Ten Personal Financial and Investment Planning Steps in the Right Direction

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This ten-step personal financial planning process will help you optimize the management of your financial planning and investment management affairs over your lifetime, while reducing the unnecessary waste of your money and your time.

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My goal is to increase your knowledge and accelerate your ability to take leadership in the management of your own personal finances and investing over your lifetime.

I can help you to improve your family's lifetime financial planning significantly.

If you need personal help, click here and start a personal conversation with me!

The 10 step personal financial planning and investment management process described below will help you to understand the important work that we will do together. You will have every opportunity to be an active participant in this process.Step 1 - Develop your personal investment and financial planning skillsBecause you must live with the results, you are completely responsible for your financial and investment success or failure. Delegating financial planning and investment decisions to advisers largely on faith can be very dangerous. Naive hope without adequate personal financial knowledge, attention, and control can be very risky to your personal and family welfare. The only practical solution is for you to increase your personal financial planning and investment knowledge and skills.Educating clients about scientific investment and financial planning is extremely important to me. As such, I have written many educational materials that are of interest to my clients and the general public. My scientific finance publications on *The Skilled Investor* website and blog are usually the reason that people learn about my fee-only, independent financial planner and investment consultant services. Your questions are important to me, and you should expect there to be a factual basis for any strategies and recommendations that I make. Please ask any and all of your questions, as we work together. During the course of developing a comprehensive, personalized plan for you, I may provide copies of educational materials that I have written and even original scientific finance papers that are particularly applicable to you. Step 2 - Set your personal savings, earned income, and other financial planning goalsThe single most significant financial lever that individuals control directly is their management of personal expenditures. The second is their lifetime effort to obtain sufficient income. Most people simply do not save enough of their current income to fund adequately their future needs.To analyze your financial affairs in detail, we will use VeriPlan. VeriPlan is a very sophisticated and customizable computer planning model that I have developed in-house. VeriPlan enables you to view graphical projections of your family’s income, expenses, assets, and debts across your lifetime. Data inputs reflect your particular situation and include all your assets, including cash, bonds, equities, property, real estate, private equities, and business interests. Step 2 is a very important step, because this is where we construct your baseline financial plan and measure your current financial circumstances and goals and intentions for the future. We will work together with you during the planning process to gather information, input data, adjust assumptions and discuss the results from VeriPlan.For more information about VeriPlan, see: About VeriPlan -- Personal Finance Software for Your Lifetime) VeriPlan can vary future expected investment returns by asset class, and it automatically analyzes the details of your taxes and investment expenses. Any and all assumptions can be changed for instant “what-if” testing. The model’s risk analysis capabilities evaluate how well your future assets would cover normal and extraordinary expenses, if market or personal circumstances disrupt your plans. Unnecessary investment fees can substantially undermine your returns. VeriPlan projects the returns you will waste with such fees, if you do not choose more cost-efficient investments.Step 3 - Assess your personal investment return and risk tolerance preferencesInvestors with different levels of risk tolerance are more satisfied by the expectations associated with investment strategies that are better aligned with their risk preferences. Differences in risk tolerances mean that more risk-averse investors are personally more satisfied with a lower risk portfolio despite its lower expected returns. Less risk-averse investors are more satisfied with portfolios characterized by higher risk and higher expected returns. While there are a variety of approaches to the measuring relative investment return and risk preferences, we do not believe that a simple, short 'check-a-few-boxes' survey is sufficient. Therefore, you can expect that we will discuss several real-life financial and other situations that you choose from your past that involved significant risks and rewards. Similar to behavioral job interviewing techniques, we will assess together your likely behavior in the face of financial risks that might actually materialize. We will also discuss the implications of adopting a particular risk investment preference relative to the average investor, and we will test the implications of your risk preference using VeriPlan. With VeriPlan, you will be much better able to judge the expected outcomes of various investment allocations related to your risk preferences.Step 4 - Diversify fully within financial investment asset classesDiversification is genuinely a financial planning and investment “free lunch,” and it is a key contributor to improved investment risk management. Diversification has become an axiom of personal investing, because the specific risks of businesses and other investment entities can be reduced or eliminated from a portfolio without reducing expected returns. As such, our recommendations will usually focus on various forms of very low cost mutual fund and exchange-traded fund (ETF) based investments. A significant portion of a portfolio may sometimes become concentrated in a single investment entity, which increases the overall risk of the portfolio. While undesirable, there sometimes are good reasons for investment concentration. In such circumstances, we will provide recommendations on possible ways to ameliorate the associated risk.

