

HOW TO BE YOUR OWN FINANCIAL PLANNER

Financial and investment planning is a skill that is never mastered. People can get good at it – very good in fact, but you are always working against a moving target. The economy, government policies, global demand for capital, commodities and labor and personal goals that keep changing all make it hard to have a concrete agenda. However, **those that plan are much better off than those that do not**. Here is a 13-step tool kit to use to plan your own finances.

1. **Purpose of Planning:** Write down the purpose of why you want to plan. Review it to see if it is realistic and addresses your overall big picture concerns
2. **How much you spend:** Determine how much you are currently spending a year, and how much you will be planning on spending at later intervals in your life
3. **Short-Term Goals:** Write down what you want to accomplish over the next few years
4. **Long-Term Goals:** Write down longer-term goals. Based on your age and situation, this could be five years from now, or twenty-five years
5. **Risk profile:** Write down what you understand risk to be about and how you feel about stocks, bonds, commodities, real estate and if you have one, your business. How do you view inflation as a risk factor? Did you already win your “personal lottery?”
6. **Cash flow:** What is your annual cash flow and what do you expect it to be at various stages later in your life
7. **Net worth:** Tally up your assets and debt. What is your financial net worth? Do you have a sensible way to pay down your debt, or get it under control? Determine likelihood of your net worth growing and how
8. **Asset allocation:** Based upon your goals, determine how much of your net liquid assets should be allocated to rainy day funds, stocks, fixed income and other broad investment categories and at what levels of risk
9. **Relook at your asset allocation:** Take another look at what you did. Does it make sense? Do your rainy-day funds reflect immediate and possible emergency needs? Make sure you are reasonably comfortable with the allocation categories
10. **Number crunching:** Work out potential cash flow from your asset allocation. Estimate expected interest, dividend and stock appreciation rates. Include income from your job or business, Social Security and pensions. Be realistic on the low side. If your income estimate is too low, you won't get hurt; if it is too high, you could be hurt! Overestimate expenses for same reasons
11. **Whether goals are attainable:** Match the cash flow against how much you spend and plan on spending. If there is a short fall between your cash flow and spending, you should consider adjusting your spending, increasing risk, working longer, or even getting another or a part time job. What many people do not realize is that financial goals are behavioral. Spending can be controlled or curtailed to accumulate funds that will enable future goals to be attained, or goals can be altered. For instance, a 52-year-old might want to retire at age 60 but because of the funds they presently have and are expected to accumulate, they will not be able to retire until age 64. By curtailing certain spending and investing a little more aggressively, they can cut two years off and retire at age 62. It is then their choice to change present spending or their retirement goals

12. **How to attain goals:** Write out a clear plan based on everything done in the first 11 steps that shows how you will attain your goals. That will become your big picture plan that you should now follow
13. **Plans are road maps:** Road maps point you in the direction you want to travel, but lots of time there are unplanned for turns, tie ups or unexpected roads. The plan and goals will help you better maneuver those bumps and forced changes

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