

## Are you a good money manager?



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By: Lama Farran

Have you ever wondered if you are a good money manager? One way to find out is to ask yourself if you would hire someone exactly like you to take care of your personal money and make your financial decisions. If the answer is a loud No, then you just confirmed to yourself that you have some work to do.

Let me tell you what it takes to be a good money manager. As a money coach, I use certain criteria to evaluate people's money management skills and to understand how well they are managing financially. The following is a non-exhaustive list of what it takes to acquire such a skill:

- You have **specific financial goals** which you are working towards. You defined these goals and you know where you are heading, rather than taking it day by day and hoping you will somehow get there
- You know your **net worth** (in \$ terms), which implies that you know the total value of what you own and the total value of what you owe. The difference between these two numbers represents your net worth. This number is crucial to help you measure your financial progress year over year
- You keep track of your **cash inflows** and **cash outflows** and you have a clear idea where your money is being spent. As Roger Babson says *"More people should learn to tell their dollars where to go, instead of asking them where they went"*
- You live **within your means** and you know if you can afford a certain purchase or not. This entails that you also know how to differentiate between debt for consumption purposes ("bad debt") and debt to acquire assets which tend to appreciate in value, such as real estate or RRSPs ("good debt")
- You know how much your existing debt is costing you (interest rate %, fixed/variable) and you know your loan conditions (open/closed, prepayment options,...)

- You have an **established emergency fund** or you are in the process of saving towards one. An emergency fund should cover at least 3 months of your usual monthly expenses
- You know how your **investment portfolio** is performing and you visit your financial planner at least once a year for a review
- You have evaluated your **insurance needs** with the help of a professional financial planner and have bought the required life insurance, disability insurance and critical illness insurance.
- You have up-to-date **legal documentations**, such as a will, a mandate in case of incapacity and power of attorney (if required)

Lacking good financial competencies does not mean you are forever doomed. Money management is a skill like any other skill. You are not just born with it. Luckily, it's a skill that can be learned and improved upon, if you are willing and ready to invest the time and energy. Your first step would be to identify the areas that need your immediate attention and have an action plan to tackle them. For example, if you don't know your net worth, sit down and try to compile your list of assets and debts. If you haven't seen your financial planner in years, schedule an appointment for a review. If you don't have a will, make that call to the notary.

This is not about you becoming a financial guru tomorrow. It is about taking baby steps towards your financial well-being. It surely takes commitment and discipline, but the rewards are worthwhile. Financial peace of mind will greatly contribute to your overall well-being. As Confucius wisely said "*it does not matter how slow you go, so long as you do not stop*".

*Lama Farran is a personal finance coach, affiliated with the holistic clinic Psy-santé (<http://www.psysante.com>). She is devoted to educating individuals /families about money without selling them any financial products. She helps her clients uncover their spending habits, set realistic and feasible budgets, and treat debt challenges at the root. She also coaches her clients on improving their money management skills. For more information, visit [www.maxworth.ca](http://www.maxworth.ca), on Facebook at <http://www.facebook.com/MaxWorthMTL> , or call Lama directly at (514) 717-1976*

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