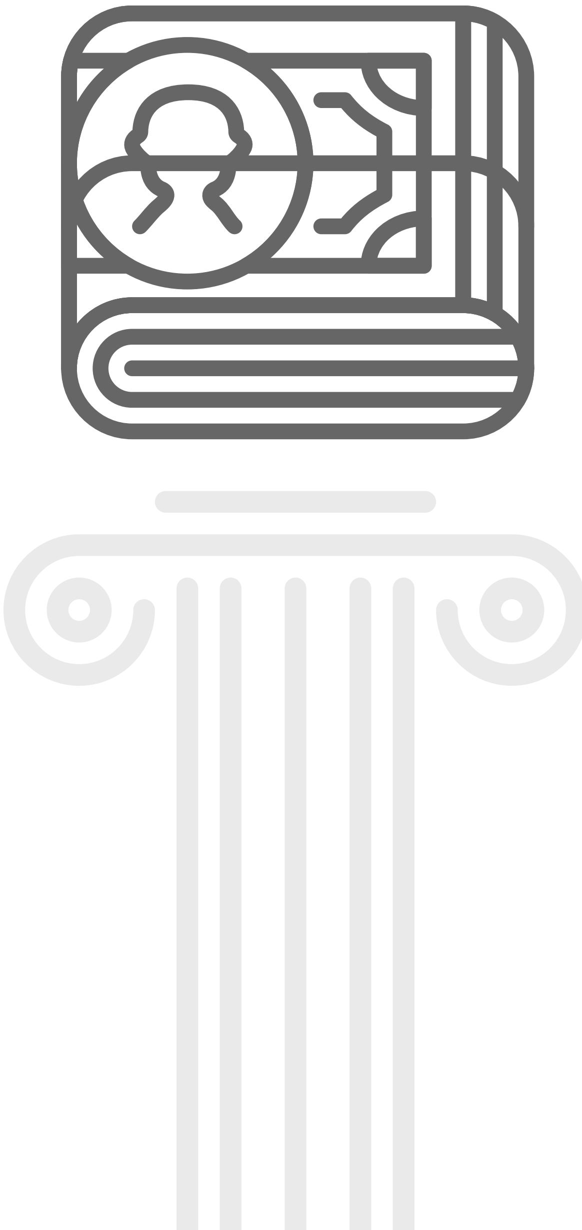
COLD. HARD. Cash

SCHULZ WEALTH



Hands down, cold, hard cash is your most important asset.

If there were an official pyramid of assets, cash would be its solid foundation. Without cash, there's nothing to hold up and protect all of your investments. If you don't maintain adequate cash reserves, you're going to feel the pain at some point.

I certainly did.

My early lesson in cash management

Fresh out of college and newly married, I accepted a Commission in the US Navy as a young ensign in 1990. My wife, Shelly, and I just had our first child, Gretchen. Gretchen was just a couple of months old when my ship conducted a homeport change from Norfolk, Virginia to Charleston, South Carolina.

In standard Navy fashion, the sudden homeport change became the highest priority, despite all the logistics associated with moving our family. So, instead of weighing anchor and just moving the ship down the coastline, we stayed at sea for six weeks — while our families had to move on their own.

The move was brutally hard on Shelly — all alone, with an infant. To make matters worse, we didn’t get a single paycheck for those six weeks. There was a glitch in my payroll that only I could resolve, but I was at sea. This being 1990, well before email and cell phones, I wasn’t accessible to turn the payroll back on.

Shelly faced the impossible task of getting herself and our daughter into a new home on whatever cash was available in the bank account.

And that balance was low to begin with.

Unbeknownst to me, my wife and my new baby slept in a sleeping bag on the floor for most of that six-week period. No furniture. No utilities. Shelly had just enough money to buy baby formula and peanut butter. What a nightmare!

That’s the moment when Shelly and I made our decision. We would build up and maintain at least 12 weeks’ worth of cash reserves at all times. No excuses!

