Who's in Charge? You or That Pile of Paper?

Declutter Your Financial Life

by Alexandra Armstrong, CFP

In 2011, Marie Kondo revolutionized how many of us think about getting rid of clutter in her best-selling book "The Life-Changing Magic of Tidying Up." As a financial planner by profession, I thought I was pretty organized. I have to say, however, I embraced her book and did some serious decluttering of my clothes. From reorganizing your wardrobe, she goes on to organizing your pictures, books, etc. I read that in the year her book came out, Goodwill donations increased 25 percent in New York City!

In my last column I talked about how long you needed to keep financial records. In this column, I suggest ways to organize your current financial records so that your desk isn't housing a clutter of paperwork. As we start the new year, this is the perfect time to organize your financial life. If you do it now, it will be easier to keep up to date the rest of the year.

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 — either the paper documents or online versions. Review these statements to make sure you have them all. If you're missing any, call or write to obtain these statements.

I recommend you make a copy of these year-end statements, organizing the first set of statements by category and putting each one into a separate folder to use to prepare your tax return. For instance, you might have folders labeled "Charitable Contributions," "1099s," "IRA Statements" and so on. When you have everything, you can give these folders to your accountant.

Everyone has his or her own filing system, but I've found the three-ring binder a useful tool. If you like this approach, I'd file the second set of the year-end statements into this binder divided by the title of the account. Examples would be "401(k)," "Pension Plan," "IRA" and "Mortgage." Then as you got monthly or quarterly statements, you could add these to your binder for the new year.

Make an Appointment to See Your Accountant Soon

After you've organized all your year-end statements, make an appointment to see your accountant. The sooner in the new year you can see your accountant, the better the advice this professional can give you.

If instead you want to prepare your own return, I strongly recommend using one of the computer tax-preparation programs that are available. They get better every year. But unless your return is very simple, we recommend having an accountant help you. This expert may point out something you might have missed and save you money.

Prepare a Year-End Financial Statement

Now that you've organized your year-end financial statements, I suggest you put together a personal year-end financial statement. Put the statement in the binder you used to file your assets by account. For your financial statement, you take the same information but divide it differently. Divide your assets into personal and retirement assets and then list them by type of assets. 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" includes property 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 so that 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're making each year.

Review Your Asset Allocation With Your Financial Adviser

Now that you've listed broad categories of your assets on your financial statement, I recommend you focus on the investment portion. Figure out what percentage of your investments is in cash, fixed income, U.S. stocks, international stocks and any other investments such as real estate other than your homes, including real estate investment trusts.

You might want to divide the U.S. stock category further into large-, mid- and small-cap stocks. You can also subdivide your international stocks between companies based in established countries as well as those located in emerging-market countries. If you need help with this process, your adviser will be able to assist you.

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 individuals depends on their particular circumstances. Now that you know what your asset allocation is, you should review your investments with your financial adviser to determine whether you should rebalance your portfolio to better achieve your investment goals in the coming year.

Keep Good Financial Records Throughout the Year

As you start out the new year, I'd suggest 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. Assess what your assets are worth quarterly. At the same time, keep track of your liabilities.

Keep Track of Your Expenses During the Year

When it comes to keeping track of expenses, I 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.

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

Alternatively, you could keep a record of those expenses in a computer program such as Quicken or MINT. These programs will 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 where your money is actually going!

Build/Maintain an Emergency Cash Reserve

You might know what your expenses are, but occasionally everyone 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 months to six months of expenses.

This way, you have money to cover these unexpected expenses without having to sell an investment at an inopportune time. I'd recommend if you have a cash reserve, keep it and if you don't have one, start building it now and adding to it each month.

Conclusion

For those who find these tasks overwhelming, there are professional financial organizers who can help you — for a fee. They're called daily money managers and can even pay your bills and file your insurance claims. Visit www.aadmm.com to find one near you.

If you get organized now, it should be much easier to stay on top of your finances during the year. And perhaps now you can tackle sorting out your closet. Marie promises that after decluttering you'll feel liberated, and I think she's right. Good luck with these tasks!

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