**PEP 134 Edited\_Transcription**

[Daniel Hill] (0:00 - 22:12)

How much money should you actually have in your bank account? If you get this right, you will never have to worry about running out of cash, buying assets, allocating capital. You don't want to end up and fall in the trap where you're asset rich and cash poor.

At the end of this month, I'm completing on a school, which is £1.6 million. It was this blueprint that enabled me to not only survive, but absolutely thrive. Welcome to the official Profitable Entrepreneur Podcast with myself, Daniel Hill.

We are now rated in the top 10 of all business entrepreneurship podcasts in the UK. Last year, we were rated the seventh most popular property podcast. And every month by downloads, we are rated in the top 5% of most popular podcasts in the entire world.

Thank you all for your support for sharing and subscribing to these podcasts. This is literally my life's work broken down into simple blueprints for you to execute everything that you want, be it wealth, health, or life by design. Success and failure are both very predictable.

Let's get into it. So the bank balance blueprint, what we're going to talk about in this podcast is answering that question of how much money should you actually have in your bank account? Now, this can be your personal bank account, it can be your business bank accounts, but there is no guesswork with this.

There's a strategy, there's a structure, and there's a blueprint. And this is what we're going to go through in this podcast. If you get this right, you will never have to worry about running out of cash.

You will never have the anxiety as, do I have too much money in the bank account? And equally, you won't have the problem of having too much, which for some of you might sound like a nice problem to have. If you get this wrong, however, you will end up in a difficult position where you're missing payments, you're paying extra interest fees.

And at the worst case scenario, your business actually goes bust. No business ever died from a lack of profit. There's the most unprofitable businesses in the world have gone on for decades as zombies.

No business ever died from a lack of profit. They only ever die from a lack of cash. And what we want to do is make sure in this blueprint that you know down to the penny how much cash you should have in every company account.

So I'm going to take you through this. And my guarantee is that once you've got this in place, that anxiety you have of probably for most of you not having enough money, for many of you probably having too much, I guarantee you that will be completely, completely resolved and gone. I created this blueprint in 2018 when we did a strategy called bottom line time in our business.

We'd done two or three years aggressive growth, loads of revenue, loads of growth, but also a load of costs. And then for one year, we just focused on the bottom line time. And what I wanted to do within there was remove the issue of how much money is in the bank.

That was in 2018. In 2021, when we hit the pandemic, it was this blueprint that enabled me to not only survive, but absolutely thrive. And in the first phase of the pandemic, we made 1.9 million pounds more profit than we would have done without coronavirus. And in the second year of the pandemic, we increased that to 3.5. The only way that I could have done that was because I had the bank balance blueprint, I'd modeled it, it was exactly where it needed to be. And now I'm going to share it with you so you can do exactly the same. If you've not already listened to episode 125, that is the 10 layers of wealth.

And in there, you'll hear about level five, which is the war chest. This bank balance blueprint is essentially level five in that blueprint. So how much money do you actually need in your bank account?

There's five steps to this blueprint. You're going to need a pen and a pen to put it together. And all you really need is a spreadsheet or a Google sheet, whatever you use.

You then want to make a list. And this might be quick for some of you, a bit longer for others. You want to make a list of all the bank accounts that you've got.

And then also to complete this exercise, you want to make sure you've got access to those bank accounts. And what I'm going to do is these four steps. And at the end of these four steps, you'll have an exact calculation as to what you need to have in each account and where you are in that position.

So the first is to open up a spreadsheet and list out in the first column, all of the different bank accounts you have. So you'll have your personal one, your personal account, your savers account, your ISA account, your director's loan account, anything like that, your personal bank accounts, list the name of those out. Then the second part is your company accounts.

You might have a trading account, an investment account, an estate account, a holding company, all of your business accounts. So step one is a column with all of the different bank accounts, company and personal. Then what we're going to do is we're going to decide what level of working capital.

Now, if you're buying or selling a company or you've bought and sold companies in the past, you'll be familiar with the term called the working capital requirement. Working capital requirement is the amount of working capital that a company requires to be in the bank account at any given time to remain, to basically pay its debts when they fall due, to remain solvent. And what we're going to do here is we're going to define what our working capital requirement is per business.

