**Cash-Flow Analysis Conundrums**

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I just finished an interesting call with an astute financial planner—Bryan Sarff, president of True Private Wealth Management in the Kansas City area—who was lamenting the shortcomings of goal-based approaches to financial planning. Bryan said to me: "When we deal with clients on a goals-based approach without conducting extensive cash-flow analysis, we miss way too much of the real picture. I prefer to approach clients first and foremost on a cash-flow basis before we ever bring goals into the conversation." I think he's absolutely correct. But, Houston, we have a problem.

For the past few years, I've surveyed all the advisors and planners in my audiences (20,000 to 30,000 a year) and have asked each audience, "How many of you are conducting cash-flow analysis with your clients?" Can you guess the average response? How about less than 5%? To which I say, "If the boat is sinking, it just might have a leak."

When I asked advisors why they didn't pursue this practice more, I was met with two common answers:

1. Clients really don't want to know what they're spending. They are living in ignorance—and for the time being, ignorance is bliss.

2. When I did provide cash-flow analysis, it was garbage in, garbage out. Because clients wouldn't bring accurate information, the exercise was futile.

Consequently, many advisors have given up on the effort. This is a major mistake if you truly want to help your clients make progress. There is no progress without first benchmarking where a client is right now.

I spend a lot of time in the winter as a shot tutor for basketball players, and when I begin working with somebody, I'll ask, "What is your free throw percentage right now?" They'll usually say, "Around 70% or so." I'll throw them the ball and say, "Here, I'll rebound the next 100 and we'll know for sure." Why? Because we can't measure progress until we know where you are. And we can't build confidence upon a false premise.

And it's not just financial status that cash-flow analysis exposes. The analysis also reveals a client's regimen and habits—the forces that either create wealth or impede its creation. As an advisor, you need to know as much as possible what a client's habits are. In fact, what you learn may change your mind about whether you really want an individual for a client.

When you talk to a doctor who is trying to improve your health, he or she does not cut the conversation short after finding out your current status. The good MDs will inquire into your health regimen and health habits. They ask questions about how much you work out, eat, drink, smoke, etc. While many patients lie when answering these questions, doctors don’t stop asking—they just try to get a sense for who is telling the truth. Here is a short list of the regimens and habits you’ll want to be privy to:

- Automated savings—How much hands-free saving is going on among your clients? The more, the better. What aspects of clients’ savings and investment program have been automated?

- Monthly spending—This is where you might meet the greatest resistance. Some practitioners ask for a general “guesstimate” and then follow up with, “Would you like me to do some homework and tell you how close you are to your guesstimate?”

- Large purchases—How often do you make large purchases? Can you give me an example of your last two or three, and how you decided upon those purchases?

- Travel and entertainment—What would you guess you spend a year on travel and entertainment? Do you have a second home, time share or regular vacation habit and budget?

- Giving habits—Are there any charities that you support yearly or monthly? What do you estimate your annual giving to be? Do you have any charitable aspirations that you’re aiming toward?

Sometimes clients benefit most from the conversation they want to have the least. As Bryan reminded me, “From my experience, if someone is a spender before they retire, that doesn’t magically change after they retire. To get a picture of detailed cash flow, I recommend that my clients use the Mint app to track and visualize their spending.”

This particular scenario looms large upon our cultural horizon with 70,000 boomers reaching 65 years each week. These boomers are going to carry their regimens and habits with them across that age marker—but with a static income working against their goals, given their habits. Something will have to give, and the first place to look is at spending patterns and habits.

For those planners who would like a more subtle approach for illustrating the impact of spending before actually conducting detailed cash-flow analysis, I’ve devised a non-confrontational method that requires nothing more than a tax return to produce an illustration. This approach is designed to show clients what they’re spending without asking them to disclose what they’re spending.

I call this method, “Owe-Grow-Live-Give” because there are only four things you can do with your money. I will introduce this concept in my next column. In the meantime, try broadening the cash-flow conversation with clients by sharing the following: “Something we’ve learned in our many years of financial advice is that a client’s habits are more important than a client’s assets. It is those habits that either create or erode wealth. If you don’t mind, I’d like to ask you a few questions about your regimens and money habits.”

If your clients have formed good habits, they’ll have you to reinforce their disciplines. They might squirm a bit … but they’ll be better off for knowing. You can’t make progress until you know the place they’re starting from.

*Mitch Anthony is the author of The New Retirementality (Wiley), now in its fourth edition.*