



It's Your Money: Financial Planning part 1



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Welcome and About Me

Education and Designations

B.A., Communication, Biola University

Certificate in Personal Financial Planning, University of California, Irvine

Certificate in Wealth Management Theory & Practice, Yale School of Management

CERTIFIED FINANCIAL PLANNER™ Professional, CFP Board of Standards

Certified Private Wealth Advisor® Designee, Investments & Wealth Institute

Presentations are to educate only. I am not giving you advice on what is best for your finances.



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Agenda for Class



What is financial planning?

- ▶ Establish clear goals
- ▶ Gather and organize your financial information
- ▶ Analyze your current financial situation
- ▶ Develop financial plan
- ▶ Put plan into action
- ▶ Monitor plan and make adjustments
- ▶ Revise and update plan over time

What is financial planning?

- ▶ A process, not a product
- ▶ Wisely managing finances over the long-term to achieve your goals and dreams
- ▶ Developing a saving/spending plan that allows you to live with less anxiety
- ▶ Will you outlive your money, or will your money outlive you?

Financial planning is not...

- ▶ What's the hottest stock tip right now?
- ▶ I don't want to pay any taxes at all. Ever.
- ▶ I'm not going to worry about retirement – that's a long way off, and the government will take of me anyway.
- ▶ Everything's going to collapse anyway, so I'm buying silver coins and keeping the rest under my mattress.

What is financial planning?

- ▶ Real financial planning is actually pretty boring, if you're doing it correctly.



Six Steps of Financial Planning

- ▶ Establish goals
- ▶ Gather data
- ▶ Analyze and evaluate
- ▶ Develop plan
- ▶ Implement plan
- ▶ Monitor plan

~~Six~~ **Three** Steps of Financial Planning



- ▶ What do you want to do with your money?
- ▶ What do you own and owe?
- ▶ What's your plan to reach your goals?

Purpose

- ▶ Assess your finances
- ▶ Income projection – will you have enough?
- ▶ Evaluate investments – diversified, tax-efficient, risk aware?
- ▶ Risk management – are there gaps?
- ▶ Your estate – what will happen?

Step #1 – Establish Goals

- ▶ Document goals and objectives for your money
- ▶ Goals are more general
- ▶ Objectives are specific and attainable
- ▶ Short-term vs. long-term
- ▶ Optimistic vs. realistic

Step #1 – Establish Goals

- ▶ **Goal** examples:
 - ▶ I want to spend less and save more.
 - ▶ I want to retire early.
 - ▶ I want to leave an inheritance to my family.
- ▶ **Objective** examples:
 - ▶ I'm going to save \$5,000 to my IRA this year.
 - ▶ I plan to retire at age 69 and maintain my same standard of living.
 - ▶ I'm planning to leave \$20,000 to each grandkid for education.

Step #2 – Gather Data

- ▶ Net Worth Statement (NWS)
 - ▶ Assets (what you own)
 - minus
 - Liabilities (what you owe)
 - equals
 - Net Worth



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NET WORTH STATEMENT

08/31/21

Total Assets	712,000
Total Liabilities	226,000
NET WORTH	486,000
Personal Accounts	
Checking Account	5,000 *
Savings Account	15,000 *
Trust Account	110,000 *
Total Personal Accounts	130,000
John's IRA Account	125,000 *
Jane's Roth IRA Account	15,000 *
Use Assets	
<i>Description</i>	<i>Value</i>
Residence - (Main Street)	400,000 *
Car #1 (Honda)	25,000 *
Car #2 (Ford)	17,000 *
Total Use Assets	442,000

Liabilities

<i>Description</i>	<i>Balance</i>
Home Mortgage	200,000 *
Term, Payment, Rate	
Auto Loan/Lease #1	15,000 *
Term, Payment, Rate	
Auto Loan/Lease #2	11,000 *
Term, Payment, Rate	
Total Liabilities	226,000

Comments on registration, etc:

Jane is the primary bene of John's IRA; John is primary bene of Jane's Roth IRA

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Step #2 – Gather Data

▶ Income / Cash Flow Statement

▶ Income
minus
Expenses
equals
Cash Flow

Step #2 – Gather Data

- ▶ Budgeting – many different ways to go about it
 - ▶ One method – track all income and expenses for three months to a year, then create a budget based on that.
 - ▶ Be realistic about income and expenses.