Now, if you want to run this ultimately, so you want to be really, really lean, don't have any money, any sort of meat on the bone, any fat on the meat, and you want to be ultimately lean, the leanest I would recommend going is three months. You want to have three months working capital in the bank. The most slush that you probably want to go is 12 months.

I, in 2017, watched a Bill Gates interview, and this is what prompted me to create this blueprint where he said that when he started Microsoft, from the day he started it the current day, he always keeps 12 months worth of overheads in the bank account. So come rain, shine, recession, pandemic, if the world was to actually stop for 12 months, he could still pay every mortgage, every salary, every car cost, every office block around the world without having to worry. And that is the most comfortable position you can be in.

So what I want to do is decide what working capital requirement do we want. Now, the working capital is the amount of overheads that you have for this exercise in this use, the amount of overheads you have per month, how many months of that do you want in your bank? So let's say, for example, my personal bank account.

My personal bank account, I add up the money I spend on my house, the money I spend on expenses, the money I spend on direct debits, and I know that my monthly outgoing, and this is level one on the 10 layers of wealth, I know my monthly outgoing is X amount. Let's say for round numbers, 5,000 pound a month is my personal cost of living. Because of my personal cost of living, and I'm a conservative investor, I would go to the maximum level of working capital requirements, so 12 months.

So for 5,000 pound a month for 12 months, that's 60,000 pounds. My working capital requirement would be 12 months, and the budget in that account would be 60,000. You might go to some other companies which might have less.

So let's say you've got a trading company, and all of your clients, 100% of your revenue is on 12 month subscriptions with six months notice, you've actually got a security of income there for six to 12 months. So you might say, do you know what, I'd be happy for just having six months in the bank for that business. Because if things start to go wrong, I've got a security of income.

And then finally, if you had something that you wanted to run ultimately, let's say like a portfolio of single let's. Let's say you had a portfolio of single let's, the tenants live there for years, not months, the maintenance is hundreds, not tens of thousands. You might say, do you know what, I've got 10 single let's in this business, I want to pay the operating costs, the mortgage, maintenance costs, any other insurances you've got, you want to pay that for three months, and you keep it quite lean.

So what you want to do is have down the first column, the list of company names, the second column, what level of working capital requirement you want in months. And then what we do in the third is we calculate how much needs to be in the bank. And the way that we do that is have the bank account number, we add another column in, which says the overheads per month.

So bank account name, my personal account, my living expenses, £5,000 a month, my working capital requirement is the next column. And that would be 12 months. And then the budget amount that should be in there, which would then be 60,000.

And what that'll do is that will show you when you have all of those listed, how much you should have in every single bank account with your own attitude to risk. And then finally, what we do is we do an actual column. So we add a column at the end that says what's actually in that bank account.

I might say my personal account is £5,000 a month is what I spend, £12,000 is the working capital requirement, that gives you £60,000 a year should be in there, but there's actually £72,000 in there. And what that will say is that the budget and the actual, we add a final column, which says, what is the difference? And for that one, it would be plus £12,000.

There's actually £12,000 too much in there. And then the final step of this blueprint is what we do is at the bottom, we total, what is the total amount that should be in all of your bank accounts added together? What is the actual amount that's in all your bank accounts added together?

And then we look at any adjustments that might be required. So if you're looking at your portfolio, and some of them have got too much money in, some of them haven't got enough money in, but then your total is over, what you would then do is some intercompany loans or move some money around to balance them out. And ideally, you want to have every bank account as close to that target figure as possible.

So it's not too lean, it's too lean and the world ends, you're going to be in trouble. Also, it's not too flush because there's too much money in the bank. Sometimes that's not a good investment decision.

Just jumping in quickly with two things. So the first is if you're enjoying these podcasts, and you haven't already ordered a copy of my brand new first ever released book, Karma Credits, please go to Amazon now and order yourself a copy of Karma Credits by Daniel Hill. And it'll explain to you the universal law of wealth, health and happiness.

