

A FRESH PAIR OF EYES

Weekly Edition – 10/20/2013

THE RIGHT BALANCE

SEAN STEIN SMITH - MBA, CPA, CMA



Everyone knows that maintaining the right balance is essential to a balanced and successful life. Whether it be exercise, volunteer work, or nutrition, we are always trying to attain the best possible balance and amounts in every aspect of life. Why then, should, our personal financial lives be excluded from this balance? Balance sheets are an essential component of any business operation – in essence, they give a snapshot of the financial condition of the firm at a particular point in time. Management, analysts, and investors spend hours poring over balance sheets, calculating and analyzing the numerous ratios that are derived from balance sheet information, and using these analyses to help them make their recommendations about the firm.

Last week, there were several ideas, tips, and tools that could help you create your own personal P&L statement. This week, we will be looking at another financial statement that can be constructed as part of your personal financial plan. A well-constructed personal balance sheet can provide with excellent insights into your own personal financial condition – from helping you figure out your net worth, to seeing how much flexibility you have with regards to future borrowings, or to see whether or not you qualify for a small business loan, this statement can provide you with excellent data.

This week, we will be going over some of the more common tips, tools, and strategies that people can use to help construct your own personal balance sheet. Remember, no money = no fun.

Here the link to my weekly podcast - The Weekly Roundup 10/19/2013

[Weekly Roundup 10/19/2013](#)

Contact - A Fresh Pair of Eyes

Feel free to reach out with your comments/suggestions or questions.

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INVESTING TIP/DEFINITION

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The Balance Sheet

Virtually everyone knows what a profit and loss statement is, what it means, and what the overall purpose in constructing one for your personal life would be. What is a little less clear, however, is the concept of a balance sheet – while a P&L represents the inflows and outflows during a particular period, which is relatively straightforward to understand, the balance sheet represents a snap shot of financial position at a particular point in time. What comprises a balance sheet? It has three main pieces: assets; liabilities; and equities.

Assets represent probable future economic benefits; liabilities represent probable future economic liabilities, and the equity/deficit section represents the difference between the two. After stripping away all of the jargon and technical language, this is all that a balance sheet is. For a personal balance sheet, an excellent place to begin would be with the asset side. What assets do you have? This includes everything, from cars and property, to valuable collectibles. How were the assets purchased? That is what makes up the liability and/or equity side of the balance sheet. Student loans, credit card debt, or mortgages belong on the left side of the balance sheet, and any excess that is remaining after subtracting all of the liabilities from the assets is your equity, or net worth.

This is an excellent exercise to perform, especially if you are considering applying for financing, either for a residence or small business. In addition to your credit score, employment history, and income, banks and other potential lenders will most certainly examine your balance sheet. By putting one together beforehand, you might be able to clean it up, make it stronger, and present as a stronger candidate during any potential credit checks or loan approval processes.

What do you think?

How to make a Balance Sheet –

Constructing a balance sheet is actually much simpler and easier than most people believe. Much like putting together a personal profit and loss statement, your balance sheet should be able fit on a single sheet of paper. On the left hand side of sheet you would all of your assets – cars, home, etc, and the right hand side you would like any liabilities associated with those assets. This would include any car loans, student loans, or mortgages you have incurred. The residual difference between the two is your net equity/deficit.

Fresh Pair of Eyes Definition

Balance Sheet – A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time

Why make a Balance Sheet

There is an expression that if it can be measured it can be managed, and that holds true for businesses as well as your personal financial life. This measurement and tracking process does not have to be limited to your day-to-day expenses; you can utilize this methodology to help get a better handle on all of your personal finances. A personal balance sheet can be valuable in several ways, but one is of particular interest – it gives an idea of what potential lenders will see when you apply for any type of external financing.

What do you think?

Do you have your personal Balance Sheet?

Let us know what you think, and it might become the topic of a blog post or follow up newsletter article.

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THE WEEK AHEAD

Sean Stein Smith - MBA, CPA, CMA

It is always good to recap and to analyze what happened during the past week, which is what I strive to do via the weekly roundup podcast (link to it is above). In addition to analyzing what did happen, it is equally important to look forward to try to anticipate how the upcoming events of the week ahead could impact you and your money. That is the point of this column, which is broken down into domestic events, as well as the international events that could be of importance to your investments.

Excel Tip - Conditional Formatting

You have a report that lists every single town that your firm has a store in, and the marketing department has just launched a new campaign in order to help increase sales. Operations produced a report that has three columns – store, pre marketing, and post marketing. Your boss, of course, wants to see how many stores have experienced an increase in sales, but you do not want to go through every line manually. One excellent tool to use is Conditional Formatting – the options are virtually endless, and we will be covering them in the coming weeks!

Budget Tip - Travel

Yours truly will be on the road to Atlanta next week, and so this budget tip is applicable for all, as well as being timely! When traveling, whether it be for business or pleasure, always be sure to budget a contingency amount to bring with you for unexpected expenses. Whether it be an awesome souvenir, that deodorant you forgot to pack, or to pay for an additional day or two in a hotel, if inclement weather strands you where you are. Be prepared!

What do you think?

Let me know if these tips were helpful

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Domestic

Let us start our discussion with the news and economic activity that are on the agenda for the U.S. this week.

The Federal government has re-opened and the U.S. debt ceiling debate has been kicked down the road until the January-March time frame. Markets and interest rates seemed to be pleased with this outcome: the market continued its rally and interest rates have receded to lower levels.

In addition to this, there will be a deluge of governmental data (unemployment, CPI, PPI, and etc) that has been delayed due to the shutdown that will begin to come out this week.

Some of the biggest corporate headlines to watch this week is the impact that the recent fines levied at some of the largest financial institutions will have on the firms and market as a whole. Additionally, one important question that is often overlooked is how much a corporate brand is worth? Additionally, how much is your personal brand worth? We will be looking at that more closely in the coming weeks.

As always, it is always important to pay attention to the underlying trends that connect the market news.

Of course, there will be corporate news announced during the week as well, so keep your eyes open and check out the blog @ <http://ssteinsmith.com/> for daily analysis!

International

A story that just broke this morning was the acquisition of a majority stake in Brightstar by SoftBank, the same Japanese telecom group that acquired T-Mobile in February. As noted in previous podcasts and posts, the further consolidation and reshuffling of the telecom industry will certainly be a major story to watch going forward.



THE WEEKLY EDITION

Feedback is Always Welcome!

Feedback is the key to continuous improvement, so if there are any topics, themes, or stories you would like covered in the weekly newsletter, or if there is something you wish to know more about, please send an email to afreshpairefeyes88@gmail.com.

Thanks again for reading!

Sean

A Fresh Pair of Eyes

**Making Sense of Finance and
Accounting**

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If you like the newsletter, you might also enjoy the book. "A Fresh Pair of Eyes - Finance for the Young Investor" is available on both Amazon and in the Kindle Store.

[A Fresh Pair of Eyes - Finance for the Young Investor](#)

And my new book - Personal Financial Planning

[A Fresh Pair of Eyes - Personal Financial Planning](#)