Sage advice from an industry veteran

A few years later, I remember driving to an early-morning event with my mentor, Noel Blaas. We were in his brand-new Land Rover. I, a young, green newbie, had just spilled an entire cup of Whataburger coffee all over myself … and his leather seats. Noel just laughed it off in his good-natured fashion.

Noel was on top of his game. A successful career life insurance agent, he was well known throughout the country for his consistent high-level production. Noel had already raised and educated his kids and was on the verge of retirement.

I, on the other hand, had just completed my second year in the industry selling long-term financial products. While I still had a lot to learn, I had hit some of my own award-winning production numbers that year. My success was finally giving me an opportunity to plan for the future.

And so, I asked Noel for some advice.

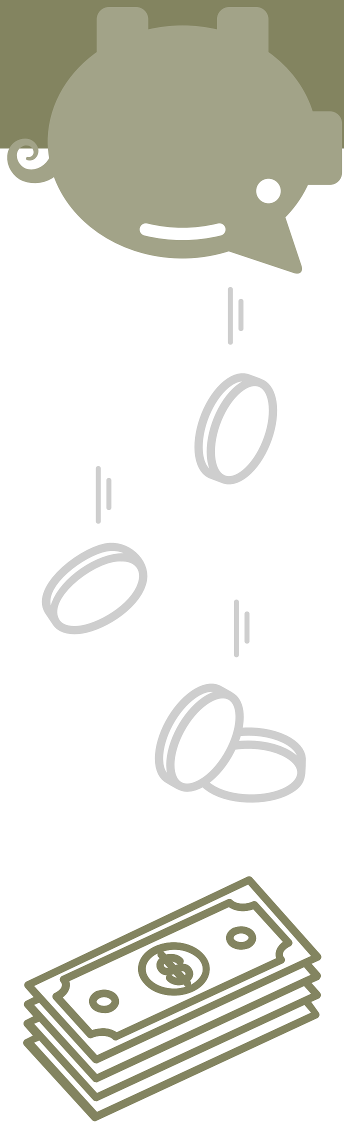
"Hey Noel, I'm saving a good amount this year toward my kids' college funds and retirement. Is there anything else you think I should be doing?"

Noel replied in his usual plain, direct way, "Cash. Cold, hard cash. Without cash, your other assets are just hanging in the wind. Get your cash in line first, then start building from there."

At the time, his response surprised me. It didn't fit with any of the sales training I had received. But fast-forward 25 years, and I still remember his answer word for word. And, more importantly, I now understand exactly what Noel was talking about!

CASH ON CUE

The magic of forced savings



At the time Noel issued his plain advice and chuckled at my coffee-stained pants, I had already benefited from a “cash first” approach to money management. But it wasn’t intentional, which is why I didn’t connect the dots. At the time, I saw it as a happy accident.

Here’s what had happened.

The Navy had given Shelly and me an opportunity to buy Series EE bonds while I was on active duty. Series EE bonds are cash equivalents (in other words, they are very similar to cash). We decided to have a very small amount deducted from each of my very small paychecks to go toward the bonds. After we checked the box, we hardly noticed the deductions.

The bonds were physically held by the Navy for our benefit. We never saw the bonds or even knew how to access them. In other words, we pretty much forgot they were there.

By 1994, I had resigned my commission from the Navy, and Shelly and I started a new life and career in Mansfield, TX. At that time, we decided to build a house for our growing family. We were trying just to come up with the down payment, when …

Almost on cue, I received a big, thick package in the mail from The Bureau of Naval Personnel (BUPERS) in Cleveland, Ohio.

I opened the package to find the Series EE bonds that had accumulated over my four years in the Navy. Again, I had no idea they were coming. But there in the mailbox was my opportunity, at a very young age, to buy a house and put 20% towards the down payment. This would have never happened without the cash available from years of regular, automatic deductions that we didn’t notice or appreciate at the time.

So yes, I agree with my mentor, Noel. You should start a forced-savings plan for cash first, then build from there. Cash allows you to take advantage of opportunities when the time is right. It also helps you take care of yourself and your family when unexpected things happen.

Which brings us to the next question.

If cash reserves are so important, how much cash should I have?

