

MAY 2010

*Staying Connected*

For the Alumni of the ECCB's  
Savings and Investments Course

YOUR FINANCES .....YOUR FUTURE

YOUR FINANCIAL  
NEWS



## How Liquid Are You?

Are you  
wading in a puddle or  
a pool?

## “Save, Susan. Save Susan.”

The consequences of unwise spending, unmanageable debts and failing to save for one's future.



## Out of the Box Ventures in Financial Education



**MoneyPower**  
Increase Your Financial Strength

- Even if you have life insurance from your job, consider buying a term life insurance policy to hedge against the risk of finding yourself without insurance in case you should ever lose your job and by extension lose your job-obtained insurance.
- Establish an emergency fund to allow you to have a reserve for unexpected costs.
- When it comes to dealing with your banker, be informed not intimidated. Ask questions.
- Go on a Spending Diet - Spend Less, Save More. Start a Financial Strengthening Programme - Take a money management class. Remember, fitness should apply equally to you and your finances.



## HOW LIQUID ARE YOU?

Liquidity is the measure of how quickly you can access cash when you need it without incurring a significant penalty. Note well that the issue is not about zero cost but rather a significant cost. *Every decision has a cost even if that cost is the potential income lost if you were to drawdown on your savings, (i.e. opportunity cost).*

In the region there are many sayings that one uses to indicate a liquidity problem. These include:

- “Things tight” or “I’m tight for cash”
- “things brown”

Or, you may refer to an individual as being asset rich, but cash poor. This underscores the point that liquidity is not a measure of one’s net worth but rather of one’s cash flow. You can have valuable assets but still be cash broke. Hence, if you are not liquid you are not financially free.

Let us classify liquid assets into two categories; those that are tangible and those that are intangible.

Tangible assets include cash assets such as money in one’s wallet, savings and chequing accounts as well as near-cash assets which will include short term investments such as Treasury bills.

The general rule of thumb for personal liquidity is that you should have three to six months of living expenses including mortgage payments in tangible liquid assets.

### ***Tangible Liquid Assets*** ***Six months living expenses*** ***including mortgage***

Then there is the intangible asset, the one that you seldom hear about but is so critical – **Your relationship with your bank.** This impacts the options available to you to access ‘fast’ credit (cash) and the price of the credit (cash). This relationship is in turn influenced by the nine C’s of credit.

1. **Capital Adequacy**
2. **Cash Flow**
3. **Collateral**
4. **Capacity to Repay**
5. **Commitment (equity)**
6. **Credit History**
7. **Conditions (job security)**
8. **Character**
9. **Communications (with your bank)**

When you consider what is assessed in relation to capital adequacy, cash flow, capacity to repay, collateral, etc - The message is clear **“You need money to obtain money from a bank.”**

This is the reason why **Cash is King.**

We all know that we need oxygen to breathe and water to live. I saw this quote on the WWW in the aftermath of the financial crisis - **“Liquidity Is the New Oxygen”.**

### **WHY CASH IS KING. THE IMPORTANCE OF HAVING A CASH CUSHION.**

You need to have adequate cash reserves which you can tap into quickly and easily to tide you through a difficult period or emergency that may arise along this life’s journey - *loss of job, medical emergencies, unforeseen expenses related to the law.* Some refer to this as an emergency fund or a rainy day liquidity fund. Cash reserves in your “rainy day liquidity fund” should be adequate to cover three to six months of expenses so that you won’t have to tap into long term investments to meet short-term cash needs. **Considering the ‘What Ifs of Life’, are you financially confident and secure?**

Cash is also important as collateral for loans. The best collateral for loans is one that is easily liquidated. No wonder banks prefer cash over all other collateral options.

Access to cash also allows you to take advantage of cost saving opportunities. For example the local cable television company in St. Kitts

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# How Liquid Are You? Cont'd

drops off two months payments if you pay your cable bill for the entire year in January. However, if January is the month when your song is 'things tight', then you not only prevent yourself from saving, but you also prevent yourself from earning. Remember a penny saved is a penny earned.

Additionally, if you are very liquid you can take advantage of investment deals. Imagine someone approaches you to purchase land in a highly marketable area at 40% less than the market price but you are unable to take advantage of this opportunity because you do not have adequate cash to meet the required down payment for the loan as well as the associated legal fees.

Finally having adequate cash reserves also affords you peace of mind. And that is priceless!

