

HUMBERTO CRUZ THE SAVINGS GAME

Follow Steps For Financial Planning

October 5, 2009 | HUMBERTO CRUZ THE SAVINGS GAME

While touring Orlando with a group, some of my companions asked what I do for a living. When I said I write about financial planning, they all asked if I give stock tips.

Regular readers know I don't. This common question reveals a fundamental lack of understanding of what financial planning is.

The Financial Planning Association, a professional membership organization, has designated Oct. 5-11 as Financial Planning Week. So what better time to try to demystify this topic?

Financial planning is "the process of meeting your life goals through the proper management of your finances," says the Certified Financial Planning Board of Standards, an independent group that licenses certified financial planners.

This is done by "gathering relevant financial information, setting life goals, examining your current financial status and coming up with a strategy or plan for how you can meet your goals given your current situation and future plans," the board says.

There's the rub. A lot of people don't have a strategy or plan or a goal. Without a clear and measurable goal, it's impossible to come up with a plan to achieve it.

"I want to be rich" is not a goal. "I want to save \$30,000 over the next 10 years to help put my child through college" is, and one you can measure. Within this context, you can set intermediate goals: For example, save \$3,000 after one year.

Reader mail and other anecdotal evidence suggest few people think them through, and even fewer write them down, which forces you to spell them out more clearly and strengthens your commitment to them.

Example: Walking along a row of fancy boutiques, a woman in our group lingered in front of a window displaying a \$359 dress.

"I want it," she said longingly. If her credit card had not been maxed out, I'm certain she would have bought it.

But is her goal to buy all the fancy dresses she likes? And how would that conflict with more important goals, including paying off her credit card balance?

If she had committed to that goal, the temptation to buy the dress, or anything she does not need, would be easier to resist.

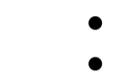
The financial planning process should include six steps, according to the Board of Standards:

Establishing and defining the client-planner relationship.

Gathering the client's financial information and goals.

Analyzing and evaluating the client's financial status.



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Developing and presenting recommendations and/or alternatives, which may include saving, spending, budgeting, investments, insurance and tax and estate planning.

Implementing the recommendations.

Monitoring the client's progress toward the goals.

Except for the first step, these are things we can do on our own if we can't or don't want to hire a planner.

But I've met few people who keep careful track of their finances or come close to estimating their net worth. For tips on financial planning, visit FPAforFinancialPlanning.org.

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