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Giving		
Charity	\$125	
Giving total	\$125	
Housing		
Mortgage	\$2,000	
Repairs	\$400	
Water	\$70	
Natural Gas	\$60	
Electricity	\$130	
Trash	\$25	
Internet	\$65	
Gardener	\$55	
Pest	\$45	
Housing total	\$2,850	
Cars		
Gas / Maintenance	\$300	
Registration	\$50	
Cars total	\$350	
Food		
Groceries	\$500	
Restaurants	\$400	
Food total	\$900	
Personal		
Dry Clean	\$30	
Phone	\$160	
Haircuts	\$60	
Personal total	\$250	
Lifestyle		
Shopping/Fun/Clothing/Misc.	\$300	
Entertainment	\$300	
Pet Care	\$400	
Gifts	\$100	
Lifestyle total	\$1,100	
Health		
Doctor/Dentist	\$200	
Health total	\$200	
Insurance		
Life Insurance	\$200	
Auto Insurance	\$180	
Umbrella/Earthquake	\$100	
Insurance total	\$480	
ATM Cash withdrawals		\$400
Total expenses		\$6,655

Gross W2 income:
\$125,000

401k savings:
\$13,000

Net after tax and
401k: \$87,000

\$7,250/mo.
income

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Step #3 – Analyze and Evaluate

- ▶ Review NWS and Income / Cash Flow statements, budget
- ▶ What do you have to work with?
- ▶ Review goals and objectives. Any changes needed?

Step #3 – Analyze and Evaluate

From there, decide how you will accomplish your goals.

- ▶ Investing – how much risk do you need to take?
- ▶ Risk tolerance - your ability and willingness to live with risk / volatility
 - ▶ How have you handled investment risk in the past?
 - ▶ What did you do during 2008 or in 2022?
 - ▶ Constantly think about losses? Or lost opportunities?

Step #3 – Analyze and Evaluate

- ▶ Create Retirement / Income projection which includes:
 - ▶ Net worth
 - ▶ Annual savings (if not retired yet)
 - ▶ Inflation – the silent killer
 - ▶ Rate of return*
 - ▶ Life expectancy
- ▶ Use conservative assumptions

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Retirement Projection

Projection #1

Average Annual Inflation Rate:								3.0%
Average Annual Investment Rate of Return:								5.8%
Beginning Year of Projection:								2025
Beginning Year of Portfolio Withdrawals:								2025
Current Value of Assets Included in Projection:								\$ 490,000
Additional Annual Savings to Portfolio Prior to Retirement:								\$ -

Gross Income in Today's Dollars					Monthly	\$ 7,072	Annually	\$ 84,858
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Year	Age	Age	Annual Gross Income	SS Benefits, Pensions, Rentals...	Portfolio Beginning Value	Portfolio Deposits & Withdrawals	Portfolio Growth & Income	Portfolio Ending Value
2025	70	70	84,858	57,528	490,000	(27,330)	27,627	490,297
2026	71	71	87,404	58,679	490,297	(28,725)	27,604	489,176
2027	72	72	90,026	59,852	489,176	(30,174)	27,497	486,500
2028	73	73	92,727	61,049	486,500	(31,677)	27,298	482,121
2029	74	74	95,508	62,270	482,121	(33,238)	26,999	475,882
2030	75	75	98,374	63,516	475,882	(34,858)	26,590	467,614
2031	76	76	101,325	64,786	467,614	(36,539)	26,062	457,137
2032	77	77	104,365	66,082	457,137	(38,283)	25,404	444,257
2033	78	78	107,496	67,403	444,257	(40,092)	24,604	428,769
2034	79	79	110,720	68,751	428,769	(41,969)	23,652	410,451
2035	80	80	114,042	70,126	410,451	(43,916)	22,533	389,068
2036	81	81	117,463	71,529	389,068	(45,934)	21,234	364,368
2037	82	82	120,987	72,959	364,368	(48,028)	19,741	336,080
2038	83	83	124,617	74,419	336,080	(50,198)	18,037	303,919
2039	84	84	128,355	75,907	303,919	(52,448)	16,106	267,577

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Step #3 – Analyze and Evaluate

▶ Other analysis:

- ▶ Tax: brackets, rates (current vs. future), withdrawal planning
 - Changes you can make? Gifting, taking losses, Roth conversions, QCD
- ▶ Insurance – risk management
 - Paying a smaller known amount to cover a large potential liability

Step #3 – Analyze and Evaluate

▶ Other analysis:

- ▶ Estate – wills, trusts, powers of attorney, etc.
- ▶ What would have happened if you died yesterday?



