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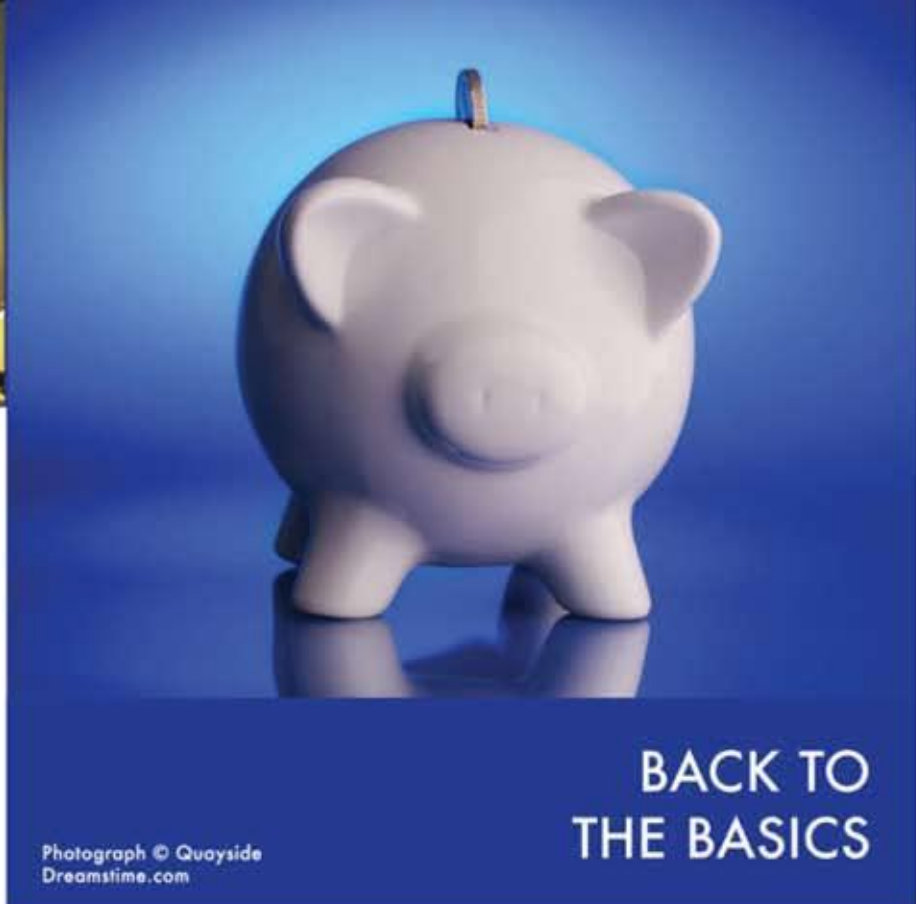
Personal Financial Planning is the process of managing your money to achieve personal economic satisfaction; a “financial journey”, if you will. It would be nice if the journey was predictable, smooth, and comfortable... but “stuff happens”.

Call it what you will: economic uncertainty, economic crisis, recession, depression. The *adjective* you assign to what we are experiencing is not important; it's what we are EXPERIENCING that IS important to each and every one of us. At a minimum, most of us have lost ten years of growth on our equity based investments. Unemployment is on the rise. Consumption is declining. The result is the “guts” have been ripped out of our financial plans.

What we need is for normalcy and some form of predictability to return to the markets – and our lives.

Unfortunately, the lame duck fumble bums in Washington can't seem to find the right combination of economic fixes to turn this mess around. It may only be wishful thinking, but maybe the “new guys” can find a better combination of economic salve, giving us hope that we can put this mess behind us. If this scenario emerges, say by Valentine's Day, and if our psychology starts to swing positive, then we could see light at the end of the tunnel by the time the “bombs bursting in air” help us celebrate our precious Independence in early July 2009. In the meantime – suck it up. Stuff happens. There is no better time than right now to examine exactly where you are on your “Financial Journey.” Don't let *economic uncertainty* paralyze the financial planning process – your show must go on.

REESTABLISH YOUR GOALS. What are your short (one to two years), mid (five to ten years), and long term goals? Write them down. Then within each goal category assign a priority and a dollar value to each goal. (Inflate your mid and long term goal



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BACK TO THE BASICS

dollar values using a financial calculator such as an HP 80. Find the inflation adjusted “future value” using a 3 percent assumed inflation rate. If you don't have a financial calculator, then Google “future value calculator,” and follow the instructions.) For example: if you want to take an around the world cruise in ten years when you retire, that cruise would cost about \$12,000 today. In 10 years, inflated at 3 percent, the future value of your cruise is about \$16,000. Or perhaps you would like to send your son or daughter or grandchild to CU Boulder in 12 years. Today that four year post secondary education would cost approximately \$76,891. At 12 years from now the cost will approximate \$194,000. (Hint: college education costs are growing at three times the current inflation rate.)

