

4 Simple Steps to Building a Smart Financial Plan

People don't plan to fail; they simply fail to plan. The same is true when it comes to achieving your financial goals. As illustrated by the financial planning pyramid, a smart financial plan proceeds in an orderly fashion and is built on a comprehensive foundation.

Step 1: Review Cash Flow / Minimize Debt.

Spend less than you earn. It sounds so simple. Yet, many people bury themselves in debt or live paycheck to paycheck. By spending less than you earn, you can free up money to:

1. Invest for your future
2. Minimize / pay off your debt.

Step 2: Establish Cash Reserves. Building cash reserves for unexpected emergencies can help you breathe a little easier. The rule of thumb is to set aside 3-6 months' of living expenses. Of course, your needs may differ.

Step 3: Review 'Protection' Needs.

Insurance (*such as health, life, long term care and Medigap*) can play a critical role in your financial plan. The benefit of insurance can help you on two basic levels:

1. Insurance can help provide some level of peace of mind
2. Insurance can provide protection for covered assets should a severe risk event occur

Step 4: Construct an Investment Strategy for Your Goals. Regardless of what your financial goals are (college, retirement, etc), you need a diversified investment strategy based on your time horizon, risk tolerance and your specific financial circumstances.

And for those approaching or already living in retirement, it becomes even more important to develop a strategy that will help lower volatility, emphasize income and account for inflation.

Checklist:

- Are you spending less than you earn? Minimizing debt?
- Is your Cash Reserve amount appropriate for your specific situation?
- Do you have cost effective insurance in place to protect your family against financial hardship?
- Do you have the right diversified investment strategy for your financial goals?

With careful planning and professional advice, you can develop a plan for your financial future.

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