## HOW DO LIQUIDITY PROBLEMS ARISE?

### Consider this scenario.

John Brown is a single father with two minor children. He earns a monthly salary of \$4,000. His living expenses are approximately \$3,600 which include monthly loan payments of \$1,600. The balance on his 8.5% loan is \$30,000. At the end of April he received a lump sum of \$5,000. He has to choose from among the following three options before him:

1. Use the \$5000 to pay down on

- his \$30,000 loan; OR
- 2. Start an investment portfolio by purchasing stocks; OR
- 3. Top up his \$2,000 savings to \$7,000 by depositing the lump sum to his savings.

### How would you advise John to ensure his own financial success and confidence?

If John uses his lump sum to make additional payments to his loan principal (assuming there is no prepayment penalty and the loan is a reducing balance loan) he may save a significant amount in interest payments. If he uses the money to purchase stocks he may be making an investment in an asset that can potentially generate significant returns in the future.

While options I and II in isolation sound attractive based on the potential savings or gains that can accrue to John, the reality is that John is not in a secure financial position to choose either of the two options because John is just a dollar away from a potential financial crisis. He has hardly any cash assets, and given the fact that he is a single father of two minor children he is vulnerable to an umpteenth number of **what ifs**. What if a child or both become ill for example with appendicitis and require surgery? What if he loses his job? What if he becomes ill? What if ...what if...

Generally personal liquidity problems arise because of the following:

- 1. Lack of adequate savings
- 2. Lack of an emergency fund
- 3. Unmanageable debts. SOLUTION - **Consider debt consolidation**
- 4. Seasonal expenses becoming due and payable at the same point in time (car license, house insurance, car insurance, property tax, school fees). SOLUTION - **Consider laddering your seasonal expenses.** This means that where possible you would stagger your expenses so that they fall in different months. January - car licence; March - house insurance; July - car insurance; September - school fees; October - property tax.

Here is a test you can take to determine your confidence in your personal liquidity situation.

| Rate your confidence in your ....                                                                 | Low | Below Average | Average | Above Average | High |
|---------------------------------------------------------------------------------------------------|-----|---------------|---------|---------------|------|
| 1. Job security (take into consideration your job flexibility and the current economic situation) | 1   | 2             | 3       | 4             | 5    |
| 2. Ability to access credit on short notice                                                       | 1   | 2             | 3       | 4             | 5    |
| 3. Ability to carry your debts without strain                                                     | 1   | 2             | 3       | 4             | 5    |

Take action to address the situation if your score is below average. And even if your rating is average try to

## How Liquid Are You? Cont'd

| Rate your progress and confidence in ....                     | Low | Below Average | Average | Above Average | High |
|---------------------------------------------------------------|-----|---------------|---------|---------------|------|
| 1. the size of your savings                                   | 1   | 2             | 3       | 4             | 5    |
| 2. the size of your rainy day liquidity fund (emergency fund) | 1   | 2             | 3       | 4             | 5    |

be above so that you are more financially secure and confident.

### LIQUIDITY TRADE –OFFS

Certainly there are trade offs to maintaining cash reserves. Well!.. That's Life...

- Higher liquidity means lower returns: *Savings and other liquid assets only generate minimal levels of interest income.*
- Cash is easier to spend. *There is always that temptation to touch those savings. You tell yourself, 'I will only take off \$100' but you find yourself going everyday for \$100 until your cash reserves are almost depleted. Discipline! my friend, discipline.* If there is an account that you have earmarked for savings or your rainy day liquidity fund, try not to have your on-line banking or ATM card attached to that account. *Find ways to make it difficult for you to touch (withdraw).*
- Interest on savings is less than the interest charged on credit. This begs the question; 'Why save for less when you have loans on which you pay more?' ...**THE ANSWER -**

...BECAUSE LIFE HAPPENS.



No matter how much you may plan. So, until you disembark from life's boat ride you have to practise this balancing act between how much cash to have as reserves and how much to spend and invest for the long term. This brings us to the discussion of the need for a personal liquidity management strategy.

### WHY HAVE A PERSONAL LIQUIDTY MANAGEMENT STRATEGY?

- Because LIFE HAPPENS, logic dictates that you take a proactive approach to your personal liquidity management.** The eventualities **YOU DO NOT** prepare for can create serious financial stresses/pressures in the future. **How long can you survive without a job? How long can you wait before getting that needed medical care? Can you afford the risks of being late with your insurance payments?**

- Ladder your seasonal expenses** so that all are not due and payable at the same time.
- Know your liquidity options.**
- Do a six-month cash forecast** to provide you with a rough idea of your liquidity needs into the future. Ensure that you include such expenses as house repairs, insurance, medical expenses, taxes, school fees, car maintenance and repairs, holiday expenses, birthday presents, and special events like mothers and fathers day.

