

Manage Your Cash, Manage Your Life

A simple guide to effective
cash flow management

CommSec
Adviser Services



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The Importance of Cash Flow Management

Everyone has life goals, such as owning a home, travelling, retiring early, or giving their family a great lifestyle. No matter what your goals are, you'll need money to help you reach them. That's why it's vital to manage your cash flow.

What is cash flow?

Cash flow is simply your incoming and outgoing money. Cash flow can be divided into:

Income	Salary, rent, dividends from shares, proceeds from the sale of assets
Expenses	Bills, taxes and fees
Assets	Cash, investments and property
Liabilities	Home loan, credit cards, personal loans or investment loans

To create positive cash flow you need to have more money coming in than going out. While that sounds obvious, when compared to other countries with similar economies, Australians have one of the highest levels of debt.

However, we are getting better. Since the Global Financial Crisis (GFC) Australians have tightened their belts and our savings to debt ratios have improved. That's good news – but we still have a way to go. While 'saving for a rainy day' is a top priority among us, we're not necessarily investing those savings well.

What's more, many of us are not well prepared for retirement. According to the *Australian Bureau of Statistics – Survey of Income and Housing*, compiled for the Association of Superannuation of Funds of Australia (ASFA), the average account balance in 2009-10 was only \$71,600 for men and \$40,500 for women. For those at retirement, the average superannuation payout in 2009-10 was approximately \$198,000 for men and \$112,600 for women.

As Australia's population ages, having financial resources to support your lifestyle after you finish work will become even more important.

Get on top of your cash flow

Financial security is about having a source of income that meets, or exceeds, your cost of living. The best way to become financially secure is to manage your cash flow so it grows.

Many people think that by working more and earning more money, they will automatically increase their cash flow. But that's not necessarily true. For example, even though the average Australian's disposable income increased over the last decade, our net worth fell. In other words, the more we earned, the more we spent. So relying solely on earning a larger salary may not get you where you want to go.

Make your money work harder

Below is a list of investments that allow you to accumulate wealth over the long term:

The family home

The family home is the biggest source of wealth for most Australians. Owning your home can offer you a number of attractive financial advantages:

- ▶ Once your home is paid off, you can live mortgage and rent free
- ▶ Use the equity in your home to invest, which could potentially allow you to accumulate more wealth than simply investing your own money would
- ▶ Selling the family home and downsizing to a smaller home could potentially allow you to access some of your equity as cash.

Cash

Since the GFC, cash (in particular cash hubs and term deposits) has become more popular as investors seek more secure returns. You can earn interest on your cash using:

- ▶ Cash management accounts; and
- ▶ Term deposits.

Shares and managed funds

Approximately 43% of Australians own shares. Shares can help build your cash flow, either by paying you dividends or distributions, through managed funds.

You can buy and sell shares through:

- ▶ A stockbroker;
- ▶ A financial planner licensed to deal in, and advise on direct shares;
- ▶ An online trading service, such as CommSec; or
- ▶ A managed fund.

Superannuation

Superannuation builds wealth for your retirement. Both you and your employer can contribute to your superannuation. You can choose from a number of superannuation funds, including:

- ▶ Retail funds;
- ▶ Industry funds;
- ▶ Your company's super plan; and
- ▶ Self Managed Super Funds (SMSFs), also known as do-it-yourself funds.

Platforms

Platforms (also known as wraps and masterfunds) are a 'bundle' of investments that a financial adviser can put together for you. They are easy for your adviser to manage, can make taxation reporting simpler and can even allow you to buy shares at wholesale prices.

A wrap allows you to invest in:

- ▶ Cash;
- ▶ Term deposits;
- ▶ Direct shares; and
- ▶ Superannuation.

Sort out your spending

Regardless of how much you earn, the secret to wealth creation is to make the most of your money. This starts by looking at the way you spend it.

What kind of spender are you?

People tend to fall into one of three kinds of spenders.

1. LIVE IN THE MOMENT

With the 'live in the moment' spending model, your money comes in as salary, and goes out on expenses. People in this category don't have savings or investments, and rarely have long-term commitments such as a house.

This is a problem because:

- ▶ It doesn't leave any money for rainy days, forcing them to borrow money in an emergency;
- ▶ There's no wealth being accumulated to give them financial freedom; and
- ▶ There may even be little or no superannuation, which will affect their standard of living when they retire.

These kinds of spenders may be low-income earners, but even people on high wages can fall into this category.

2. KEEPING UP APPEARANCES

People who have this spending pattern cover all their expenses and use the rest of their income to buy high-end consumer goods such as cars, hi-tech goods and designer clothes.

While they may have many assets, the ones they are investing in depreciate (lose value) as soon as they leave the store. Some assets, such as a car, may also cost a lot of money in upkeep.

