A Step-by-Step Guide to Getting Your Financial Records in Order

7 Achievable New Year's Resolutions

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This time of the year is when many people make their New Year's resolutions. Some people resolve to exercise more, lose weight or learn a new language. Most resolutions are broken by the end of January. We suggest as an opener a somewhat easier New Year's resolution — and one you might actually keep. That would be to organize your financial records in a way that will be relatively easy to keep and will have some positive long-term results!

The year-end financial statements you receive in January are ideal starting points for getting organized. You have to get most of these documents together anyway to prepare your tax return. Wouldn't it be great if you knew where all your documents were that you'll need? Want to have a better grasp of your investments? Here are a few ideas we have for the New Year.

Resolution No. 1: Organize Your Year-End Statements

By the end of January, you should have received the year-end financial statements for your mortgages, investments, bank accounts and retirement assets. Start by reviewing these statements to make sure you have them all. If you're missing any, now is a good time to call or write to obtain these statements long before the April 15 tax return deadline.

We recommend making a copy of these year-end statements and organizing the first set of statements by category, putting each one into separate manila folders to prepare your tax return.

Typical folders would be labeled "Charitable Contributions," "1099s," "IRA statements," etc. This can also be accomplished electronically if you prefer by scanning documents and filing them in a computer folder.

If you use this technology, be absolutely sure you have a system to make automatic backups and that this system is tested. Computer drives do fail and the loss of this information can be very stressful.

Everyone has his or her own filing system, but we've found the three-ring binder to be a useful tool. If you like this approach, we'd make a copy of these year-end statements and put them into the binder divided by the title of the account. Examples would be "401(k)," "Pension Plan," "IRA" and "Mortgage."

This binder would be labeled for the past year. If the annual statement includes cumulative information for the past year, shred and throw out any interim statements you've received during the past year.

At the same time, you could set up a new investment binder for the new year with dividers for each account so that it'll be easy to put statements into this binder as you receive them during the year.

Resolution No. 2: Make an Appointment to See Your Accountant Soon

When you've organized all your year-end statements, make an appointment to meet with your accountant. The sooner in the new year you can see your accountant, the better the advice he or she can give you.

Unless your return is very simple, we recommend using accountants to help you. They may point out something you might have missed. After all, it's an accountant's job to keep up on the latest tax regulations.

If you really want to prepare your own return, rather than trying to do it by hand, we strongly recommend using one of the computer tax-preparation programs that are available — they get better every year.

Resolution No. 3: Prepare a Year-End Financial Statement

Now that you've organized your year-end financial statements, you should put together your own year-end financial statement. Put the statement in the binder you used to file your assets by account or in a spreadsheet in your computer folder — then back up your data!

Divide your assets into personal and retirement assets and list them by type of asset. The three broad asset categories would be "Cash," "Investments" and "Fixed Assets." Cash would include those accounts that are liquid or will be liquid within a year. These would include checking accounts, savings accounts, money markets, certificates of deposit, etc. Investments is self-explanatory. If you own any of your assets jointly with another person or if you have a trust, you should indicate ownership of each asset. Fixed assets include property that isn't income-producing, such as your home, cars and personal effects.

After listing your assets, you should list your current liabilities such as the current amount owed on your mortgage, car loans and credit-card debt. By subtracting your liabilities from your assets, you can determine your net worth. This number is helpful because you can see where you are now, but it's even more interesting if you keep a historical record each year so that you can see the progress you might have made.

Resolution No. 4: Review Your Asset Allocation With Your Financial Adviser

Now that you've listed broad categories of your assets on your financial statement, we recommend you focus on the investment portion. Figure out what percentage of your investments are in cash, fixed income, U.S. stocks, international stocks and any other investments — real estate other than your home, nontraded real estate investment trusts, etc.

You might want to divide the U.S. stock category further into large-cap, mid-cap and small-cap stocks. You may also subdivide your international stocks between companies based in established and emerging countries. The purpose of reviewing your asset allocation is to make sure that a particular asset category hasn't gotten too large or small during the year. The appropriate asset allocation for each person depends on the particular circumstances. Now that you know what your asset allocation is, you should make an appointment to see your financial adviser to determine whether you should make any changes to better achieve your investment goals in the coming year.

Resolution No. 5: Keep Good Financial Records All Year

Most of these resolutions refer to action you can take in the early part of the new year. We'd suggest, however, that you continue to keep your records during the rest of the year. Each month, set aside some time to keep your financial records up to date. Quarterly, assess what your assets are worth. At the same time, keep track of your liabilities and spending.

Computing your capital gains and losses at the end of each year will be a lot easier if you keep a record of your costs for investments, as well as any reinvested capital gains and dividends. You can keep these records manually or use a computer program for this purpose.

Resolution No. 6: Keep Track of Your Expenses During the Year

When it comes to expenses, we find that clients fall into one of two categories. They either know where every dollar goes or they have no idea how they spend their money. If you really want to be in control of your financial life, you should know how you spend your income. The new year is a great time to start keeping track. Adding up all the money you spend is a daunting task. Rather than try to add everything up, we suggest a different way to give you an even more accurate picture.

First, figure out where you put extra money or get money when you need it. Often, this is a bank account, but it could be an investment portfolio. For a bank account, since current interest rates are so low, look at the difference of that account balance from a year ago. For an investment account, tally all the contributions and/or withdrawals. Now look at your year-end pay stubs. Look at your take-home pay for the year. To that number add any decreases in bank account balances and withdrawals from investments; this is how much money you spent. Many are shocked to realize this is how much money has been used during the year.

If your bank account balance went up, or if you made contributions to nonretirement investment accounts, you'd subtract those figures to determine your spending. From here you can make a map of major expenditures and try to figure out how the spending happened. This approach helps to reconcile spending and provide an accurate determination without getting bogged down with every single purchase. Note that funds used to pay off loans are subtracted to determine spending, but increases in loans such as money from a home-equity loan are added to determine spending.

If you're setting up binders, you might add another binder that would include your monthly expenditures. In it you could put all your bills for regularly occurring expenses, as well as periodic expenses. This would include many items such as: electricity, water, real-estate taxes, insurance and home maintenance/improvement costs.

Of course, another somewhat simpler approach would be to keep a record of those expenses in a computer program such as Quicken or MINT. These programs can divide your expenses between tax-deductible and nondeductible expenses so that at year-end all you have to do is push a button and you have a complete record of how you spent your money, as well as a record of the year's tax deductions.

Your goal is to have a handle on how much you spend. After you keep a record for a few months, you may be amazed to find out where your money is actually going!

Resolution No. 7: Build/Maintain an Emergency Cash Reserve

You might know what your expenses are, but every budget is faced with those unexpected events that cost money, such as a roof or furnace that needs to be replaced, the car that breaks down or the family member who needs some financial help. The amount of a recommended cash reserve varies, but generally we recommend that people keep a cash reserve equal to three to six months of expenses. This way you have money to cover these unexpected expenses without having to sell an investment in a depressed market.

Conclusion

We hope that you'll make and keep all these financial resolutions this year. We think the ones we've suggested are pretty easy to keep and will help you gain control of your financial life! ■

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