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The Irrelevance of Interest Rates for Choosing Savings Accounts

It is very common for banks to compete on interest rates. This is fine, but for the fact that interest rate gains get you very little these days in comparison to what you lose should the fee policies of your bank be severe.

Consider this. Savings rates rarely give you more than 2% today. And on the other hand, for ordinary people, money is tight. So suppose that you have a minimum balance on your savings account of 1000 dollars and your cash flow is such that you are consistently hovering around 1100 dollars in your savings. If 1.1k is your average savings, then you will earn from interest 22$ over the course of the year. But suppose that at one point you dropped below 1k and were dinged a fee of 20$ for going under balance. Then in the end it was a wash - or rather, the bank wins because they pay you nothing at all for holding your money on there balance sheet (and the more money they hold, the better they look to investors).

In the end, you gain nothing on a "good" interest rate of 2% if you go under balance just once. If this is the case, you just assume have an account with no minimum balance and no interest. At least in this case, you will not get dinged again for once again going under balance.

Online Cash Flow Management when Times are Tight

Frequently, an online banking application will have three different pages (among others). The first page will be a list of all of the transactions that hit your checking account in the past (up to some date in the past). The second will be a list of all of your scheduled payments to be made out of your checking account in the near future. The third tab will list all of the transfers that are scheduled to be made in the near future. But here's the question: do these scheduled payments and transfers show up in any sort of fourth page, with a unified view reflecting where your checking account balance will be when each of those payments and transfers go through? The importance of this is plain. If you have this view, and in this view you see that you hit a negative balance, you know that you at least need to get a deposit in your account by that transaction date in the amount of the negative balance. If you do not, then you will overdraw your account. If you are lucky enough to have an income, then this will show you when your deposit has to hit your account. If you do not, then it will tell you by what date you must transfer funds in. And if the funds don't post, you will be charged a significant overdraw fee.

Typically, your bank will tell you what transactions are "pending" should they already be in process. But they will not tell you what is scheduled to hit your account up to, say, 15 days from now. The issue is not a technical one; the banks would just rather not provide such information, since it hits there revenue from overdraw fees. This kind of overview is provided by M&I Bank in Wisconsin and it would be nice to have such a service from a bank readily available in Chicago. As it is, you have to pay for this service. Personal Cash Flow management is a feature you can put together in Quick-books or Money; but unfortunately, even the new free "Quicken", i.e. the very slick "Mint" online application does not offer Cash Flow Management facility. For cash flow management in Chicago, you need to purchase software - and the fact is, personal cash flow management is something you rarely consider until cash flow management software is just another expense you'd like to avoid. It is time for a Chicago bank to step up.

If there is one you can recommend, please let us know; but our experience is that there are none

Basic Categories of Financial Management

There are a three basic categories of financial management that are relevant to individuals:

Cash Flow Management: roughly, the first is most relevant to the individual when times are tight. When we do not have income or if it does not meet our ordinary spending, then cash and credit may not be there when payments must be made. Taking measures to see to it that payments will be made and obligations met – without, for instance, bouncing a check – is cash flow management.

Budgeting: this regards allocating a certain amount of funds to a certain class of expenses on a periodic basis; and following up on these allocations to see to it that the amount allocated was not surpassed, or well undershot. For instance, allocating a certain amount to Food, Rent, Utilities, and Clothing on a monthly basis, and following up to see if one hit or missed the mark.

Planning: this comes in two basic varieties: short and long term. In either case, the basic premise is saving – and possibly investing – money for the sake of having sufficient funds to meet larger goals. Short term planning is saving for short term goals, typically in the form of having sufficient funds to put down a payment on a Car, or paying for Furniture or Travel, etc. Long term planning can be for the sake of anything from saving for a down payment on a House, paying for a child's education, or Retirement itself. Naturally, the short and long term categories are not truly discrete, as plans may span however long or short into the future you wish...

There are a number of free or cheap software applications for handling Budgeting and Planning, to greater or lesser success, with Mint being the best. Few applications offer cash flow management; though some banks offer effective resources for this, integrated with your checking account – as it should be.

Two Laws of Managing Your Finances

The first law of managing your finances is: the less you have to do, the better. We recommend setting up automatic payments for all of your regular expenses, eliminating the grunt work of writing and mailing checks. We recommend the use of software systems for the sake of collecting, unifying, and displaying your financial information in intelligent and secure ways. We recommend the use of budget tracking tools to keep you on course and up to speed with your immediate payments and your mid- and long-term financial goals. Should you not want to ride the digital wave, we can still work with you to keep efficient processes in place for money management.

The second law is: be vigilant. What this entails is simply that you frequently check up on where you stand. With the grunt work out of the way, you can set aside a very small portion of each day or week to see where you stand, and whether you are on course. If you begin straying or something comes up, the sooner you are aware of the problem, the better prepared you will be to deal with it.

While the first tenant gets rid of the long hard hours; the second tenant replaces them with frequent, but relatively short check-ups. Our goal is to help you achieve that level of development, through technology and your own scheduled routines