



Professional Service with a Personal Touch  
Accounting • Tax • Financial Planning

## CWR Monthly

June 2007

This summer, like last, we will turn our attention toward financial planning as the subject of our June, July, and August newsletters. Last summer we discussed the subject of retirement; how much we would need to retire, how was the best way to get there, and an effective plan once we reached retirement. This summer we will focus on the following subjects:

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| <b>June: Goal Setting</b>        | The first and often most difficult step in developing a financial plan.                     |
| <b>July: Getting out of Debt</b> | To adequately plan for the future, we must first get a handle on our current circumstances. |
| <b>August: College Planning</b>  | A major future expense for most young families.   |

These discussions are designed to get you thinking about your circumstances and what you must do to plan for the future. They are not intended to answer every question you may have, because the list of possible scenarios would be endless. But, rather, they are intended to provide a limited roadmap on things you need to consider in preparing your financial plan. That said, let's get started.

### **Goal Setting**

The best way to begin setting goals is to simply sit down with a sheet of paper and begin to write down things that you would like to accomplish or acquire. This is what I like to refer to as the dreaming phase of financial planning. Until you can visualize your dream it only remains a figment of your imagination. Married couples need to do this together to help identify the dreams that are important to both of them.. An example of some common dreams would be:

1. Buy our first house by the time we are 30.
2. Send our children to the college of their choice.
3. Build a swimming pool at our house.
4. Retire by the time I'm 50.
5. Get completely out of debt in 5 years.
6. Start a business of my own.

As you begin to look at your dream list realistically, you will probably begin to realize that you won't be able to achieve every one of the goals that you've written down. Instead of getting upset and chucking the whole list, the next thing to do would be to clearly identify your goals and why they matter to you. Doing so will immediately move some goals to the top of the list and some to the bottom or even off the page, because you begin to realize that some dreams, while they danced ever so fancifully in your head, fall way down on the list of things that matter most to you in life.

Once you've whittled your dream list down, you then need to prioritize your goals. That is to say, which goals are the most important to you and where they should fall on your list of achievable financial goals. Decide which goals are your primary goals and which goals need to fall on the back burner until a more opportune time.

The key to successful financial planning is starting now.....let me say that one more time....the key to successful financial planning is starting now!!!!!! The longer you wait to begin to identify and work toward your financial goals the more difficulty you will have in reaching them.

Once you have developed your prioritized list of financial goals you need to begin to develop a plan that will help you achieve them. First you need to determine where you are currently in your financial affairs. The best way to do that is to develop a personal net worth statement for yourself. A net worth statement is simply a listing of what you own (assets) versus what you owe (liabilities) and the difference is your net worth (equity). Examples of assets and liabilities include:

<b>Assets</b>	<b>Liabilities</b>
Money In Banks	Credit Card Debt
Money in Marketable Securities	Car Loans
Money in Retirement Accounts	Revolving Account Balances
Real Estate	Mortgage
Loans to Others	Student Loans
Personal Property	Personal Loans
Other	Other
Other	Other

The formula for determining Net Worth is:  $Assets - Liabilities = Net\ Worth$

The next step is to determine how much you will need to reach your financial goals. There are a number of ways of determining this. The easiest is to use savings calculators offered by one of the many financial websites available such as Yahoo! Finance, CNNMoney, et al. These calculators can help you determine how much you will need to save to reach your financial goals based on the amount you are able to set aside for these goals.

This brings us to the next point of the discussion. How do I achieve the financial goals that I have set for myself. There is only one way (other than winning the lottery or obtaining some other financial windfall) and that is to develop a budget to live by. Now I know that most budgets are like most diet plans. They are easy to start but hard to stick to. However, by establishing our most important goals before we begin building a budget gives us the motivation to develop a realistic budget that we can commit to.

Budgeting is an unpleasant word to most people. However, the fact is that you live on a budget whether you realize it or not. A budget is simply a listing of how you are spending your money. Everyone is limited to the amount of money they make or can borrow. If you don't establish some controls on your budget someone else

will, namely your employer, your bank, your credit card company, your mortgage company, etc. To gain control over your own finances and to reach your financial goals, you must begin to establish your own controls on how you are spending your money. To do that requires the following steps:

1. Write down every penny you have spent over the last 6 – 12 months. If you currently use personal financial software such as Quicken, or Microsoft Money. You should be able to run a report showing your expenditures. If you don't have this type of financial software and are not able to re-trace all of spending, start now by writing everything you spend for the next month (right down to the soft drink or candy bar you have every afternoon).
2. Determine which of these expenses are Fixed Expenses and which are Variable Expenses.
3. Evaluate ways to reduce your or eliminate some of your Variable Expenses to incorporate your new financial goals into your budget.
4. Put this new budget down on paper and commit to it.
4. Review how well you are staying on this budget on a regular basis to keep you on track with your financial goals.
5. Expect and adjust to setbacks that might occur do to unforeseen circumstances. ( No one can plan for every conceivable uncertainty that might arise).
6. Don't get discouraged if you have to adjust your financial goals due to financial conflicts that might arise.

Goal setting involves all of the three steps listed above. You cannot realistically identify your financial goals unless you both know where your are currently and how long it will take you to reach those goals by implementing careful financial management. However, once you discipline yourself to reaching your financial goals by controlling your finances, you will be able to accomplish financial objectives that you could only dream about before you began.

Next month we will discuss the subject of Getting Out of Debt. Debt is something most of us know something about. It's easy to get into and hard to get out of, which is why I believe that it is one of the most critical subjects that I could ever write about.

Til next time,

Charlie

#### Disclaimer

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