And the second, if you want a free report that you can read straight away, go to www.boomorbust.co.uk to understand the five things that I'm doing as we head into this next phase of recession. Back to the podcast. If you've not already listened to episode 96, where I talk about living off the steam, this is a real key fundamental step to get that in place so that once you know how much money has to be in the bank, you can take the balance out, invest it, and that will then generate more steam from your portfolio.

There's a few considerations to this. I'm going to give you probably five top tips to finish. The first is you very much want to vary this based on where you are in your economic cycle, or sorry, where you are in your professional cycle, where the economy is in the economic cycle, what your risk appetite is like at certain stages in your entrepreneurial career or in your personal life, and adjust accordingly.

So an example of this would be before the pandemic, I operated quite lean, because what I wanted to do was I wanted to keep all of my money allocated out. I ran a really tight ship in 2018. I did bottom line time, which is all about refining operational costs and maximizing margins.

So I was running my accounts quite lean. When the pandemic came, so I had it probably between six and 12 months. When the pandemic came, my first bit of feedback to all the property entrepreneurs was I would recommend now getting as liquid as you can.

As soon as it was announced, literally the day that lockdown was announced, I did a Facebook Live to all of our property entrepreneurs, and I said, my biggest tip for you going into this, we had no idea if it was going to be six weeks or six years we were going to be in lockdown, was to get liquid. There's times when you need loads of money around you, there's times when you need little money around you. The pandemic was a time when you need lots of money around you.

So what I did was I recapitalized my portfolio. So raised, released money from my portfolio. Any opportunities to get bounce back loans, even if we didn't need them, we took them just in case.

Any opportunity to sell any lemon stock that just wasn't good. Any mortgages that perhaps needed gearing up. Any things like when the residential market came back and really spiked, good opportunity to exit at the top of the market while we had that stamp duty holiday for stock that doesn't yield very well, it's got stuck in your portfolio, and actually you'd be better off selling it and reallocating the capital.

Just getting as liquid as possible, doing loads of deals, selling some companies, brokering some companies. During the pandemic, I got to a position where I had several million pounds around me in these various accounts where if you looked at the budget, I may have only needed say half a million pounds, but I actually had several million in the bank, which logically doesn't make any sense against this bank account blueprint, but strategically makes perfect sense because you want money around you. One, to survive the pandemic, and two, so that when we come out of it and the market goes again, you're the one with cash, you're the one that can move first, and you're the one that can do deals.

And off the back of that, I went out and made over 3.5 million pound extra profit buying deals, cash, doing things that you could never do before the pandemic because I flexed it accordingly. Now we're coming out of the pandemic and not a huge surprise, we've pumped the economy full of quantitative easing, there's money everywhere, so inflation has gone through the roof. Inflation is basically the devaluation of currency.

That's what it means. It means the cost of goods is going up, which means the value of the money in your pocket tomorrow is going to be worth less than it is today. So actually having cash in the bank is a really bad thing because for every million pounds you've got in the bank at the minute at 10% inflation, you're probably losing seven to 10,000 pound a month just by the corrosion of liquid capital value, but it's not a good place to be.

So during the pandemic, for two and a half years, I got really liquid, had loads of inflated cash in the bank. Then it was a plan of ride. Now we've got high inflation, I want to go quite lean again.

So went ultimate lean, some of my accounts down to three months, some of the ones that have been 12, 18 months down to six, and went ultimate lean. And I wrote a plan, an 18-month plan from the end of the pandemic up until literally two months ago to allocate all of this capital. You've seen me buying development projects, you've seen me buying commercial, you've seen me buying private schools.

In many of these cases, I'm buying them cash, which doesn't make sense from a leveraged ROI perspective, but from acquiring assets that go up with inflation and moving the cash out of a negative rate inflation environment in a bank account where it's going down, it actually makes complete sense. And as of about last month, I got as lean as I'd ever been, leanest I'd ever been in my bank account. And actually now that I'm lean in the bank account, I know that I don't want to be that lean.

It makes me a bit uncomfortable. I'm not used to having such little amount of money in my bank. So actually now I'm going back to 12 months because I know that it makes me more comfortable.

The second top tip is that with that additional liquidity, you don't have to leave it in the bank account. So you can have other liquid environments like either NS and I, where you can have over your 80 grand limit, which is backed by the treasury up to about 2 million pounds. You could use premium bonds, you could use offset mortgages, you could use probably not trackers because they are going to be volatile to the market.

