Financial Planning Brings Peace of Mind for Your Future

If you do not know where you are going, how will you know when you get there? This is especially true for financial goals. Setting financial goals will help you make better financial decisions and as a reward for your efforts. These goals should be clear, concise, detailed and recorded—unwritten goals are just wishes. Those who set goals and fail may find that they simply were not realistic. So, the first step is to determine what is possible and what is not.

Determine What's Possible

You achieve your financial goals when you have the cash or assets available to satisfy some immediate financial need, want or desire at the appropriate time. For example, suppose you want to buy a brand-new car that costs $30,000 in cash five years from today. If you have the $30,000 five years from today, you might achieve your goal. That is all definite, but is it realistic?

Make a plan. Starting with assets that are already available, determine how much more you need to accumulate and by what time. Consider the following in your plan:

- Is it likely that the price of your goal items may increase over time?
- Will you receive interest, dividends or capital gains that will help you along?
- How will taxes affect your savings?

Set Your Time Horizon

Consider how important it is to achieve your goals on time. Some goals are so important that not achieving them could be severely detrimental. When a goal must be achieved by a specific date, you must plan conservatively, save more money, and take less investment risk to ensure against loss. However, if the timing isn't as important or if you have discretionary assets and can take some investment risk, you might be able to invest more aggressively.

Let's say you needed to save an additional $15,000 in five years to buy the car mentioned above. After five years, you only manage to accumulate $27,000—you're $3,000 short of your goal. So, it will take you longer to buy the car. Had you invested more aggressively, you might have made the goal, but you might also be worse off. In this case let your risk tolerance, or the amount of risk you can take without abandoning your goal, help you determine your time horizon.

Goals should be categorized as follows:

- Short-term (three years or fewer)

- Intermediate-term (three to seven years)
  Long-term (more than seven years)

The longer the time horizon to achieving a goal, the more aggressive you can be in your investment approach. However, never exceed your risk tolerance. If you approach setting financial goals in this way, you will make better financial and investment decisions.

Always monitor your goals to be sure they are on track. Set up a way to measure your progress. If you see that you are lagging, you may need to make an adjustment in the amount or way you are investing. If you are way ahead, you may want to be more conservative, shorten your time horizon or add a new goal.