

Investing and the Financial Planning Process

By Julie Cole, CFP, FLMI Annuity Product Manager

People often confuse investing with financial planning. Investing is selecting and purchasing financial instruments. The financial planning process involves taking specific steps that will direct your actions and decisions, which will lead you toward defined goals. Most successful investors have gone through the financial planning process and have created a personal investment philosophy (PIP), which guides their investment selections and fits into an overall financial plan.

Here are the steps that every family should work through before investing:



- 1) Gather information.** Create a personal financial statement or balance sheet, which lists all of your assets and liabilities. This will give you a snapshot of where you are today. Gather information about your insurance contracts, investments, mortgages, personal loans, valuables, wills and all other documents that affect your financial situation. Gather information about your retirement plans. Identify any special situations, such as a handicapped child or grandchild. Create a cash flow plan based on your income and expenses. Know where your cash is coming from and going to and manage your budget.
- 2) Determine your goals and expectations.** Define where you want to be at specific times in your life. When do you expect to retire? What type of education will you provide your children? What type of lifestyle do you desire for your dependents if you die prematurely? Are you a very conservative investor or are you willing to take a lot of risk, or are you somewhere in the middle? Create a personal investment philosophy (PIP) that fits your personality and risk tolerance. Consider end-of-life options such as assisted living and nursing home care. If you have a non-traditional family, how do you want to provide for dependents that are not blood relatives? Define your expectations regarding your profession. Is your profession subject to layoffs, and economic downturns? How will your lifestyle affect your ability to work when you are 50 or 60 years old?
- 3) Develop a plan for yourself that defines your financial success.** In developing the plan you will determine what types of investments, insurance products, financial documents (wills, trusts, fiduciary appointments and Powers of Attorneys), loans and assets fit into your plan.
- 4) Implement the plan.** Make your investment choices based on your PIP, goals, and expectations; always understanding and considering the impact of taxes, which can undermine your plans.
- 5) Monitor the plan annually** to see if you are making progress and identify new opportunities or risks that may jeopardize your plan. Update your personal financial statement annually to be able to identify progress toward your goals.

When you have a written financial plan in place, selecting investments is a matter of choosing those investments that best fit into your PIP and your overall financial plan.