

Financial Planning Matters



By Julie Cole, CFP®, FLMI Annuity Product Manager

The recent turmoil in the financial markets creates a good reason to go back and visit the basics of financial planning. Here are 10 basic rules to follow:

1 Have a Cash Flow plan (budget) and work the plan. – Everyone’s plan should include a budget that is reasonable. Your expenses should not exceed your income. Live within your means. Your total housing costs, including utilities, taxes and maintenance, should not exceed 33% of your income.

2 Build and maintain an emergency fund. For working families the emergency fund should be equal to 6 months of fixed expenses. Seniors that are no longer working should have an emergency fund equal to 12 months of fixed expenses. Emergency funds are for emergencies like floods, lay-offs, unforeseen medical expenses, disabilities and accidents. Only use emergency funds for emergencies.

3 Insure those risks that can be insured. The financial burdens created by death, auto accidents, medical emergencies and disabilities can be insured. Purchase and maintain insurance for yourself and your family to transfer that risk to an insurance company.

4 Establish your financial goals and a plan for achieving them. Never stop working toward your goals and working the plan. Set education and retirement savings goals and figure out how much you need to save each month to accomplish these goals.

5 Determine your tolerance for risk before you invest in any financial instrument. Don’t lie to yourself about your ability to tolerate risk and let your greed overtake your common sense. Don’t let an investment advisor talk you into taking more risk than you want or need.

6 Make sure the investment is appropriate for the goal. For example: Purchasing a tax-deferred annuity for a college savings fund is inappropriate. Purchasing an annuity to save for your retirement is prudent, sensible and reasonable since an annuity is designed as a retirement savings and income vehicle. Investing in a 529 plan, Cloverdale Education account, Roth IRA or Savings Bonds for college funding makes sense.

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7 Think long term for a long-term goal. Worry less about what has happened in the short term and think more about what the potential is over the long term. Make a plan for reaching that goal based on solid investing principals and your time horizon.

8 Don’t covet your friends’ and neighbors’ values or investments. They have different needs, expectations, dreams and risk tolerances. Just because a neighbor has a certain investment it doesn’t mean it’s right for you. Envy of the returns of others will lead you to mess up your own goals.

9 Be diversified. High concentrations of any one investment or asset class will likely result in big swings, both up and down, in your investment funds. Investing in a diverse array of investment vehicles and distinct asset classes will smooth out the ride.

10 Don’t invest in anything you can’t explain to your peers. If you can’t explain how it works and what it is working to accomplish, you will likely experience an unpleasant surprise.

**The contents of this article are believed to be accurate, but are subject to interpretation. We do not offer tax or legal advice.



Julie Cole has over 30 years of experience in the Financial Services Industry and received her designation as a CFP® in 1993. A Financial Planner is someone who uses the financial planning process to help clients meet their life goals through a “big picture” planning approach. The CFP® certification is the most widely recognized financial planning credential among consumers and is the recognized standard of excellence in personal financial planning.