While having these kinds of possessions may provide them a lifestyle that looks enviable, in the long run it could leave them cash poor, especially if they reach retirement without accumulating any cash-producing assets.

3. CASH CREATORS

People who fall into this category use their income to pay their expenses, then invest some of their income into assets that appreciate in value and/or produce income, such as:

- ▶ A family home;
- ▶ Term deposits;
- ▶ Shares;
- ▶ Investment properties; and
- ▶ Managed funds.

Not only do they have the money to cover any unexpected expenses, but they will also be able to invest in more cash-creating assets. This is the secret to wealth accumulation.

Five steps to new habits

If you've got into unhealthy spending habits, don't despair. While changing them isn't always easy, it's certainly not impossible. The key is to develop healthy habits to replace the ones that aren't working for you.

Most of us learn our spending habits through our parents or other authority figures when we are growing up. It's likely we've even picked up their habits unconsciously. So to change your habits, get conscious about the ones that don't work and replace them with ones that do.

1. HAVE A VISION

Where do you want to be in one, five, 10 or even 20 years or more? Get a really good picture of it and write it down. Some of your goals might be to save for a house deposit, overseas holiday, to retire early or pay for your children's education.

Make sure your goals are specific, measurable, achievable, realistic and time-bound. When setting these goals, don't forget to consider your age, health, existing financial commitments and debts, as well as your likely income.

It's also a good idea to give yourself what athletes call stretch goals – targets that you can achieve but which push your performance a bit.

Finally, don't forget to review your goals regularly, especially whenever your circumstances change.

2. PAY YOURSELF FIRST

Set aside a fixed amount of money to cover your daily living expenses — and stick to it. If you have a central cash hub, you can transfer money into your transaction account to cover your living expenses and bills, leaving the rest of your money in a savings account where it can earn interest.

3. MONITOR YOUR CASH FLOW

You can keep track of your cash flow by using two simple tools:

1. An income statement – which helps you monitor what you earn and compare it to what you spend; and
2. A balance sheet to compare your assets (what you own) against your liabilities (what you owe).

Once you have this information, you can use it to help you make financial decisions around investment and expenditure, borrowing and cost-cutting.

4. WORK OUT YOUR COST-TO-INCOME RATIO

Use your income statement to work out the percentage of your income you spend on covering your living expenses, such as rent or mortgage repayments, bills, food, transport, clothing, entertainment and so on. This is known as your cost-to-income ratio.

For example, if you spend half of your income on meeting your expenses, you have a cost-to-income ratio of 50%.

Where you can, try to minimise your cost-to-income ratio so that you can pay off outstanding debt and save money.

5. STICK TO A BUDGET

To set up a budget, list all your expenses as accurately as you can so you can get a realistic picture of your financial position. It can help to ask your financial adviser if they have any tools you can use to help you set up your budget.

Avoid unhelpful debt

For most of us, debt is a fact of life. While not all debt is bad, there is some you should work hard to avoid.

Do you really need it?

Sometimes we can confuse our wants with our needs. While there are times when you genuinely need an item – your old car has died and you need your own transport for work, for example – ask yourself honestly if you can do without a new item. Maybe you can borrow it, buy it second-hand, or just do without for a short-time while you save for it.

If you find you do need the new item and you need to borrow money for it, shop around for the best deal and make sure you can afford to pay back the debt.

Be cautious with credit

Credit cards are a convenient way to pay for everyday expenses, without needing to carry too much cash around. As most cards come with interest-free periods, as long as you pay the full balance at the end of the month, you won't have to pay extra interest. Some credit cards also come with attractive bonuses such as frequent flyer points.

However, if your monthly payments don't cover the balance on your card, you could find yourself in debt fairly quickly. To avoid this, make sure you keep track of all your spending and pay your closing balance on or before the due date.

If you have got yourself into credit card debt, it's wise to:

- ▶ Consolidate your debt into one account, especially one that offers a low interest rate on balance transfers for a fixed period of time;
- ▶ Set up a direct debit so you don't forget to make your payments; and
- ▶ Make sure your credit card limit is appropriate for your financial circumstances, and reduce it if it isn't.

Don't go overboard with your home loan

It's perfectly natural to want to own your home. On top of the security of having a place of your own, it can also be a very good investment.

However, it's important to make sure you will be able to make the repayments, before you take out the loan. Think about what will happen if interest rates rise, or you lose your job.

Put your cash to work

With your financial goals in place, some healthy financial habits and debt under control, it's time to build your cash flow. With the right tools, this becomes simple – and effective.

Keep your cash in one place

Keeping your cash in one central place makes monitoring and managing your cash easier. A cash management account can act like a cash hub, accepting income from all your different sources and letting you make all the payments you need to cover your outgoings. Plus, cash management accounts generally have lower account fees and higher interest rates than transaction bank accounts.

