

# **Lesson Six: Increase your Cash Flow**

## **Objectives**

- Create 10% Free Cash Flow in your budget
- Right-size your current spending

## **Assignments**

1. Read
  - Chapter 5, *Save Your Way to Wealth*
2. Complete the activities
3. Find and extra \$300 per month in the four biggest spending buckets



# 6

## Increase your Cash Flow

### *Phase 2 – Increase Your Monthly Free Cash Flow*

When Ross teaches people how to analyze investments in the stock market, one of the things he talks about is looking at the free cash flow of the company. Free cash flow is one of the key drivers of business growth and it's going to be one of the key drivers in your personal quest for a debt-free and wealthy life.

Cash flow is a term used to describe all the income we generate. Free cash flow is what portion of that income is left over after we pay our basic monthly obligations



### **Activity 6.1: What is Cash Flow?**

- Define free cash flow:

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- How much free cash flow do you currently have available?

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If you merely keep making minimum payments on all your consumer debt, it will most likely take many years to pay off the debt and

mounting interest. Remember the examples in *Understanding How Interest Multiplies Your Debt Obligation*.

The goal of this phase of is to create some additional cash flow from your current income to add to your minimum payments and eliminate your consumer debts more quickly.

**Your monthly take home pay, divided by 10 = Your Cash Flow Goal**

Goal: 10% Free Cash Flow Your Personal Goal: \_\_\_\_\_



***Key Point***

You should begin this phase immediately after you have an adequate emergency fund in place.

**Example—Jon and Terri**

Jon works full time and Terri works part-time. Together bring home \$5,000 per month in total income. They have decided to trim their monthly expenses in order to create \$500 in free cash flow from their current take home pay to put toward their debts. After some discussion, Jon and Terri also realized that if they took lunches to work several times a week instead of eating out, they could save a minimum of another \$150. That's a total of \$650 monthly to apply to their free cash flow bucket.



***Activity 6.2: Methods to Create Additional Cash Flow***

In his book, Ross lists two primary methods to free up cash flow. List the two primary methods:

1. \_\_\_\_\_
2. \_\_\_\_\_



### **Activity 6.3: Increasing Your Personal Cash Flow**

Using the ideas to increase your monthly free cash flow from the previous activity, list some strategies to reach your goal of additional income.

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_
3. \_\_\_\_\_  
\_\_\_\_\_
4. \_\_\_\_\_  
\_\_\_\_\_
5. \_\_\_\_\_  
\_\_\_\_\_

### **Cutting Your Expenses**

Now let's turn our attention to cutting your expenses. You've probably heard many, many times that you need a budget if you want to control your money and your spending. Everyone talks about a budget, but few people really take it serious and create one. Of the few that actually do create a budget, not many actually use it to help them get the upper hand on their money problems. A budget is a powerful tool if it's created and used properly. A good budget is like a treasure map that leads to financial freedom.



### **Activity 6.4: Your Individual Expenditures**

#### **Part One:**

Refer back to the Financial Inventory you performed in Step 2, and list all your current monthly payments and expenditures in the form below. List each one individually rather than grouping them into categories—credit card accounts, utility bills, insurance policy, etc., should all be listed separately.

| <b>Monthly Expenses</b> |                 |             |                 |                    |
|-------------------------|-----------------|-------------|-----------------|--------------------|
| Item                    | Current Payment | New Payment | Monthly Savings | Cumulative Savings |
|                         |                 |             |                 |                    |
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**Part Two:**

Now, go through this list one line at a time and identify the areas where you can free up some cash flow from your current expenses. Every time you find an area you can lower, put the new lower payment in the next column and calculate the savings in the next column. *(Do this with a pencil so you can easily make changes.)*



The final column is where you keep a running total of your monthly cash flow savings. Keep in mind you are shooting for a goal of 10% of your current take home pay in free cash flow.



### ***Activity 6.5: 25 Ideas to Cut Your Expenses***

Here's a brief list of 25 ideas to help cut your expenses and create free cash flow in your budget. For more complete details, refer to Ross's expanded list in *60 Day Money Miracle*.

Place a checkmark by the expenses you can cut to increase cash flow.

- Temporarily suspend all retirement contributions.
- Call your credit card company - ask for a lower rate or payment.
- Cancel your cable, dish or satellite TV service.
- Avoid the car wash. Do it yourself!
- Limit dry cleaning—launder your own clothing if possible.
- Stop eating out for lunch and dinners.
- Take a break from golf or other expensive recreational activities.
- Mow your own lawn and enlist your children to pull weeds.
- Adjust the deductibles on your insurance policies.
- Drop the collision and comprehensive coverage on your automobile insurance policy and keep just the required liability coverage if do-able.
- Consolidate your insurance policies with one company. Most insurance companies will give big discounts when you have both your home and auto insurance with them.
- Check out books from the library rather than buying them from the bookstore.



- Cancel gym membership or other annual subscriptions or
- memberships. Try a “stay-cation” this year instead of a vacation.
- Stop making expensive salon visits.

- Buy generic drugs.
- Pay your bills on time—avoid late fees and over-limit fees.
- Buy store brands rather than the national brands at the grocery store. Reduce your child-care expense.
- Ride a bike to work if feasible.
- Car-pool or ride public transportation.
- Use Skype for long distance calls to friends.
- Stop smoking—you'll save money and it's more healthy.
- Adjust your thermostat—both winter and summer.
- Cancel all optional phone services on your cell phone and land line.
  
- \_\_\_\_\_
- \_\_\_\_\_

The list could go on, but you get the idea. You can easily find the extra money in your budget if you change a few things and make some sacrifices. You need to free up 10% of your take home pay as quickly as possible to add to your current debt payments to start the rapid debt elimination strategy you'll learn in the next step



**Activity 6.6: Finding Extra Money**

List five to ten sacrifices you will begin making today to find extra money in your budget.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_

### ***Phase 3 - Build Your Retirement Nest Egg***

Once you have all your debts paid off, the free cash flow that you now have can be used to build up an impressive nest egg that you can invest for retirement and use to enhance your lifestyle.

### **Summary**

To summarize, in the first 30 days you need to put aside in a safe liquid place, like a bank savings account, an emergency fund equal to one month's take home pay. After you have all your consumer debts paid off, you'll want to increase that to 3-6 months of your take home pay. Emergencies happen and when they do, you'll be prepared to deal with them without increasing your debts.

You will also need to increase your monthly free cash flow to 10% or more of your current take home pay. This money will be used to accelerate the payment of your debts.

### **Notes**

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