Step 2 - Set your personal savings, earned income, and other financial goals

Category : Financial Planning -- 10 Personal Steps in the Right Direction

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Set your personal savings and other financial goalsStep 2 of 10 Financial Planning Steps in the Right DirectionCLICK HERE TO READ THE SKILLED INVESTOR's OTHER ARTICLES ABOUT THESE "10 FINANCIAL PLANNING STEPS IN THE RIGHT DIRECTION." The 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 their future needs. Over their lifecycles, individuals must rely increasingly upon assets to replace earned income. Without the good fortune of receiving substantial inheritance and gifts or winning the lottery, a person can only invest if he or she saves. When saving to fund an investment program, people must live within both their current and future economic means. A positive difference between current income and expenditures usually represents intentional expenditure control and allows for deferred consumption. Personal savings will tend to increase with conscious planning and better expenditure decision-making. Better expenditure control results from a conscious decision at the point of each purchase about whether it fulfills a true need or affordable desire versus being just a passing fancy. Economists call the potential of each person to earn money, pay current expenses, and still set aside savings as their “human capital.” For most people, their personal human capital is all they have financially, until they convert some of it into more durable investment assets. A person’s cumulative lifetime labor earnings or human capital is variable, uncertain, and perishable. Income volatility has increased significantly at all income levels in recent decades and people must exercise increased discipline to restrain spending in a fluctuating income environment. The passage of time steadily diminishes total personal earning potential and human capital. Furthermore, illness and injury can randomly slash the value of one’s potential human capital, disrupting lives, and permanently altering the best-laid financial plans. Therefore, the first thing an individual must get right is his financial savings program. To ensure that an individual’s personal savings rate is high enough to build up an adequate asset base, he must understand, track, and project his cash flows. He cannot know the adequacy of his savings and progress toward his investment goals without measuring his current progress and comparing it to projections of his future needs. Concerning plans, any comprehensive cash flow projection must also include planned future cash requirements for living expenses and special requirements, such as a down payment on a house, college expenses, retirement, charitable giving, and estate bequests. Projected personal financial requirements provide the baseline expenditure plan over which an investor can overlay several likely income and investment return/volatility scenarios to test the adequacy of his current savings and investment plans for his lifetime.

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