

It's Your Money - Week 2

FINANCIAL PLANNING I

PRESENTED BY LAURIE DUBCHANSKY, CFP®



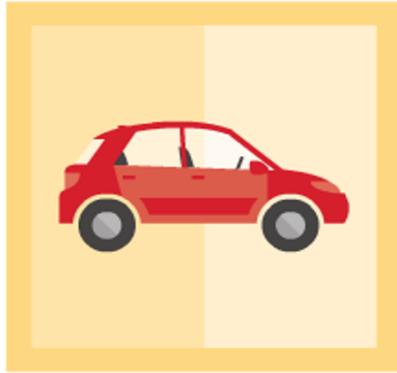
What is Financial Planning?

Financial planning involves looking at a client's entire financial picture and advising them on how to achieve their short- and long-term financial goals.

One must know:

- What you own (your assets)
- What you owe (your liabilities)
- All sources of income
- What are your expenses? What does it cost to be you?

Types of Assets



Depreciating Assets

Possessions that decrease in value over time are called depreciating assets.

Examples of depreciating assets are cars, televisions and laptop computers.



Wealth-Creating Assets

Possessions that generally increase in value over time or provide a return are called wealth-creating (appreciating) assets.

Examples include stocks, bonds, real estate and savings accounts.

Keeping Track of Your Assets – this is what you own!

Cash and Equivalents

Investments

Charitable Assets

Real Estate

Vehicles

Other Assets

Total what you own

For each asset listed, you should know current value, what you originally paid and how it is titled. For example, my house is now worth \$600,000. I paid \$200,000 for it and it is in the name of my Trust.

Types of Liabilities



Wealth-Creating Debt

Also known as “good debt”

Loans used to buy possessions that generally increase in value over time or provide a return are called wealth-creating liabilities.

Examples include home loans, student loans, business loans and real estate assets.



Other Debt

Also known as “bad debt”

Loans for purchases that decrease in value over time are expensive because of the interest that is paid on the loans. The asset usually ends up having little to no value compared to the purchase price and interest paid.

Examples include loans for autos, furniture, computers, and other personal items.

Keeping Track of Your Liabilities – this is what you owe!

Credit card balances

Short Term Loans
(HELOC)

Rent for duration of
lease

Mortgage(s)

Car Loan or Lease

Student Loans

Parent Plus Loans

Other Debt

For each debt listed, you should know current amount owed, the interest rate on loans and when you will be finished paying down the debt. Monthly payments are included in “what does it cost to be you?”



Your Wealth Statement

ASSETS

(MINUS)

LIABILITIES

(EQUALS)

NET WORTH

Anthony's Balance Sheet

Wealth-building assets	Amount
Cash	\$ 1,500
Savings account	1,000
Stocks, bonds and other investments	5,000
401(k) retirement plan/IRA	25,000
Market value of home	0
Other assets	
Market value of car	14,000
Total assets	\$ 46,500
Liabilities	Amount
Home mortgage	\$ 0
Home equity loan	0
Car loan balance	13,000
Credit card balances	3,000
Student loan	5,000
Miscellaneous liabilities	1,500
Total liabilities	\$ 22,500
Net worth	\$ 24,000

What would you like your net worth to be in...

5 years?

10 years?

30 years?

Setting goals



Which of the following are true regarding goal setting?

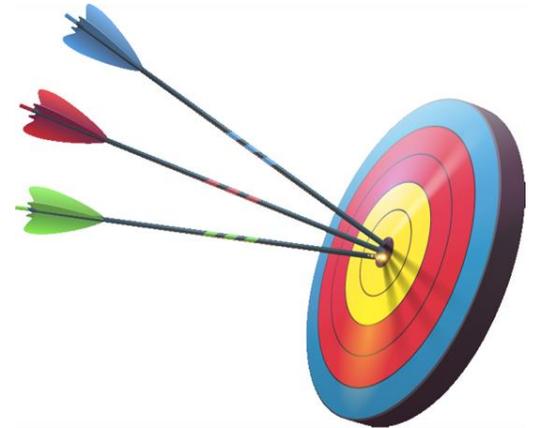
1. 92% of New Years goals fail by January 15th
2. The act of writing down a goal is a very powerful motivator
3. A Harvard study suggests 83% of the US population do not have goals
4. Specific goals which are time-bound and measurable work best
5. All are true

Smart Goals

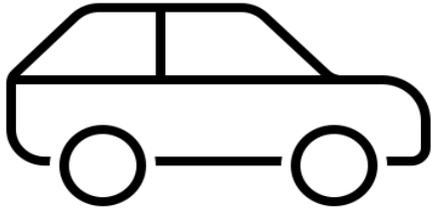
- **Specific**
- **Measurable**
- **Attainable**
- **Relevant**
- **Timely**

Achieving a goal requires making a plan which is both

- Clear
- Action-oriented



Setting goals – consider all costs



Cost of purchase: \$5,000
Cost of gas: \$25/week
Cost of insurance: \$100/month



Cost of plane ticket: \$500 (due at booking)
Cost of hotel: \$400
Cost of food and souvenirs: \$300

Set a Time Frame to Attain Goals



FAMILY GOALS WORKSHEET

DETERMINE YOUR GOALS - Think about where you want your life to go short term, say one to five years, and long term, from six years to forever. Be specific in terms of what you want by when. "I want to buy a house" or "I want to be rich" are not goals, they are daydreams. "I want to save \$20,000 as a down payment for a house in three years" is a goal. And write down your goals – that makes them more real.