If there are not good reasons to maintain the current level of concentration, then we will discuss steps to take to reduce this concentration.Step 5 - Allocate financial investments across the primary investment asset classesYour risk preference relative to the average investor with the average portfolio will influence your asset allocation, and adjustments will be made from there. Appropriately setting your personal asset allocation in line with your personal risk tolerance is a critical decision for every investor. Because the average risk-averse investor holds the average portfolio asset allocation, this becomes the starting point in determining how a specific individual’s portfolio might diverge from that average allocation.VeriPlan supports several mechanisms for allocating assets permitting a comparison of projections based upon different asset allocations. Anticipating allocation adjustments that may be needed in the coming year, we will also discuss how near-term net income might be invested to reduce the need to reallocate some of your portfolio in the future. If asset withdrawals are required to cover anticipated retirement expenses or other living expenses, we will recommend how to do this most cost and tax efficiently.Step 6 - Select financial investments rationallyGiven the extremely large number and variety of available securities, investors need a rational basis to select among them. Without rational selection criteria and a good understanding of which factors are more or less likely to increase risk-adjusted returns, investors will make poor decisions based on false assumptions.We will begin with the presumption that portfolio investment strategy would focus on broad-based, market oriented financial investments that can be acquired economically and held inexpensively in your portfolio for an extended period. We will provide a set of recommended investment vehicles and percentage allocations including a recommended minimum number of investment positions within each particular area. Consideration will be given to domestic versus international, value versus growth, small versus large capitalization, and other investment vehicles that may move the portfolio away from a broad market orientation. Of course, investment cost and tax implications will heavily influence these recommendations.Consideration will be given to your existing investment portfolio to determine what parts should remain and what should change. We will discuss a transitional plan for those parts that we recommend to change, and our recommendations will consider the cost and tax implications of making such changes. When appropriate, recommendations will also address adjustments that counterbalance any financial concentration that you may have elsewhere in your portfolio.Step 7 - Reduce investment expenses and control investment taxationEven with optimal investment strategies, there is still substantial room to improve upon net investment performance through continued and vigilant focus on controlling investment costs and tax realization. Investment fees extracted by the financial securities industry increased substantially during the past several decades on both a total and a percentage of returns basis. At the same time industry deregulation, market innovation, and increased competition have provided many new and useful mechanisms for investors to manage their assets in a much more cost- and tax-efficient manner.For your current asset holdings and for new investments we will model details of taxation and investment expenses in the projections. Recommendations will be provided which are designed to reduce investment costs, to reduce and defer tax recognition, and to shift tax realization toward lower tax rates. Recommendations for new investment will focus on very low cost, passively managed investment vehicles. A very wide variety of very low cost cash, fixed income, and equity investments are available through low cost channels, and there is no reason to purchase more expensive vehicles that are not expected to provide any better return or risk reduction.Step 8 - Insure against financial risks economicallyThe world is fraught with numerous potential risks – financial and otherwise. Insurance can be purchased for a wide variety of situations, but the issue is always value and affordability. Many people could spend all their investable capital on insurance and have nothing left to invest and build an investment portfolio. Therefore, we will discuss a budget for insurance expenses and your preferences for risks you are willing to bear and risks you wish to ensure.While value, affordability, risk exposure, and risk tolerance should affect insurance purchase decisions, insurance is often sold and purchased emotionally. The issue is where to set a rational rather than emotional balance between expected risk and return.Step 9 - Monitor and adjust your financial plan time-efficientlyTime in life is the most precious and perishable asset that a person has. It should be spent enjoyably and efficiently. Scientific investment strategies that rely on relatively efficient financial markets allow people to minimize their time commitment to investment management. Yet, on average, they are still expected to obtain optimal risk-adjusted portfolio returns that are near the market’s returnWe recommend an annual review of your personal finance and investment plan on approximately the anniversary of your initial plan. At that time we will update your personal financial planning model and recommend any appropriate changes. In the interim, we can work together to implement recommendations that you accept and to perform other financial services that you want. Step 10 - Choose objective and competent investment advisersPick financial planning and investment advisors solely to obtain objective and high quality advice. Specific investment advice is potentially of high quality, if it is carefully customized to your particular needs and is given by an adviser who is independent, knowledgeable, and competent. If you agree with the advice being given, then buy the recommended securities through the most inexpensive channel possible. We do not sell securities, hold assets in custody, sell insurance, provide accounting services, provide legal advice, etc. However, as part of our business development and networking efforts we make efforts to become acquainted with high quality professionals who can provide specialized assistance. In developing a plan for you, part of our focus will be on providing you with recommendations on how to acquire appropriate financial products and services both easily and economically.

Start a personal conversation today -- Simply click here to contact me now!

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See also:My Value to You -- Personalized Scientific Financial Planning ServicesBackground of Author Motivation of author and his individual investor education efforts Your Financial Planning and Investment Consultant Owes You Expert Unbiased Guidance

KNOWLEDGE -- OBJECTIVITY -- HONESTY -- CONFIDENTIALITY -- DILIGENCE -- EFFICIENCY -- SATISFACTION

These articles about financial planners and investment advisors may also be useful to you:Selecting a Financial Advisor:->Preparing to interview a financial planner or investment advisor ->Questions to ask, when hiring an advisor – Part 1, Background and training ->Questions to ask, when hiring an advisor – Part 2, Fees and contracts ->Questions to ask, when hiring an advisor – Part 3, Services and references Payment of Financial Advisors: ->Does it matter how financial planners and investment advisors are paid? ->Financial planner and investment advisor compensation paid by third parties ->Financial planner and investment advisor compensation paid by clients ->Fee-only compensation aligns the interests of clients and their financial advisors ->Fee-only financial planner and investment advisory groups ->The securities industry calls marketing and selling “advising” ->Many investors are not fooled by an ethically challenged securities industry Regulation of Financial Advisors:->Regulation of financial planners and investment advisors -- Introduction ->Checking the backgrounds of individual securities brokers and advisors who sell investments ->On-line information explaining the licenses of financial planners, investment advisors, and insurance representatives ->Online information about registered securities broker-dealers and investment advisory firms ->Finding state regulators of securities brokers, investment advisors, insurance agents, and insurance brokers ->Private certifications of financial planners and investment advisors ->Widely recognized private financial and investment advisor certifications ->Governmental and self-regulation of the securities industry Advisor Fraud->Avoiding financial planning and investment advisor frauds and scams – Overview ->Avoiding advisor frauds and scams – The “Never-do” list, Part 1 ->Avoiding advisor frauds and scams – The “Never-do” list, Part 2 ->Avoiding advisor frauds and scams – The “Never-do” list, Part 3

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