



From the series for MAGIC Magazine

## Part IV: Finances

Who in our society gets richest, fastest? Big Hollywood stars? Heiresses? Entrepreneurs? If you look at the 100 richest Americans from the Fortune 400, you'll find mostly entrepreneurs. The good news here is that if you're running your own business, you are an entrepreneur.

In the world of entertainment, I like to remember the stories of Buster Keaton and Harold Lloyd. For those of you who may be less than enthusiastic about early cinema, these were two of the biggest comic film stars. Keaton's films were nearly as big as Charlie Chaplin's. Critics widely agree he was a genius filmmaker. Harold Lloyd was also a big star, but not really at the level of Keaton. However, Keaton died penniless, and Lloyd died one of the richest men in Southern California. What made the difference?

I would suggest it was their different mind-sets. Keaton never understood finance. He would work anywhere he could for whatever money was offered, and when he was "big" would spend his large paychecks more or less as they came in. He had a lavish lifestyle when he was doing well, and a not so lavish one when he wasn't. Lloyd probably got paid nearly as well as Keaton, but he put his earnings into real estate and small companies, not into a lavish lifestyle. He paid attention to his business. When he retired, his money continued to make money for him. He was known for being thrifty and paying attention to every penny he spent.

Most famous magicians in history have been more like Buster Keaton than Harold Lloyd. They lived lavishly when they were at the top of their success, but never managed the huge amounts of money they earned, and died with almost nothing.

You'll find it extremely important, as an entrepreneur running your own business, to be able to manage your finances. This begins with being able to keep track of where all your money comes from and where it goes to.

It is said that the children of John D. Rockefeller, one of the richest men in history, were each required to keep detailed account books of every penny they took

in and every penny they spent. If they spent two cents on a chocolate bar, that had to be entered in their account books. If they put two cents into a savings account, that was entered. Rockefeller would often check up on them, making sure books were up to date. None received lavish allowances, and if their books weren't up to date and accurate, they received nothing. Why, you might wonder, would one of the world's richest men be so concerned about every penny his children had? The answer, I think, is because he wanted to instill in them the importance of managing their money.

There is a phrase a friend of mine likes to use: "Where attention goes, energy flows." He means that if you want to see movement or change in some part of your life, you must pay attention to it. Nowhere is this truer than with your finances.

Unfortunately, when it comes to dealing with the details of financial management, most of us are better motivated by negative stimuli than positive. The pain of having to deal with the IRS or another government agency charging large penalties and ridiculous interest if you haven't given them their due — either in actual dollars or in the reports they demand — is probably the strongest motivator for most of us to take care of our financial matters.

This is really too bad, because few things will give you a better idea of how your business really functions, and how to begin growing that business into a strong income generator, than really paying attention to financial matters.

So, how does one go about managing one's finances? Rockefeller's example is a good one. Keep track of every penny. When it comes to managing your business finances, though, the first step may be to separate your business from your personal finances. If you use a single account or credit card for both business and personal expenses, it can quickly become a hopeless job to separate the two, and figure out how your business is really doing. Establishing a separate bank account, and assigning one credit card to handle all your business expenses, then, is a good first step.

Today, it's much easier to keep track of your finances using a computer than it is with paper and pencil. Using programs like Quicken, Microsoft Money or any one of a dozen others, you can do all your financial tracking on your computer. If you write your checks using the program, and print them from the

computer, you will avoid having to enter the same information twice – once on the check and a second time in an accounting book. From the Internet you can download bank statements and credit card statements directly into these programs, and then do just a bit of additional work to put each item into its appropriate category.

What's a category, you ask? The IRS will allow you to deduct certain business expenses from your overall taxable income, so you need to be able to tell them exactly what you spent for each of the categories they allow you to deduct. Some of the categories you might want to track as a magician would be your expenses for props, magic & business books, office supplies, advertising and marketing expenses, agents commissions, rental of storage or rehearsal spaces, any office expenses you incur...and more. Your accounting program will come with a default set of categories, and maybe several – but not one for running a business as a magician. You'll need to make some adjustments. It's best to create a list of such categories and go over them with your accountant or tax preparer before you begin entering transactions. If you categorize each expense as you first enter it, you won't have to go back at the end of the year and try to remember what each receipt or check was for.

