

Overview of Financial Planning

A. What is Financial Planning? There are several components.

1. Organization of pertinent current personal/family financial information
2. Estimating realistic short- and long-term fiscal needs
3. Prioritizing these personal financial issues
4. Creating a reasonable plan to attempt to address most of those issues
5. Implementing and following the general strategies of that plan (the hardest part).

B. The Basics

1. Financial self-examination

- a. your personal/family balance sheet: **Assets - Liabilities = Net Worth**
 - > the critical first step
 - > exceedingly difficult for some
- b. an honest assessment of how money is earned and spent in the personal/family setting over a short- and long-term basis.
- c. realistic expectations regarding job security, salary changes.

2. Commonly accepted initial personal financial goals

- a. a savings reservoir (the emergency nest egg)
- b. insurance appropriate for all working individuals
 - >home/rental
 - >disability
 - >health/ dental
- c. appropriate insurance for some
 - > life (who needs it, what type?)
 - >umbrella personal liability
 - >long-term care
- d. debt management
 - > "good" debt (tax-deductible interest)- mortgage, student loan (sometimes)
 - > "bad" debt (no tax deduction) - credit card, car loan
 - Home equity loan (HELOC) – good and bad
- e. simple estate planning - will, health care proxy

C. Organization of Goals

1. Short-term (6 mo – 3 yrs)
 - a. house down payment
 - b. vacation
 - c. "big- box" purchase
2. Long-term (>15 yrs)
 - a. retirement
 - b. college
 - c. home ownership

D. The Simple Math of Saving, "the rule of 72"

E. Investment Considerations

1. Types of investments (in ascending risk order)
 - a. Cash
 - > savings accounts
 - > CD s
 - > treasury bills/notes/bonds
 - > other equivalents (money market funds, etc)
 - b. Bonds: a loan to a corporate or governmental entity ("quality" varies)
 - > individual bonds (taxable, tax exempt)
 - > mutual funds
 - c. Equities: ownership of a company
 - > individual stocks
 - > mutual funds
 - > ETFs
 - d. Other assets
 - > real estate (property, REITS)
 - > commodities
 - > collectibles
2. Investment techniques
 - a. lump-sum investing
 - b. dollar-cost averaging
 - c. market timing
3. Investments costs
 - a. brokerage fees (bonds, stocks, ETFs)
 - b. mutual fund fees (front-end, back-end loads, 12b-1 fees, no-load funds)
 - c. tax implications (dividends, long- and short-term capital gains)

4. Investment concepts
 - a. diversification
 - b. time horizons
 - c. risk reduction
 - d. managing costs

F. Taxable vs. Tax-deferred Saving/investing

G. Saving for College

1. UTMA/UGMA
2. Section 529 plans
3. Coverdell savings plans
4. Savings Bonds
5. Taxable saving

H. Saving for Retirement

1. Tax-deferred
 - a. 401k/403b
 - b. IRA
 - c. Change of job
 - d. Qualified vs. non-qualified retirement plans
2. Taxable/tax-exempt ("tax diversification")
 - a. Roth IRA
 - b. Roth 401k/403b
 - c. simple taxable accounts

I. Managing long- and medium-term savings

1. Asset mix
2. Re-balancing

J. Estate tax considerations (federal only)

1. Tax law changes 2010
2. Gifting and gift taxes
3. Charitable contributions while living

K. Other possible topics

1. Annuities (immediate, variable, charitable) and costs
2. Active vs. passive investing

L. Asset protection

1. Basic protection: qualified retirement plans
2. Additional techniques: transfer of title, trusts, time period, etc.
3. Risks: unintended consequences, costs, etc.

L. Characteristics associated with life-long satisfaction (multiple studies)

1. Charitable giving
2. Volunteer work
3. Active in organized religion

Selected References:

Books (try to get the newest editions due to tax law changes):

Common Sense on Mutual Funds. John Bogle

The Only Investment Guide You'll Ever Need. Andrew Tobias

Smart and Simple Financial Strategies for Busy People. Jane Bryant Quinn

Making the Most of Your Money. Jane Bryant Quinn

The Wealthy Barber. David Chilton

Wall Street Journal Guide to Understanding Personal Finance. Kenneth Morris and Alan Siegel

The Intelligent Investor. Benjamin Graham (most recent edition edited by Jason Zweig)

Publications:

Kiplinger's Personal Finance

Money Magazine

Smart Money

Morningstar (various publications)

Forbes

Web Sites:

Money Magazine (cnmoneymag.com)

Wall Street Journal (online.wsj.com)

Yahoo Finance

Morningstar.com

Annualcreditreport.com

Mint.com (budgeting)

Objective TV/Radio Shows:

Marketplace, NPR radio

Nightly Business Report, PBS

Moneytalk with Bob Brinker, syndicated radio

Best Money Show, 96.9 FM (Boston area) Sun 9 - 12