(This was part of a large module to train new stockbrokers at a major brokerage house.)

CHAPTER ONE: WHAT IS FINANCIAL PLANNING?

Whatever their resources, all individuals need to develop financial strategies to achieve their lifetime objectives. Financial planning allows people to set realistic goals and then implement measures to reach these goals. Those with limited resources need to plan especially carefully if they are to purchase a home, send their children to college, and/or enjoy a worry-free retirement.

Financial planning is a dynamic process that begins with ascertaining the individual's basic financial condition. Next comes identifying specific short- and long-term goals and then ranking them in order of priority. Goals and priorities form the "bones" of the financial plan that will come to life as the planner develops specific spending, saving, and investing strategies to meet these objectives.

The financial plan should be flexible enough to accommodate changes in circumstances. Encourage your clients to revisit their financial plans from time to time but especially after career changes, inheritance, or loss of assets. Periodic reviews not only help keep the goals and strategies up to date, they also remind people who may have slipped behind to renew their commitments to their objectives and the means of achieving them.

People may have the best intentions to prepare for the future, but without goal-oriented financial plans, they cannot be certain they will achieve their objectives. To paraphrase an old saying, "If you don't know where you're going, how will you know whether you get there?" Financial planning takes away the guesswork.

The Financial Planning Process

Below is a summary of the steps in the financial planning process:

- Ascertain current financial picture
- Set realistic goals
- Collect relevant data
- Identify barriers to achieving goals
- Set time frames for specific goals
- Develop methods for achieving goals
- Develop and follow a budget (if appropriate)
- Periodically re-examine goals and monitor progress toward achieving them
- Modify goals and methods of achieving them as conditions change

What Do People Need to Include in Financial Planning?

Financial planning should encompass all aspects of the individual's personal and family life that are influenced by monetary considerations. These include:

- Cash Management and Budgeting
- Retirement Planning
- Tax Planning
- Estate Planning
- Investment Planning
- Funding/Financing for Education
- Risk Management/Insurance
  - ✓ Life
  - ✓ Disability
  - ✓ Auto
  - ✓ Homeowner's
- Charitable Giving

Cash Management. Your clients can start by making the little things add up. A first step in any cash-management program is a money-market-rate checking account, a tax-exempt money-market fund, or some other vehicle with check-writing privileges. This type of account will generate at least a small investment yield from temporarily idle cash.

Managing cash usually involves some form of budgeting. Many people find living on a strict budget extremely unappealing. Fortunately, most can budget successfully without having to account for every penny. However, when developing an initial financial plan, the individual should pay close attention to how all money is spent.

The way you approach budgeting will be important. Help your client to see the budget as a tool for managing the receipt, disbursement, and saving of funds, not as a financial straitjacket. A budget shows where the money goes and uncovers potential sources of savings. Unless the client has extremely restricted funds or long-term goals disproportionate to income, budgeting need not be a hardship. Certainly it should not get bogged down in minutiae.

The budget should be short and simple, and it should be tailored to the specific goals of the individual or family. Budgets can cover any time frame, but a workable starting point that many people find satisfactory is a one-year budget broken down by month.