### SUMMARY

Personal liquidity management is a **PROCESS** not a one-off event. It is about managing your CASH FLOW through proper planning. and It requires realistic forecasts of current and expected income and expenses. **It should be part of the Financial Life Plan for you and your family.** Of course the plan will need to be revised as circumstances change. It requires establishing systems and controls for your finances:

- **Minimum Savings Requirements**
- **Financial Reserve Requirements**
- **Debt Caps**
- **Management of Day to Day Spending**

The end result - **Greater Financial Freedom...** When you reach this stage you can then borrow from the late great Dr. Martin Luther King Jr. and shout *"Free at last...Free at last. Thank God Almighty, I am (financially) free at last!"* **SLW**



## THE SCENE:

**Susan is on the phone with her girlfriend Jane. You are listening to Susan's part of the conversation.**

...Jane, you sound busy. What are you up to this good Saturday night?

...You are doing what? Girl, don't tell me that you are taking your good Saturday night to stay at home to prepare your budget for next month. Good for you darling. Better you than me. The closest I am going to get to a budget is when I rent one of those fancy cars from Budget-Rent-A-Car. Other than that, I don't have any time for any other budget. Furthermore, that budget thing sounds a bit too complicated for this pretty little brain. I prefer to use my brain to decide which of my twenty pairs of shoes and my numerous dresses I will wear to work on Monday? You know, girlfriend has an image to protect.

Remember I was voted most fashionable in High School...and I still have to live up to my title.

...What is that Jane? Creating a budget is not complicated. Girl, Really!

...So all I have to do is identify the amount of money I have to spend and then decide what I am going to spend it on. Oh! And I should focus on my needs not my wants...What's that big word you just mentioned, prioritisation? ...Oh, prioritisation. Yes, I know the word. I did not just go to Sunday school you know; I went to regular school too, in case you forgot.

...Well I need everything and I want everything. So that's easy. See, I don't have to go through all that jazz about budgeting, choices and prioritisation. When I get money I just spend it until it is all gone. Simple.

...Problems? Well Jane when all my

money is gone I do encounter problems but girl I don't worry. Jesus says to lay your troubles at his feet, and that is what I do every month when I run out of money. And then the word comes to me....a voice says '*when you are out of cash, use your credit card or borrow from your brother John*'-You know *Jane, my brother is starting to show me bad face these days because sometimes I forget to pay him back. But I don't pay him no mind, because the Bible says that we should be our brothers and sisters keeper. So if he lends me money, he is only doing what the Bible says to do - Keeping his sister.*

*The voice also tells me to 'ignore the cable bill, the telephone bill and the electricity bill when things get tight.'* If I skip one month it won't hurt anybody. The businesses well know that these are difficult times, so I don't know why they keep calling me. Girl, when I see 'private' appear on my phone, I just don't answer. Oh...The voice also advises me to 'skip a few

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## Save, Susan. Save Susan Cont'd

payments on my hire purchase bill.' Those hire purchase people charge too much anyway. Can you believe I am paying for my fridge going on eight years now? ...Yes girl, you would think it is a mortgage I am paying.

...What is that? You think the voice I am hearing is the voice of the devil! Girl you just have bad mind, you are not encouraging at all.

...What Jane?...I wouldn't have to borrow from my family and then get into bad vibes with them or hide from my creditors if I spent wisely and saved regularly. Save what? What business I have with saving? Girl, you need to read your Bible. Only Jesus saves! **Read Matthew 18:11 "for the Son of Man is come to save that which was lost"**. So, all the money I am losing, Jesus is saving it for me. When I get to heaven, He will have my money saved up for me. I am not worrying. I am too young to trouble my pretty little head with money matters.

...What?...What about my future?...What about emergencies that would need me to have money? ...What about savings to live on when I retire?...Jane you are really trying to stress me with your complicated chatter, but I refuse to be stressed. I am too blessed to be stressed. Read Matthew 6 **"Take no thought for the morrow..."** and read 1 Timothy chapter 6:7 **"For we brought nothing into this world, and it is certain we can carry nothing out"**. *I don't bother about saving for tomorrow. Tomorrow will take care of itself. Today is my focus and I am focusing on being happy. Live for today!*

...What is that?... **'God helps those who help themselves'**. Girl, that is not in the Bible. It is man who made up that phrase. What is in the Bible is that **"Jesus saves!"**.