GOALS FOR 1 YEAR FROM TODAY		Dollars needed	Savings Target per Month
1		\$	\$
2		\$	\$
3		\$	\$
4		\$	\$
GOALS FOR 2 YEARS FROM TODAY		Dollars needed	Savings Target per Month
1		\$	\$
2		\$	\$
3		\$	\$
4		\$	\$
GOALS FOR 5 YEARS FROM TODAY		Dollars needed	Savings Target per Month
1		\$	\$
2		\$	\$
3		\$	\$
4		\$	\$
GOALS FOR 10 YEARS FROM TODAY		Dollars needed	Savings Target per Month
1		\$	\$
2		\$	\$
3		\$	\$
4		\$	\$

A Spending Plan Allows You To:



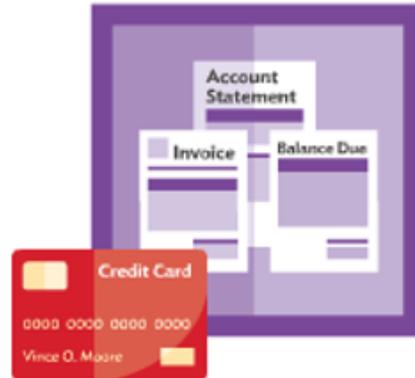
Track Expenses

Know where your money goes.

Define **NEEDS** vs **WANTS**

Prioritize spending

Make “how much?” instead of “either/or” decisions.



Avoid Debt

Understand income available to cover spending.

Identify opportunities to eliminate wasteful spending.

Live within your means.



Save for Financial Goals

Savings allows you to set goals that are not dependent on short-term income.

Savings can be invested to meet long-term goals.

To Develop a Spending Plan You Need To...

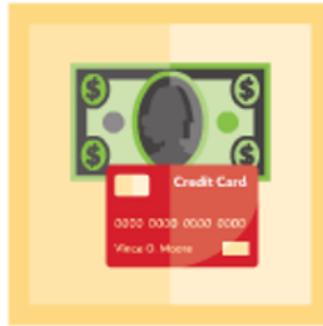


Calculate Your Income

Account for all types of **consistent** income.

Include net income (after taxes, insurance, etc.) not gross income.

Exclude bonuses, gifts and any other income that is variable.

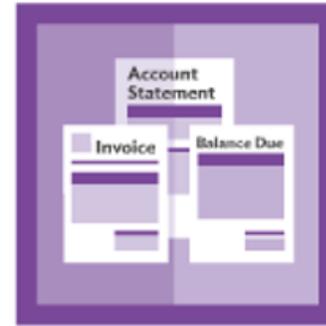


Track Daily Expenses

Track all daily expenditures, regardless of size.

Include cash, debit card, check and credit card purchases.

Track for a series of months to gain an accurate picture of your spending.



To Develop a Spending Plan You Need To...

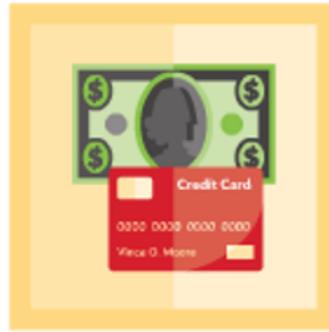


Track Monthly Bills

Track all monthly bills accurately.

Pay attention to the monthly change in bills like phone or utilities.

Be wary of using averages in your budget.



Budget for Annual Expenses

Review last year's spending to find annual expenses like DMV fees, home or auto insurance, property tax, copays & deductibles, holiday gifts, vacations, etc.

Add 1/12th of these items to monthly budget.



Income & Expenses for Cashflow Analysis – start with income

Income	Amount	Monthly
Net Wages & Self Employment Income		
Social Security and/or Pension		
Interest and/or Dividends		
Rental Income		
Retirement account withdrawals		
Other Income		
TOTAL INCOME		

Income & Expenses for Cashflow Analysis – now focus on expenses

Where do you spend from?

- Checking accounts
- Savings accounts
- Credit cards

Evaluate annual spending summaries from these accounts.

Make sure to consider monthly, semi-annual and annual expenses.

Track Your Spending

Choose a method that works for you...

- Envelope Budgeting
- Pencil & Paper / Spreadsheet
- Download Data from your Bank
- Spending Tracker



 **nerdwallet**

 **mint**

Goodbudget.

Quicken

tiller

YNAB.

Compare Income and Expenses

Develop an understanding of income and expenses. This will guide your next steps.

Scenario #1 - Income is greater than expenses

Knowing how much money remains each month can guide your savings for other opportunities, such as travel, car replacements, or a long term care fund.

Once you establish this discipline, pay yourself first!

Scenario #2 - Income is lower than expenses

Evaluate spending with a focus on goals.

Ask yourself, do I need it? What is it worth to me? How many hours of work to pay for it?

Stay Disciplined

- What can you get cheaper, or use less of?
- What can you renegotiate?
- What can you do without?
- Other strategies
 - Shop from a grocery list
 - Disable 1-click purchasing
 - Sleep on it before buying
 - Establish “Money Rules”

