

## Guide To Financial Planning

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### What is Financial Planning?

Financial Planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a house, saving for your child's higher education or planning for retirement. The [Financial Planning Process](#) consists of six steps that help you take a 'big picture' look at where you are currently. Using these six steps, you can work out where you are now, what you may need in the future and what you must do to reach your goals. The process involves gathering relevant financial information, setting life goals, examining your current financial status and coming up with a strategy or plan for how you can meet your goals given your current situation and future plans.

### The Benefits of Financial Planning

Financial Planning provides direction and meaning to your financial decisions. It allows you to understand how each financial decision you make affects other areas of your finances. For example, buying a particular investment product might help you pay off your mortgage faster or it might delay your retirement significantly. By viewing each financial decision as part of the whole, you can consider its short and long-term effects on your life goals. You can also adapt more easily to life changes and feel more secure that your goals are on track.

## Who is a Financial Planner?

A Financial Planner is someone who uses the Financial Planning process to help you figure out how to meet your life goals. The Planner can take a 'big picture' view of your financial situation and make Financial Planning recommendations that are suitable for you. The Planner can look at all your needs including budgeting and saving, taxes, investments, insurance and retirement planning. Or, the Planner may work with you on a single financial issue but within the context of your overall situation. This big picture approach to your financial goals sets the Planner apart from other Financial Advisors, who may have been trained to focus on a particular area of your financial life.

## Can you do your own Financial Planning?

Some personal finance websites, magazines or self-help books can help you do your own Financial Planning. However, you may decide to seek help from a professional Financial Planner if:

- ❖ you need expertise you don't possess in certain areas of your finances. For example, a Planner can help you evaluate the level of risk in your investment portfolio or adjust your retirement plan due to changing family circumstances.
- ❖ you want to get a professional opinion about the Financial Plan you developed yourself.
- ❖ you have an immediate need or unexpected life event such as a birth, inheritance or major illness.
- ❖ you feel that a professional Advisor could help you improve on how you are currently managing your finances.
- ❖ you know that you need to improve your current financial situation but don't know where to start.

## Be sure you're getting Financial Planning advice

The government does not regulate Financial Planners as Financial Planners; instead, it regulates Planners by the services they provide. For example, a Planner who also provides insurance transactions is regulated as an insurance agent. As a result, the term 'Financial Planner' may be used inaccurately by some Financial Advisors. To add to confusion, many Financial Advisors like accountants and investment Advisors can also offer Financial Planning services. To be sure that you are getting Financial Planning advice, check if the Advisor follows the six step process.

## How to make Financial Planning work for you?

You are the focus of the Financial Planning process. As such, the results you get from working with a Financial Planner are as much your responsibility as they are those of the Planner. To achieve the best results from your Financial Planning engagement, you will need to be prepared to avoid some of the common mistakes shown above by considering the following advice:

❖ **Set measurable goals**

Set specific targets of what you want to achieve and when you want to achieve results. For example, instead of saying you want to be 'comfortable' when you retire or that you want your children to attend 'good' schools, you need to quantify what 'comfortable' and 'good' mean so that you'll know when you've reached your goals.

❖ **Understand the effect of each financial decision**

Each financial decision you make can affect several other areas of your life. For example, an investment decision may have tax consequences that are harmful to your estate plans. Or a decision about your child's education may affect when and how you meet your retirement goals. Remember that all of your financial decisions are interrelated.

❖ **Re-evaluate your financial situation periodically**

Financial Planning is a dynamic process. Your financial goals may change over the years due to changes in your lifestyle or circumstances, such as an inheritance, marriage, birth, house purchase or change of job status. Revisit and revise your Financial Plan as time goes by to reflect these changes so that you stay on track with your long-term goals.

❖ **Start planning as soon as you can**

Don't delay your Financial Planning. People, who save or invest small amounts of money early, and often, tend to do better than those who wait until later in life. Similarly, by developing good Financial Planning habits such as saving, budgeting, investing and regularly reviewing your finances early in life, you will be better prepared to meet life changes and handle emergencies.

❖ **Be realistic in your expectations**

Financial Planning is a common sense disciplined approach to managing your finances to reach life goals. It cannot change your situation overnight; it is a life long process. Remember that events beyond your control such as inflation or changes in the stock market or interest rates will affect your Financial Planning results.

❖ **Realize that you are in charge**

If you're working with a Financial Planner, be sure you understand the Financial Planning process and what the Planner should be doing. Provide the Planner with all of the relevant information about financial status. Ask questions about the recommendations offered to you and play an active role in decision-making.

## Common Mistakes in Financial Planning Approach

The following are some of the common mistakes made by consumers in their approach towards Financial Planning

- ❖ Don't set measurable goals.
- ❖ Make a financial decision without understanding its affect on other financial issues.
- ❖ Confuse Financial Planning with investing.
- ❖ Neglect to re-evaluate their Financial Plan periodically.
- ❖ Think that Financial Planning is only for the wealthy.
- ❖ Think that Financial Planning is for when they get older.
- ❖ Think that Financial Planning is the same as retirement planning.
- ❖ Wait until a money crisis to begin Financial Planning.
- ❖ Expect unrealistic returns on investments.
- ❖ Think that using a Financial Planner means losing control.
- ❖ Believe that Financial Planning is primarily tax planning.