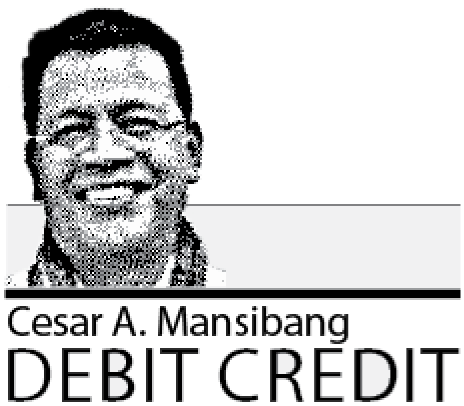
Creating wealth through effective financial planning

by Cesar A. Mansibang - Business Mirror November 16, 2015



The challenge of creating wealth for oneself and responding to it is an individual person's responsibility. Nobody will give a person a free ride. Opportunities come and go and the individual can respond to them in three ways. He just watches the opportunity dissipate or wonders as it passes him or her by or takes the opportunity and determines how best to capitalize on it.

Taking the opportunity and determining how best to respond is a leadership and an entrepreneurial skill. It involves creativity and perseverance, which are at the heart of achieving personal goals including financial ones. And it begins with personal financial planning.

In current time, personal financial planning is an activity that has become a buzzword in wealth creation that is propagated by finance professionals. Professional financial advisors give advice to affluent individuals and families and provide them opportunities for growth, prosperity and financial independence.

Financial planning defined

Financial planning is the process of managing financial resources to achieve one's personal goals. Different individuals have different financial goals. Thus, the process of determining one's objectives is a subjective and personalized process. This exercise is worthwhile irrespective of one's financial status.

An objective drives the financial plan. It is the North Star to achieve financial success. As a subjective and personalized process, financial planning can be a simple one or a complex one. But it is best to keep the financial process as simple and straightforward as it can be. Planning is a continuous close loop process that must always consider changes in the aspirations and economic position of the individual or the family concerned.

This plan is not only a blueprint for the achievement of financial goals. It sets forth the strategy that is directed toward achieving the goals and the resources required to achieve them.

1. Know what you want

In setting goals, you must know what you want first. You have to lay out the field—lifestyle, education of your kids, retirement goals, fully owned home, nice vacation and other goals that are important for you. Selecting your “first things” from among these goals should become your priority. This is the first crucial step to do an effective financial plan.

2. Review your financial capacity and capability

Just like any planning process, the next step is to review your current financial position and resources including your income and spending, financial commitments, savings and other investment concerns. It would be well to review your propensity to spend versus your income flows.

By performing a resource review this way, you will be able to determine if your current financial position matches or directs your desired goals. If there is a problem, then you would need to reposition your finances or change financial goals while still early.

3. Evaluate your investment options

In performing the first two steps above, you shall have completely analyzed where you are and where you want to go. Now, you can evaluate your investment options. This next step helps you identify and determine the vehicles that you choose to reach your investment targets.

The selection of investment vehicles or instruments to achieve your desired financial goals is commonly known in financial jargons as portfolio management. In portfolio management, you are actually putting into the financial “basket” a combination of financial instruments whose differences you will leverage in total as to increase your capability to earn (yield), reduce the probability of losses (risk), improve the time horizon that you will be committed (liquidity), and reduce the taxes that you may be exposed to.

Your skill at parlaying these factors in your favor will also depend much on your financial situation, risk appetite and the time frame you have in mind.

You will also be well advised that in creating your financial portfolio, certain market environmental dynamics should be understood. For example, there is an inverse relationship among these factors. A high yield may naturally mean that you will be taking high risks and committing yourself to a longer time horizon too.

Do not focus on short-term earnings alone but view your investments from a long-term view as well so that you will not sacrifice long-term value for short-term value and vice-versa. On the other hand, too much focus on safety and liquidity may also limit your earnings potential.

By sub-optimizing your possibilities, your portfolio will under perform thereby making it difficult for you to meet your targets.

You can choose a combination of various financial instruments such as savings deposits, life insurance, mutual funds, preneed contracts, money market placements and many other instruments to build up your investment basket. In the end, matching and balance is the key to efficiency of your portfolio.

4. Be committed and passionate

One of the basic success factors of a good plan is the commitment to implement it without equivocation. Your commitment provides the desire and focus so that you will avoid mistakes in managing your money. It will balance your short-term needs and your long-term needs—what you enjoy today and what you intend to have in the future.

Do not measure your satisfaction by the temporary gratification of spending what you have earned in the short term. A sound financial plan must be able to afford you satisfaction within the entire process. If you can afford it, give yourself internal gratification to keep you pushing and succeeding. But it should not be at the expense of your long-term financial security especially if you still not have earned enough.

5. Exercise vigilance and

regular checkup

When you start experiencing changes in the environment or in your situation, revisit or review your plan. For instance, you changed career or had another child, it would be good to revisit and refine your goals and your financial strategy. Review your plan regularly, maybe annually or as frequently as you see fit so that you will be able to determine possible options for you to improve your financial opportunities.

Personal finance is an individual responsibility. It spells the difference between the financially secure and the financially obscure. It makes you do smarter decisions and diminishes the risks of your financial condition. Ultimately, you will have peace of mind by the stability and soundness of your financial position. By this, you are well within grasp and on track in achieving your dreams.

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