

Developing a Financial Strategy

The prospect of developing and adhering to a financial strategy can be overwhelming. However, it does not have to be so complicated. Consider taking these three steps:

- Measure your current financial status
- Determine your financial objectives
- Identify the steps you need to take

Measuring your current financial status can be accomplished by preparing a personal balance sheet.

Determining your financial objectives is simple. Most people name these primary financial objectives: developing retirement security, creating an education fund, increasing current income, reducing taxes, and passing on an estate with accumulated wealth. Quantifying what it will take to reach those objectives can be more complex.

Here are some points to include in your financial strategy.

Sensible spending.

Get serious about understanding how you spend your money. Prepare a household spending worksheet. It will enable you to prioritize your spending and identify areas of potential saving.

Prudent borrowing.

Borrowing is a wonderful way of obtaining things that are otherwise beyond your current reach, but borrowing costs money. Limit your borrowing to things that provide lasting and ongoing value (such as an education, a home, or vehicle) and try to squelch your need for short-term gratification (extravagant vacations or expensive jewelry).

Prudent borrowing also includes making sure the rates and terms of your loans are the best you can get. Before borrowing (whether it is a credit card, auto loan, mortgage or other loan), make sure you understand all the terms. The interest rate, length of loan, and method of calculating interest should be clearly understood.

Consistent saving.

Using a payroll deduction or another automatic savings program is a successful way to save. Automatic saving plans result in consistent deposits and are available in a number of forms. Select one that fits your budget and meets your long-term needs.

Wise investing.

Investments come with risks that bring higher returns to compensate for those risks. Understanding the risks of loss, price fluctuation, and inflation are necessary when creating a sound investment strategy. Diversification, asset allocation (dividing funds into stock, bond and cash investments), and investment costs should all be considered as part of a wise investment strategy.

Protecting your assets.

You should review your insurance coverage periodically. This includes homeowners/renters, health, disability, auto, and any umbrella policies you may have. For peace of mind, make sure you have the right combination of coverage and deductibles. If you use insurance primarily for "catastrophic" coverage, remember that higher deductibles usually translate into lower premiums.

For life insurance, evaluate how much you really need. If your family would need significant funds to replace your income, a larger policy may make sense. If you are single, perhaps a smaller policy (and smaller premiums) will be sufficient. Also, compare the benefits and costs of term and whole life policies. For younger, healthy individuals without a need for permanent protection, a term policy may be the best choice.

Using a qualified advisor, if you need one.

In areas where you need or want help, find the right advisor. It may be an investment professional, insurance agent, financial planner, credit counselor or trusted family friend who can provide guidance. Make sure the person is qualified and that you are comfortably in the working relationship. Do your homework. The more knowledgeable you are, the better you will be able to evaluate recommendations. Remember that your decisions will affect you and your family for a long time.