Besides dealing with government requirements, it's useful to know where your money is going and where it is coming from. If you can keep track of each transaction, assigning a category and perhaps tracking it by job, as well, you'll begin to get an understanding of how your business functions financially.

While it's all well and good to track your banking and credit cards through an accounting program, there will invariably be things you pay for with cash or with a credit card other than your primary business card. For this, I maintain a special "Out of Pocket" account; which looks just like another bank account in Quicken. I keep all of my receipts, write on each one what it was for, and then enter them all at the end of each week.

Let's talk for a moment about basic budgeting. To create a budget, say for a particular job you are contracted to do, you first list all of the possible sources of income from that job: Your fee, travel reimbursement (if any), sales you might make at the job, etc. Total these up, and you'll have your total revenues (income) for the job. Then list all of your expenses in connection with that job: disposable props (like snowstorms), travel expenses, the cost of administering the job (postage for a contract, printing costs, accounting in connection with the job, etc.), travel expenses, marketing expense you attribute to the job, general overhead such as insurance, storage rental, etc., which you can divide amongst all of your jobs over a month or a year, and so on. Some performers also like to add in the amount of time they spend at a

particular hourly rate, including all of the time they have spent marketing, selling, administering, packing, rehearsing, traveling to/from and performing the job. By subtracting the total expenses from the revenues, you'll find out your profits for the job.

This is the form of a basic budget: all income less all expenses, yielding net profit or loss. You can construct one for each job, or for each week or each month. Many accounting programs will allow you to set up a regular monthly projected budget, and then check each month to see how close you came to your projection. You can also set up your budgets for each job within the program, and then track how closely you come to meeting the budget.

One of the many advantages to paying attention to your exact financial situation is in meeting financial goals. Ultimately we all want to reach a point of financial independence – a place where the money we have saved and invested generates enough for us to live on. Ideally, you want to do this before you consider retirement. When it comes to growing your financial situation, paying close attention is crucial. Otherwise you'll find that, although you may have increased your earning capacity, you've increased your spending capacity at the same time and wind up not having added to your savings and investments at all.

Once you've kept good track of where all of your monies have come from and gone to over a period of several months, you'll find yourself in possession of knowledge that will allow you to make decisions that will both increase income and decrease expenses. This is the time to begin exploring the "reports" menu in your accounting program. You'll find you can generate reports show your overall profits, specific reports for each vendor or customer, tax liability reports, and more.

Not long ago we analyzed our advertising expenses for Jeff McBride's Magic & Mystery School against where the students told us they were hearing about the classes. We found that though we were spending equal amounts advertising in several different places, only one or two of those was actually generating sales of classes, and thus were able to significantly reduce the amount we were spending on advertising without having any adverse effect on our income from the school. The money saved went directly to the bottom line, which increased profits by several thousand dollars a year as a result.

Like all of the other parts of the business pyramid, financial management is essential. It is one of the easiest aspects of running a business to overlook until you're in trouble. Therefore, it's probably *more* important that you do pay conscious attention to it. I find that I check in on my financial status at least twice a week. As long as I keep up with it, I don't have to give it an excessive amount of time or attention.

However, if I let it go, even for a week or two, I begin to have problems and unpleasant surprises. Reports aren't filed on time, bills don't get paid on time, and my lack of attention begins to cost me both time and money. This is time and money that could be much better spent on developing new aspects of the business or other more pleasant pursuits.

So, remember: You are more than a magician and performer. You are an entrepreneur, and your job is to see to the overall health of your business. Give each part the attention it deserves, and you'll find yourself well rewarded. You'll find this especially true when it comes to managing your finances.

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