

Financial Planning Building Blocks: Financial Planning 101

Is there a secret, or some magic, or inside information that will make you a financial success? Certainly some salespeople would make you think this is true. Even the media sometimes seems to lean in this direction. Let's look to see if we can uncover the financial success secret.

The CFP Board defines personal financial planning as the process of determining whether and how an individual can meet life goals through the proper management of financial resources. This definition assumes a few things. First, financial planning is a life-long process. It's not something you can do once, and then forget about it. Next, financial planning is personal. You are different from everyone else, and your planning process and objectives will be unique, too. Finally, financial planning is, well, financial. It involves managing your financial resources.

Great! We have a definition. Now, how do we *do* personal financial planning? The first step is to determine where you are now, and where you would like to go. Determine where you are now by reviewing all your relevant financial records—income and expenses, assets (e.g., home, car, savings and investments), legal documents (e.g., insurance policies, wills, trusts), debts (e.g., mortgage, car loan, credit cards)—and making a good list.

Use what you learn from this inventory to develop a statement of financial position (i.e., assets and liabilities), and a cash flow statement (i.e., income and expenses). As part of this process, make a list of insurance policies (policy numbers, who/what is insured, premiums and due dates), and other legal documents. Include the location of the documents along with any pertinent names and phone numbers. Finally, develop a budget based on the information you've compiled, along with a to do list for items that are missing (e.g., you don't have a will, or can't find some insurance policies).

To determine where you would like to go, think about your goals. Dream. What are your plans for the future? Do you have family obligations? Think about what you want to accomplish on a personal basis, as well as financially (I know, this is supposed to be *financial* planning, but most personal goals take money, so they are a part of the financial planning process). Just thinking about goals and dreams isn't enough. You have to quantify them. Determine a time-frame and a dollar amount for each goal. Be specific. This part of the process will take awhile.

You've just learned the secret of financial success: there's no magic, just good planning and hard work. After completing the two previous steps, you have to determine a plan of action and implement that plan. Each year (at least) you take another inventory, and review and revise your plan as necessary. It may be disappointing to learn that there are no real secrets. On the other hand, maybe it's not so disappointing. Almost anyone, including you, can reach their personal financial goals through sound financial planning, and you can take *that* to the bank.

— Michael Snowdon, CFP®