You could use rolling government bonds. If you've got a million pound that you want liquid, but you want to keep it tracking, you could put it on six month fixed yield bonds, but roll it so that you're constantly coming up to expiration. Just anything to get the best of both worlds, really.

The third would be, although you need money around you, I would say have the working capital requirement around you just to really give you that lifeboat money, that security, that confidence to sleep at night without ever worrying. What you also want to do is have emergency credit lines. So an emergency credit line is where you can get access to somebody else's money at the click of a button.

So this would be things like overdrafts, drawdown facilities, credit cards. Now I'm not a huge advocate of credit cards. I use tens of thousands of pounds a month on credit cards, but I pay it off straight away.

But I've got credit cards that I haven't used for three to five years, but they're sitting there, they're in the safe at home. And I know that I've got 50, 100 grand on credit cards if I need it. And something does go really, really wrong.

The fourth top tip would be don't fall into the trap of being asset rich and cash poor. And what I mean by this is when you've got loads of capital around you, like you've sold your business, you've sold a big development, whatever, you could plow that all into investments and end up being asset rich. You own loads of assets and your balance sheet's looking good, but actually your cash flow is really tight.

You don't want to end up and fall into the trap where you're asset rich and cash poor. You want to make sure that everything you do, every time you do it, you're getting paid. So you want to make sure that if you're going into a business, a joint venture, you want to be getting paid a consultancy fee every month, a management fee for running the company, a non-executive director fee.

That's your cash flow that comes in every month. You then want to have your chunks of cash. So this could be your profit strategy.

On top of getting that monthly fee, you want to have like a dividend or a monthly bonus or a deal fee. If you're a non-exec on an investment company, every time they get a marketing contract or a deal completed, you get 1,000, 10,000, 100,000 pounds as a fee. And that's your balance sheet, your net wealth.

That sort of ramps things up. And then finally, you've got your assets. You obviously want to own assets, long-term wealth, pension fund.

It's the way you're going to genuinely create generational wealth. Don't fall into the trap of being asset rich and cash flow poor. And then finally, this is like a real level up.

If some of this sounds basic to you, which I assume is probably very few, and you want to take it to the next level, again, listen to the 10 layers of wealth. But in there, I talk about the concept of the working capital forecast. So working capital is basically a snapshot that we do at minimum the first Saturday of every month, first working day every month.

But if you want to really take it to the next level, you can actually create a 12-month forecast, which says, right, this is what the bank account is today. And then I know, for example, at the end of this month, I'm completing on a school, which is 1.6 million pounds. So at the last working day of this month, I'm going to have to spend 1.6 million going out. So my bank account balance is obviously going to go down significantly. And I need to make sure that if that's going to take me below my working capital requirement, I need to then put money into the bank account to balance the book. And at the highest level, at the real high net wealth investor level, this is just about allocation of capital.

You're not really interested in cash flow. You're not interested in profits. You're interested in looking at your asset balance sheet, buying assets, allocating capital, and playing the game of keeping as lean as possible without putting yourself in a difficult position.

And that will show you over the next 12 months, not only you've got enough money in the bank today, but today, tomorrow, and the future, you're absolutely protected. Hopefully, you've enjoyed that. And that blueprint is, if you have the anxiety of not having enough money in the bank, are you going to make payroll next month?

Really, really straightforward, really simple. Follow those steps. Write the accounts down.

Write how much you spend a month. Working capital requirement. Work out the budget.

Then record the actual. And it's just a game of staying in that safe zone. Success and failure are both very predictable.

And like I said at the beginning, no business ever went broke from a lack of profit. They only ever go broke from a lack of cash. And if you use the bank balance blueprint, that will never be a problem you have.

Hope you've enjoyed this. If you don't want to miss another episode, make sure you subscribe, share this, and you'll never miss another blueprint. Success and failure are very predictable.

And I will see you on the next episode. I hope you enjoyed this episode of the Official Property Entrepreneur Podcast. If you are not already subscribed, click subscribe now to make sure you never miss an episode again.

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