INVENTORY INCOME, ASSETS AND LIABILITIES. Estimate your total, annual after-tax income. Make a list of your assets and liabilities – by ownership (ownership is important for estate and family succession planning). We use a six column spread sheet, instead of the traditional bank form. The column headings are ASSET, VALUE, MR, MRS, TIC (tenants in common), JTN (joint tenants). The name of each asset and the current market value of each asset are listed in the first two columns. Then report the value of each asset by ownership. If your home has a \$650,000 market value, and the home is

owned by the lady of the house, the value of the home is placed in the *VALUE* column, and again in the *MRS* column. If you own your home as joint tenants, then report the \$650,000 number in the *VALUE* column, and again in the *JTN* column. If you own an *ASSET* as tenants in common, then you list the total value in the *VALUE* column, then list the total value again in the *TIC* column. Add up all the columns. The total of the *VALUE* column should equal the combined total of the *MR*, *MRS*, *TIC*, and *JTN* columns.

GET YOUR 2009 CASH FLOW AND BUDGET IN ORDER. Next, get your 2009 cash flow and budget in order. A good place to start is with an Excel Twelve Month Family Budget Template (Google it! It's free!). Take the time to accurately list your income and expenses for a full 12 months. Are you living beyond your means? What is your debt exposure? Have you over-extended your consumer credit? Do you have six to eight months of emergency cash reserve? Years ago, a nationally recognized research scientist and his spouse retained our firm to assist them in developing a financial plan. In the middle of examining their budget and cash flow, we discovered that they were spending \$1.7 million annually with a \$1.3 million annual income. They had \$447,000 in consumer debt. It took us nearly four years, working with Colorado Consumer Credit Counseling,

to get to the point that their cash flow and budget were in sync with each other. Only then could we proceed with developing a financial plan. **DO NOT PASS GO** until you both agree that your cash flow and budget are in order.

ESTABLISH YOUR TOLERANCE FOR RISK. *Risk Tolerance*, according to Investopedia® is the degree of uncertainty that an investor can handle in regard to a negative change in the value of his or her portfolio. We are told that an investor's risk tolerance varies according to age. Unfortunately, no contemporary measure of risk tolerance prepared us for what took place in 2008. For most equity investors, your original investment is in tact. However, 10 years of growth on your equity investments have evaporated. 20 percent of your fixed income investments have disappeared. You "got out" you say? In "getting out" you turned a "paper" loss into a "real" loss. Your money is most likely sitting in a zero earnings (after taxes and inflation) money market fund - and you are paralyzed. Succumbing to the "one-trick pony" annuity salesperson is not the answer. Our experience is that in chaotic times like this, none of us have a tolerance for risk - we have emotions. Those emotions are GREED and FEAR.

Google "Analyze My Risk Tolerance". Do your best to understand your tolerance for risk and begin to move forward. Understand that taking no risk whatsoever, unless you are unbelievably wealthy, is not an acceptable course of action.

DEVELOP YOUR FINANCIAL PLAN. Now that you have prioritized goals, an accurate picture of your assets and liabilities, a workable budget for 2009, and a better understanding of your tolerance for risk, you can develop the separate elements of your financial plan:

- Investment Plan
- Tax Plan
- Risk Management Plan (Health, Life, Disability, Property & Casualty Insurance)
- Retirement Plan (in four scenarios: wellness, single disability, dual disability, first passing)
- Estate & Family Succession Plan (first and second passing scenarios)
- Asset Protection Plan
- Special Needs Plan (children's education; special needs situations)
- Review & Update Plan

Your financial plan must be written. Your financial plan must be integrated.

Your financial plan must be measurable. It is, however, possible to manually develop your own financial plan. Manually developed financial plans are difficult, time consuming, and typically result in a disjointed, dysfunctional plan. In order to assist you, we recommend that you invest a relatively small amount of money in a contemporary version of popular financial planning software. Many of our friends and clients have had great success using the JI Financial Planner Regular (Version 13.0) Financial Planning Software available at www.jiplanner.com for \$79.95.

Now that you have a "back to the basics", updated financial plan, get on with saving and investing for the future. Get on with life.

Next month: Investment Planning.

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