Step #4 – Develop Plan

- ▶ Compile your analysis into one Financial Plan document
- ▶ Doesn't have to be long or complicated – the One Page Financial Plan
- ▶ Steps you will take and strategies you will use to achieve financial goals

Step #4 – Develop Plan

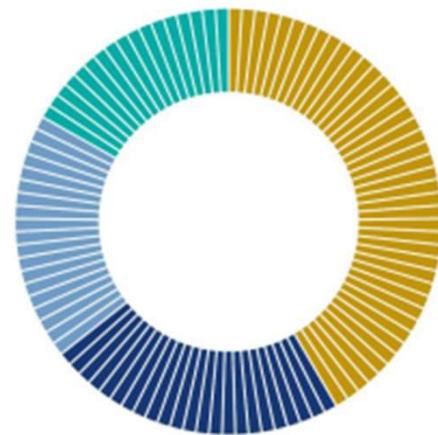
When investing, take into account your:

- ▶ Goals and objectives
- ▶ Budget and income
- ▶ Risk tolerance

Leading to your investment allocation

Step #4 – Develop Plan

Allocation = investment **strategy** that aims to **balance risk and reward** by spreading assets among major categories.



Equity	41.6%
Fixed Income	23.0%
Alternatives	18.7%
Cash & Equivalents	16.6%

Step #5 – Implement Plan

- ▶ Some actions you might take:
 - ▶ Consolidate accounts
 - ▶ Spend less / get out of debt
 - ▶ Or, start spending more!
 - ▶ Set up an emergency fund

Step #5 – Implement Plan

- ▶ More actions you might take:
 - ▶ Add or reduce investment risk
 - ▶ Verify cost basis before making trades
 - ▶ Visit estate planning attorney
 - ▶ Buy insurance



“What if we don’t change at all ...
and something magical just happens?”

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Step #6 – Monitor Plan

- ▶ Update income / retirement projection to make sure you’re still on track
- ▶ Update your budget as life changes
- ▶ Update your estate planning documents as laws change or your situation is different
- ▶ Watch your investments – rebalance, rebalance, rebalance

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Financial Planners and Advisors

- ▶ If you need help or would rather just not do all this yourself, you might want to hire a financial planner.
- ▶ Good planners are professionals, not salespeople
- ▶ Lead their clients through the financial planning process
- ▶ Bring experience, expertise, objectivity, and accountability

Financial Planners and Advisors

- ▶ Anyone can hang a shingle and call themselves...
*Financial Advisor, Financial Planner, Financial Consultant,
 Wealth Manager, Financial Analyst, Wealth Advisor,
 Investment Consultant, Money Coach, etc.*

Financial Planners and Advisors

- Many designations, some with more value than others:

AAMS, ABA, ABR, ABRM, AEP, AFM, AFC, ALC, AMO, ARM, ARP, ASA, ATA, ATP, AWMA, ACAS, ACA, ASA, BCE, BCI, BCMF, BCS, CAA, CAC, CAS, CAPP, CBR, CCPS, CCPS, CCIM, CDFA, CDP, CEBS, CEA, CEP, CFEB, **CFP**, CFSSP, CFS, CFM, CLTC, CIPS, **CIMA**, CIMC, CIS, CISP, CMA, CMCA, CPC, CPhD, CPM, CPA, CREA, CRB, CRCM, CRA, CRC, CRFA, CRSP, CSA, CSC, CSS, CTS, CTFA, CWPP, CASL, CAIA, CAM, CEPP, ChFEBS, CFA, **ChFC**, CIC, CLU, CMFC, CPM, CPCU, **CPWA**, CRPC, CRPS, CTEP, CWM, CIRMS, ECS, EA, EPLS, FSPA, FCAS, FCA, FSA, FAD, GBA, LSM, LUTCF, MBA, MFP, MGA, MAAA, MSPA, MCCA, PFS, PCAM, PPC, QFP, REBC, RFA, RFC, RFP, RFS, RHU, RPA, WMS, etc.

Financial Planners and Advisors

- How to differentiate? Fiduciary vs. suitability
 - Fiduciary = must put client's interests ahead of their own
 - Suitability = investment is suitable for the client
 - Most salespeople and brokers traditionally held to suitability standard, but the industry is changing

Financial Planners and Advisors

- ▶ How to differentiate? Compensation structures
 - ▶ Fee-Only = clients paying fees is only compensation
 - ▶ Commission = paid per transaction or investment
 - ▶ Fee Plus Commission (also called Fee-Based)
 - ▶ Retainer = flat fee for a certain period
 - ▶ Hourly / Project = one-time advice for a fee

Financial Planners and Advisors

- ▶ How to find a financial planner?
 - ▶ Referrals from friends, family, tax preparer, attorney
 - ▶ Nat'l Assoc. of Personal Financial Advisors (NAPFA) www.napfa.org
 - ▶ CFP Board of Standards www.cfp.net
 - ▶ Financial Planning Association (FPA) www.fpanet.org
 - ▶ FINRA Broker Check www.brokercheck.finra.org

Questions?

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