Doing the cash math—the Goldilocks way

When it comes to how much cash you need in reserve, the answer is, “It depends.”

I know that sounds like a non-answer. I wish there was a general rule that applied to everyone, but there isn’t. The truth is that you have your own life experiences, risks, and opportunities. All of those factors will drive your unique cash needs.

So, you must use your instincts and experiences and do your own math. It seems like an unusual place to start, but personal experiences with money are powerful. Remember mine — Shelly and the baby, sleeping on the floor?

Ready to do the math? Here’s a helpful illustration I like to use.

Visualize a clear bucket, filled with water, with two marks on the outside of the bucket. One mark is called the “high-water mark,” and the other is the “low-water mark.”

Begin by asking yourself, “How much cash is too much?”

For instance, if you feel that anything above $50K would be better allocated toward long-term goals, then consider $50K as your high-water mark. When cash starts to exceed this amount, you siphon it off into another bucket, like your kid’s college fund or your retirement.

Now, ask yourself, “How much cash is not enough?”

This answer is deeply personal. Some of it is a simple multiple of your budget (for example, 3 months’ worth of normal household expenses). By all means, start there if you like.

But a lot of it is about your intuitive comfort level, too. For example, if the idea of having less than $20K in reserves makes you uncomfortable, then call $20K your low-water mark. When your cash level gets below that mark, you can actively look for ways to save more money and fill your bucket back up.

Sounds simple, right? All we have to do is manage our cash between the high-water and low-water marks — and we’re good to go.

The truth, however, is that for most of us, “simple” doesn’t mean “easy”. Other priorities clamour for attention. What’s “easy” is to spend any extra cash you have to fulfill your drive for instant gratification.

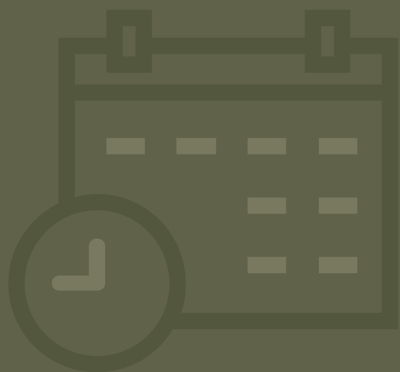
So, you must develop your personal toolbox for keeping yourself focused on your true financial priorities. Here are a few tricks that have been effective for me and my clients.

HIGH WATER

LOW WATER

YOUR TOOLBOX

To become the boss of your cash



TRICK 1

Automate your savings

Alan, one of my best friends who also happens to be a client, said this to me in a meeting years ago. “Anything in the checking account, I consider it gone.”

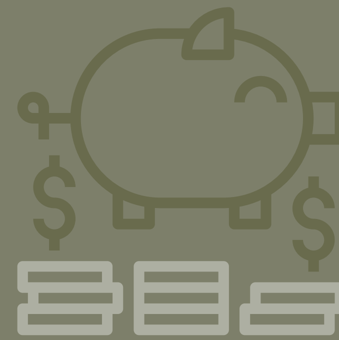
I think most seasoned savers would agree with Alan’s statement. But, I also know so many people whose only strategy is to try and save money inside their checking accounts. Spoiler alert: that doesn’t work.

Remember those Series EE bonds I purchased in the Navy? That way of saving worked for Shelly and me — precisely because we didn’t have to think about it. We made one decision, and it stuck for four years.

I can assure you that had the Navy asked me, at each pay period, if we were OK with a $25 deduction, we would have opted out. There were too many expenses, needs, and wants that went unmet. More often than not, we would have chosen something concrete (an extra meal out for us, a new toy for our daughter, etc.) as opposed to a theoretical bond that we’ve never even held in our hands.

Turns out, putting savings on autopilot and taking them off our minds was the best thing we could have done.

These days, just about everyone has the ability to split their paycheck and have a portion sent directly to a savings account. If you’re not taking advantage of this, do it now. Don’t put it off. Make this decision once, and your future self will be grateful.



TRICK 2

Choose savings over paying down your debt

In the personal financial world, there are net spenders and net savers. Net spenders pay interest. Net savers earn interest.

