The Financial Planning Process: Why and How

Have you ever found yourself tossing directions aside and charging ahead to build that new chest of drawers, only to end up with the handles on the inside and the front on the back? Use this approach with your financial life, and you're likely to end up with something that doesn't work. To help achieve the goal of having the lifestyle you desire for you and your family, consider using a defined process to plan and manage your money.

Planning personal finances used to be the worry of the wealthy, and their worry—usually preservation of wealth—was attended to by teams of trust officers and lawyers. Many of today's middle class families have different concerns: funding retirement, educating children, protecting assets, and coping with unexpected changes in health, employment, and marital situations. But, whether your goal is to build or protect wealth, the sooner you start, the better your chances are of meeting that goal.

Where should you begin? Once you have the resolve, you may choose to work with a financial professional whose expertise resides in the planning process itself. Such an individual can help you focus on the big picture; he or she may hold licenses and credentials allowing him or her to provide specialized services or products related to accounting, taxes, insurance, investing, and buying and selling individual securities. Rather than zeroing in on such issues, your financial professional will start where you are and guide you through an organized and methodical process.

Step One: Building the Relationship

Financial professionals typically follow a set procedure in helping you develop a long-range financial strategy. The first step is to establish and define the relationship by delineating the responsibilities of each so that you fully understand the nature and extent of the services provided. At this point, you will discuss how the financial professional will be compensated—flat fee, a percentage of your assets, commissions paid by a third party for products included in your plan, or a combination.

Steps Two through Four: Exploring Your Financial Life

Step two involves identifying your personal and financial goals, your time horizon for achieving them, and the level of risk you are comfortable assuming. A detailed questionnaire may be used. Step three consists of comparing your stated goals with your current financial situation—your assets, liabilities, cash flow, insurance coverage, investments, and taxes. Step four offers concrete recommendations on ways to help meet your goals using your current resources.

Steps Five and Six: Implementing an Action Plan

Having agreed on an action plan, step five is when you and the financial professional decide who will implement the strategy. This step may involve either you or the professional engaging the services of a specialist, such as an insurance agent or accountant. The sixth and final step is really an ongoing one: periodically reviewing your progress toward your goals and checking that your strategy is still in synch with your life situation.

Over and above your personal situation, you should feel free to discuss with your financial professional any changes in the economy, stock market, and tax laws that you think may have an impact on your financial strategy. The more "in touch" you are with your financial professional, the more attuned your financial strategy may be with your needs and goals.

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