Our clients ask these types of questions all the time. The answer can be simple, or difficult, depending on how much information is readily at hand and how organized the person is with their financial situation. There are many factors that play into these important life and financial decisions and organizing this information is critical to your wealth advisor's ability to answer your unique question appropriately.

Just like any well-run business, well-organized individuals and families have a system in place to document and track their finances. Below are four ideas that you can implement to get started on organizing your financial life and taking the first steps towards answering your unique questions.

Create your personal balance sheet

Your balance sheet is a comprehensive listing of all of your assets and liabilities. The asset side of the balance sheet should contain a list of all property, bank accounts, investment accounts, and any other business or personal assets. The liability side of the balance sheet should include major financial responsibilities, such as a mortgage or loans.

The value in this exercise is that once you get organized and see all of your accounts laid out in a list, you'll most likely notice that you are dealing with six to ten different financial institutions — two banks for cash and savings accounts, two or more credit card providers, and multiple places for both personal and work investment accounts. There is likely significant overlap between these accounts that, if consolidated, could lead to lower fees and easier monitoring of these accounts. Think "simplify."

The two most common "aha moments" we hear are that when reviewing all of these assets and accounts, people have forgotten about a retirement plan at a previous employer or can't remember why they set up similar accounts at multiple institutions in the first place.

Create your personal cash flow statement

Your cash flow statement is a listing of all of your cash inflows and outflows. People are usually quick to identify their sources of current income; whether that be from their current employer, Social Security, or a pension or annuity payment. However, when pressed about the expense information, aside from the aforementioned mortgage or liability payments, many people aren't sure how much they spend each month on items such as food, entertainment, or clothing. Knowing the relationship between these inflows and outflows is the first step in being able to answer your unique questions.

The difference between "cash reserve" and "investable cash"

It is also important to distinguish between your "cash reserve" and "investable cash." A general rule of thumb is to keep three to six months' worth of expenses — not income — as a cash reserve, depending on your situation. That cash amount should be viewed as separate from any cash that is being held for any type of investment opportunity. This is also why it is important to know your monthly expense amount, as it helps define the required cash reserve.

The investable cash plays a distinct role compared to the cash reserve, in that it allows you to take advantage of a market opportunity. Or, similarly, might help you avoid having to sell a security at the mercy of the market to meet a cash need.

If leaving cash in your investment account doesn't fit your profile, consider putting together a short-term CD ladder, which can mature as frequently as monthly, so that you can have access to cash in your investment account on an ongoing basis.

Take care of yourself first

Another important aspect of getting organized is to always take care of yourself first. What this means is making sure you are putting money away for your own retirement through a company plan or IRA, and contributing the maximum you can afford, based on your plan. If you are over the age of 50, you can contribute more to these plans. The earlier you start saving, the more likely it is that you will achieve your retirement goals. However, it's never too late to start!

The money in these types of accounts should not be used for any reason other than retirement needs. Aside from the potential penalties of withdrawing money before it is allowed at retirement, you potentially sacrifice your retirement savings for other needs. Often, there are other available options to use first before using the money in a retirement account.

Do an annual financial review

When was the last time you sat down and did a full financial review? This involves much more than assessing how your financial accounts did over the last quarter. For example, a financial review can help you understand if your insurance and estate documents are up to date. Since you first established your insurance needs and estate documents, your asset levels may have increased, and may need to be updated. A number of things could lead to the need to update both sets of documents, such as acquiring real property or wanting to update beneficiary designations.

In conclusion

It's helpful to be organized as you consider the questions specific to your individual circumstance. Once the process is in place, these planning components should be regularly reviewed and updated as necessary. Getting organized will help you make the financial decisions that support your most important life decisions. Your Mesirow Wealth Advisor would welcome the opportunity to assist you with beginning the organization process.

Published February 2024

Mesirow does not provide legal or tax advice. Past performance is not indicative of future results. The views expressed above are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Mesirow associates. This is not a solicitation to buy or sell the securities mentioned. Do not use this information as the sole basis for investment decisions, it is not intended as advice designed to meet the particular needs of an individual investor. Information herein has been obtained from sources which Mesirow believes to be reliable, we do not guarantee its accuracy and such information may be incomplete and/or condensed. All opinions and estimates included herein are subject to change without notice. This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing or using any of the information. If you receive this communication in error, please contact the sender immediately and destroy the material in its entirety, whether electronic or hard copy. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2024, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial Investment Management, Inc.'s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.