Net spenders can never seem to catch a break. A car needs tires, a large medical expense pops up out of nowhere, the air conditioner dies on the hottest day of the year … and the net spender falls behind even more. Net spenders are usually oblivious to the real reason for their financial woes. They think their circumstances are to blame — and don’t see their unhelpful financial habits as the true culprit.

Don’t get me wrong, net savers experience many of the same hardships. However, they are able to take care of life’s expensive curveballs from their cash savings. Their habit of building cash reserves is the foundation of their financial stability.

Are you out of luck if you are a net spender?

No. But you must understand that the inertia of your financial habits is going to be very hard to overcome. Building new habits can take a while, so don’t expect a complete turnaround and a miracle overnight.

Still, the first step is to start building up your cash reserves. Everyone has unexpected expenses in their near future. There are also some big upcoming expenses that would be wise to plan for. You may need new tires, shoulder surgery, or an upgraded version of the backyard grill to replace the one that broke last summer.

You may be tempted to pay down your debt first, but that strategy can backfire. If you don’t have cash reserves, an unexpected bill will throw you off-course and force you even deeper into debt. Don’t feed the debt cycle. Build your cash reserves.

And remember — if you set up an automatic deposit or transfer to your savings account, you are much more likely to spend less than you bring in. Life will still happen, but financial success always comes down to whether you spend more than you make — or make more than you spend.

TRICK 3

Skip overdraft protection

It's important to make sure that your accounts are set up on your terms — not the industry's terms.

Banks are not giving you the opportunity to save out of altruism. They are businesses, and they are doing this for profit. When you opened that savings account, guess what? They probably signed you up for automatic overdraft protection.

Overdraft protection sounds great, but all it does is turn your savings account into an extension of your checking account. You lose the separation that you've built in — and you might be paying extra fees for it! You also risk becoming overly dependent on automatic overdraft protection, which ultimately sabotages your savings plans.

I say, reject automatic overdraft protection. Then make darn sure you don't spend more than what's in your checking account. This is the only way to stay in the driver's seat.

TRICK 4

Make your savings harder to access

If you set up your savings account at the same bank as your checking account, the two accounts will be linked together. That setup allows you to transfer money any time you want to, anywhere in the world.

On-demand 24/7 access to banking sounds great, doesn't it? And some people can handle this level of accessibility. But many can't. Know thyself and get honest.

True confession: I can't handle this level of accessibility.

This doesn't make me a financially incompetent person. It simply means that I like all sorts of cool gadgets and fun equipment for my hobbies. And when it comes to savings, I know that I need to protect the account from myself.

My best idea is to create a boundary between me and my cash reserves. And you can try it, too.

If your savings account is at the same bank as the checking account, opt out of online account access and refuse the ever-convenient app. That way, you have to physically go into the bank branch to get your money.

Better yet, put your savings in another bank. Years ago, when I was still learning about cash management habits, I opened a savings account at the sleepiest, most low-tech credit union in town. I had zero access to my savings — except at the teller window during banking hours. It was inconvenient, out-of-the-way, and restrictive — in other words, it was exactly what I needed. And it worked!

So, give yourself a break from daily self-denial when it comes to impulse purchases. Set your savings aside in a hard-to-access account, and the system will finally work in your favor.

Get your cash to work for you — not the other way around!

1. **Remember your mantra** "Cold, hard cash first."

2. **Want to pay off debt?** Build up your cash reserves first.

3. **Want to invest?** First, make sure you have good cash reserves.

4. **If you need to, make your cash harder to access** to protect it from being spent.

5. **Don't get fancy.** Your cash has to be there when you need it. You probably won't be able to make much interest on it, and that's okay. This isn't your "invest and watch it grow" money. This is your "create a safety net so that other accounts can be invested" money.

I would love to connect with you, hear your thoughts, and know what you've learned from reading this. Please take a moment to sound off in the "Thoughts on Things Financial" group. Your feedback is important to me. It will also help me create more helpful content to help you take control of your finances.

To access the group, click here

Take care,

Rob