White Paper

Personal Financial Planning

ASSESSMENT:

PERSONAL FINANCIAL PLANNING

BGW CPA

Balance. Growth. Wisdom.

7. Personal Financial Planning

PERSONAL FINANCIAL PLANNING

Ask yourself the following questions:

- How much have I put away for retirement each month/year?
- Am I getting the maximum return on my investment with the least amount of risk?
- Will the amounts I have saved allow me to maintain my current lifestyle or will I have to cut back?
- Will I outlive my money?

If you can't answer even one of these questions, it is time to reevaluate your personal financial plan (or start one). Personal financial planning involves figuring out how much money you need at retirement to produce the cash flow that will sustain your lifestyle. To get the best results, you need plan the outcome you want and then create steps to achieve it. In other words, you must create a strategic plan for your money.

Laying the Foundation: Taking Your Personal Financial Inventory

Step 1: Organize your financial information.

Gather all the important information about your personal finances including credit card numbers, policy numbers, financial records, wills, trusts, and other legal documents. Store copies in three separate locations — at home, the office, and in a safety deposit box at the bank. Update any will, estate plans, and other key documents at this time.

Step 2: Create a personal financial balance sheet.

Conduct a realistic inventory of your assets and liabilities. Include liquid and fixed assets as well as short- and long-term liabilities.

Step 3: Determine your cash flow needs.

Tally up all annual living expenses to determine your current and future cash flow needs. Be sure to build in a reserve for unexpected expenses. Ask yourself questions like, "How much do I need each year to maintain my current lifestyle?" and "Can we really afford our current lifestyle or are we spending above our means?" Answering these questions honestly will go a long way in determining your future needs.

Understanding Investment Principles

You stand a better chance of achieving your investment goals if you adhere to certain fundamental principles:

- Manage your personal finances like a business.
- Start early and make savings a habit.
- Be realistic about what you can accomplish.
- Understand risk.
- Don't over-estimate market returns.
- Don't strive for higher returns than you need.
- Forget about market timing.
- Don't approach investing as a hobby.

Once a year, accumulate your assets and determine where you stand versus your plan.

Asset Allocation: The Secret to Successful Investing

Four classes of assets form the majority of most investment portfolios: cash and cash equivalents, bonds, stocks, and tangible assets like real estate, gold, and oil. Successful investment strategies always include a mix of these classes and aim for long-term returns. This reduces risk and increases the likelihood of getting the returns you need to achieve your financial goals.

When deciding where to put your assets, consider the following:
Diversification -- Dividing your investment portfolio among the different asset classes is mandatory for minimizing risk and maximizing returns.
Re-balancing -- Smart investors adjust their asset mix when one area of their portfolio starts to outperform the others.
Reversion to the mean -- The longer a particular asset exceeds average rates of return (for its class), the more likely it is to revert back to the mean and under-perform for awhile.
Dollar cost averaging -- To reduce risk and smooth out the inevitable ups and downs of the market, invest a fixed dollar amount at regular time intervals regardless of the price level of the market.
Focus on asset mix -- The right asset mix will be determined by your long-term goals.
Adjust the plan --Adjust your strategy only when meaningful changes occur in your personal finances, changes that will alter how you contribute to your investments.

Ultimately, investing involves a game of risk versus reward. Your best strategy is to invest appropriately in all the major asset classes, develop benchmarks to measure how well you are doing, and then have the discipline to stick with your plan.

Selecting Your Financial Planning Team

The financial planner and the investment manager form the core of every effective planning team. The best financial planners act as consultants rather than salespeople, help you identify problems and devise possible solutions, and have training and expertise to guide you through complex investment decisions. Good investment advisors create and monitor diversified investment portfolios, achieve and appropriate return equal to the risk you are willing to take, and stick to your investment strategy without emotion. Their two roles are different but essential.

After you have those two cornerstones in place, the rest of your team should include a broker/dealer, custodian/ trustee, attorney, CPA, and insurance agent. Be sure to hire only licensed and/or registered professionals, and avoid anyone who tries to sell you the latest "hot" product. Avoid "lone wolf" types who cannot work well on a team. Finally, fee-based, rather than hourly rate, advisors are also recommended.

ASSESSMENT: PERSONAL FINANCIAL PLANNING

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, 1 check or less = severe problem area; 2 = area needs major improvement; 3 = area needs moderate improvement; 4 = area needs minimal improvement; 5 = system is world-class in this area.

Basic Planning

____ I have clear, written, long-term financial objectives that are based upon my retirement goals and cash flow needs.
____ I pay close attention to the tax and estate planning implications of all my financial planning decisions.
____ I have a team of experienced advisors who specialize in personal financial matters.
____ I review and adjust my personal financial plan at least once a year or as changes in my personal life or investing abilities take place.

Investing

____ I have a clear investment strategy designed to achieve my long-term financial objectives.
____ I understand that long-term success requires sticking to my plan with discipline and patience.
____ I have a diversified portfolio with a mix of assets in all four major asset classes.
____ In order to minimize risk, I aim only for the returns needed to achieve my goals.
____ I understand risk and my own tolerance for taking it.

Picking Stocks

____ I have an appropriate mix of stocks within my overall investment portfolio.
____ I never buy a stock based on a "hot tip" but on the sound advice of a professional dedicated to my furthering overall strategy.
____ I don't try to time the market, but use dollar averaging and re-balancing to minimize risk and maximize gain.
____ I invest in stocks for the long term, ignoring short-term ups and downs in the market.
____ I have reasonable expectations for long-term rates of return (10-11% over time).