<u>Fundamentals of Money Management</u>

Financial Planning

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OPINION – In today's society, financial planning can mean the difference between living the "American Dream of Financial Success" or "Living the American Nightmare of Poverty." In this article we will discuss Financial Planning and a Five Step Process which, when implemented, reevaluated and revised continually will help you reach financial freedom.

Step One: Analyze Your Current Financial Position

- Before you can move forward with your financial plan, you need to determine where your money is coming from and where it is going. Collect and organize all your financial information. Create a personal financial statement that identifies Your Spending Personality (see Article 1 of this series).
- Evaluate your current financial (budgeted) position to establish a baseline to measure improvement in the future (three – six months). This step may involve hard work for those who are "organizationally challenged." Therefore, be sure you keep a record of everything by tracking actual expenditures and identifying small financial problems before they turn into big ones.

Step Two: Develop Short-Term, Medium and Long-Term Financial Goals

Everyone has dreams of something. What are yours? Have you thought about where you want to be?

- Next year?
- Two years from now?
- Five years from now?

For some of us, success is defined in monetary terms and for others, in varying levels of personal accomplishments and achievements. To define your success, this second step requires you to identify and prioritize specific goals and objectives.

Setting goals should involve an internal assessment of why you have set those particular goals. Example: are your objectives focused on your needs or your wants?

Caution: Needs – are things necessary for survival.

Wants – are your bucket or wish list.

Are your objectives related to pressures from family, friends or peers?

Caution: Never try to keep up with someone else. Be your own financial master!

Keep in mind that short-term and long-term goals change over time and may be influenced by changes in economic circumstances such as job changes, marriage, children, health and age.

Step Three: Identify/Evaluate Alternatives to Achieving Your Goals

Every person's goals and objectives are unique to his or her circumstances. The strategies for achieving them are different from person to person.

To have more money available to meet current or future goals, you either have to reduce expenditures or increase income. In other words, there has to be some sacrifice.

The process requires you to identify alternative strategies for achieving goals and compare the costs and benefits of each.
Examples:

- Should I go and spend my money out on the town or just go to a movie?
- How much money should I set aside for that special vacation?
- Is it better to start a Christmas club account at the bank or use credit cards (no!) for gifts?

Step Four: Implement a Plan for Achieving Your Goals

- Using the information developed in Step Three, decide on the best strategies for achieving your goals so you can implement your plan. To acquire fundamental financial knowledge, you will need analytical tools that help you. The internet is full of tools to make effective financial planning decisions. My favorite is: www.bankrate.com because it has built in questionnaires that can guide you through making the right economic and financial decisions for your personal situation.

Doing Step Four will help you meet your basic household needs, build wealth over time, and protect your income and assets.

Step Five: Regularly Reevaluate and Revise Your Plan

Many changes occur over the course of your life. Not only do changes in your personal circumstances (e.g., graduation, a job, marriage, children, age and health) affect your financial planning objectives and strategies, but economic conditions may necessitate a revision of the plan as well. Your financial plan must be adaptable to changing circumstances. Thus, Step Five takes you continually back to Steps One through Four.

Our next article in this series will be on “Being In It For The Long Term.”

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