...What? *...that I should follow Jesus' example and save.* Girl, see you. I am going to check my brother John because I need some money to go to St. Maarten

to shop. I hear they have good deals on furniture, clothes, jewelry and electronics and my living room chairs need changing. Girl, can you believe I have had them for some three years now. I need to spruce up the house so that when I throw back my front door my neighbours can see how prosperous I am living. Bye. Chat with you later.



Susan walks up and down the street begging passers-by for money, while she holds up a placard which reads:

**HELP**

Please help me. I am sick and unable to work. I have no money to buy food or pay my rent. My family has abandoned me. **HELP ME PLEASE!!**

A few minutes later a stranger appears bearing a placard which reads:

**PROVERBS 10:4 He becometh poor that dealeth with a slack hand: but the hand of the diligent maketh rich.**

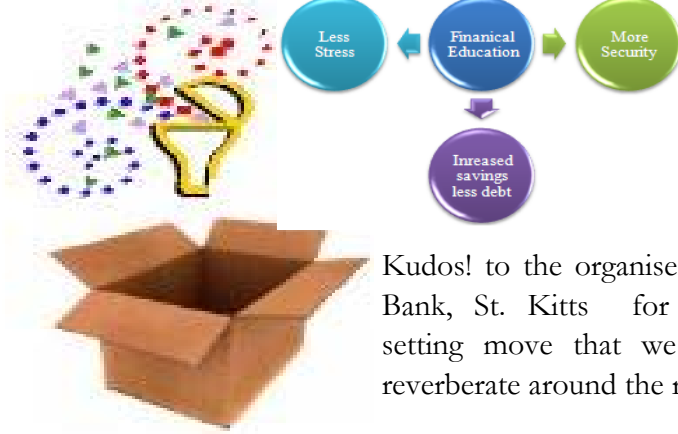
THE END-

SLW

Inspired by

THE COMMONWEALTH SECRETARIAT  
TRAINERS WORKSHOP ON FINANCIAL LITERACY  
28 - 29 APRIL 2010, NASSAU, THE BAHAMAS

# Out of the Box Ventures In Financial Education



Kudos! to the organisers at Scotia Bank, St. Kitts for this trend setting move that we hope will reverberate around the region.

phone for the five facilitators of this information packed seminar.

## The Marketing

- Developing a marketing and sales plan
- Networking
- Brand development and maintenance

## The Finance

- Financing the business
- Lending institutions and loan documents
- Understanding and managing the business' finances

## The Management

- Creating the right business structure and team
- Developing small business risk management strategies
- Strategies for facing adversity in business
- Preparing the business for growth

This initiative forms part of the Eastern Caribbean Currency Union's (ECCU) Public Education Programme coordinated by the ECCB, and emanates from the ECCB's agenda to promote economic development in the ECCU.

The course is a collaborative effort between the ECCB, the UWI Open Campus, local state colleges and private sector institutions. ●

## Financial Classes in Scotia Bank's Lobby ...

*Banking has come a long way*

Who would have thought that you could turn a commercial bank lobby into an area to host an investor symposium? After all you go to a bank to do banking business not for an educational seminar on liquidity management, real estate investing and wealth creation...And the lobby, isn't that a place for customers to cue up to do banking transactions?

Luckily the organisers at Scotia Bank, St. Kitts did not get the memo on what the bank's lobby is meant to be used for. On the 20th May, the lobby was transformed into an aesthetically pleasing seminar area. Gone were the aisle dividers and the stands and in their places chairs for the seminar invitees, a big screen on which the information was projected and a podium and micro-

## ECCB Gets Into Small Business Training ...

The Eastern Caribbean Central Bank (ECCB) Entrepreneurship Course was piloted in St Kitts on 6 May 2010 and plans are on the way to introduce this course in the other ECCB member territories in 2011.

The course objectives are to inspire more persons to consider entrepreneurship as a possible goal and promote best business practices among small business owners. The fifteen module course covers four broad areas:

### The Business

- What it takes to be an entrepreneur
- Identifying feasible business ideas
- Developing a business plan

# ECCB's Entrepreneurship Course

# Scotia Bank's Investor Symposium



Financial Education is Everybody's Business !