Your cash hub should accept:

- ▶ Your salary;
- ▶ Centrelink payments, such as the baby bonus;
- ▶ Dividends or proceeds from the sale of investments; and
- ▶ Rent from tenants, if you have an investment property.

You should also be able to make payments for:

- ▶ Your home loan;
- ▶ New investments;
- ▶ Australian Tax Office payments;
- ▶ Adviser fees; and
- ▶ Bills and other regular expenses.

Make your money work for you

If you're managing your cash from a transaction bank account, you are probably charged a monthly account-keeping fee and paid low or no interest. Your cash should earn you interest wherever possible – and shouldn't be eaten up by fees and charges.

Keep track of your cash flow

In order to manage your money, you must be able to see what is coming in and what is going out. Plus, if you have an accountant or adviser, they will also need this information to help you make the most of your cash.

Cash Management Service

Our Cash Management Service, consisting of the Commonwealth Bank's Accelerator Cash Account (ACA) and Term Deposit, acts as a convenient, full featured cash hub for investors, SMSFs and their advisers.

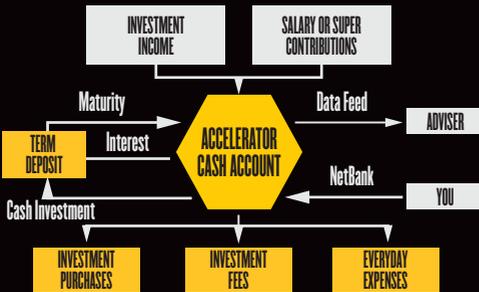
Designed to work together or as stand-alone accounts, the ACA and Term Deposit are the ideal solutions for managing your investment or SMSF cash flow needs.

The ACA combines the features and access of an everyday bank account with transaction visibility for your adviser, so you'll always know where you stand financially. The ACA offers a competitive interest rate and no monthly account-keeping fees so you can be confident your money is working hard for you.

You can also choose to invest your cash in a Commonwealth Bank Term Deposit for a selected fixed term at a guaranteed interest rate.

- ▶ 24/7 account access through Australia's largest banking network including NetBank, phone banking, ATMs and EFTPOS
- ▶ Plus access to over 1,100 branches and 3,700 Australia Post agencies nationally
- ▶ No minimum ongoing balance requirement and no minimum transaction amount
- ▶ Flexible deposit and withdrawal options utilising direct debits or BPAY®
- ▶ Full transaction history and quarterly statements available online
- ▶ Annual interest earned available on NetBank account summary pages
- ▶ Quickly and easily direct funds to a linked Term Deposit
- ▶ Security of funds protected under the terms of the Australian Financial Claims Scheme (FCS)¹

Cash Management Services in action



Term Deposit features at a glance

- ▶ Enjoy the security of a fixed rate of return for the nominated term
- ▶ Competitive and guaranteed interest rates
- ▶ Selection of terms available from 1 month to 5 years
- ▶ Flexible interest payment options
- ▶ 24/7 access to account balance and transaction history through NetBank
- ▶ Manage maturity instructions through NetBank (for registered clients)
- ▶ No monthly account keeping fees
- ▶ Security of funds protected under the terms of the Australian Financial Claims Scheme (FCS)¹

Accelerator Cash Account features at a glance

- ▶ Simplicity of one account to manage cash flow movements in one place
- ▶ Competitive at-call interest rates calculated daily and paid monthly
- ▶ No monthly account keeping fees

Five reasons to choose our Cash Management Service

Experience you can trust	The Commonwealth Bank has over 100 years of experience in helping Australians manage their cash flow.
Service you can count on	<p>As well as delivering the highest level of service and support, we help your adviser provide you with the level of service you expect.</p> <p>The balance and transaction visibility the ACA provides your adviser, will help them monitor your cash flow, provide timely advice and quickly respond to changing markets and new investment opportunities.</p>
Competitive interest rates and no monthly account-keeping fees	The ACA offers a competitive interest rate, with interest calculated daily on your entire balance and paid monthly. There are no monthly account-keeping fees, giving you more cash to grow.
No-fuss term deposits	You can transfer excess funds from your ACA into a linked Term Deposit without needing to go through an application process. You can then direct all your interest payments and maturing Term Deposits back to the ACA.
Convenient access	<ul style="list-style-type: none">▶ Enjoy the convenience of internet and mobile phone banking, and manage your finances in a secure online environment with the Commonwealth Bank's award-winning NetBank. Check your balances, transfer money, pay bills, review and categorise transactions plus much more.▶ Use phone banking to check balances and make transactions anytime.▶ Get help from our Customer Service team 24 hours a day, 7 days a week.▶ Visit any Commonwealth Bank branch.▶ Take advantage of Australia's largest ATM and EFTPOS network.

Find out more

For more information or to apply for a Commonwealth Bank Accelerator Cash Account or Term Deposit, please speak to your Financial Services Professional.

