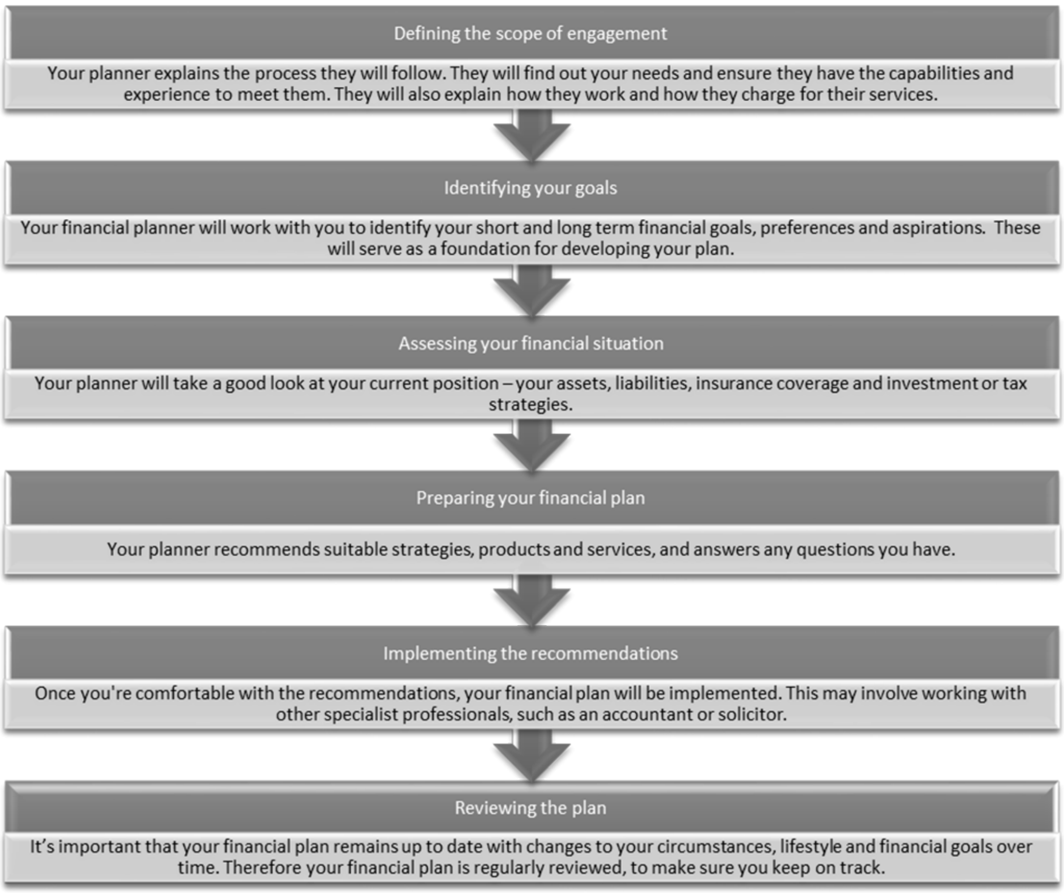
Financial Planning Basics

What is Financial Planning?

Financial planning involves working with a professional to navigate through the complexities of investment, taxation and changing rules and regulations. Working together, you can navigate a pathway to reach your specific goals, preferences and aspirations.

Financial planning can help you through all stages of your life. The financial planning process involves the following six steps:



To gain the most value out of the financial planning process there are three issues that are important for you to consider and understand.

Goal Setting

The starting point for any plan is to set your personal goals that reflect your preferences, aspirations and needs. Your goals may be short-term goals (less than 1 year) like buying a car, paying off your debt or going on a holiday, medium-term goals (1-3 years) such as saving for your children's' education or long-term goals (5 years or more) like saving for a comfortable retirement and leaving behind a legacy.

Your goals will be more real and achievable if you try to apply these 'SMART' guidelines:

- Specific: are they all about you and your family?
- Measurable: can you measure whether your goals have been met.
- Achievable: can you get there? While a 'stretch target' is good, don't set a goal that's actually beyond reach.
- Realistic: is the goal an aspiration that is grounded in reality?
- Time-targeted: can you set a time targets against your goals?

Budgeting

To put you on the path to building your wealth you need to start saving money. This may mean working out how to find more money. The best way to do this is to set yourself a budget.

Setting a budget is important for everyone no matter your age or how much money you have. It's especially important for people who are struggling to meet their goals or who keep building up debt.

A budget is not about just cutting expenses. It's about finding a good balance between your income and your expenses and deciding what is important to you so that you have money left over to save. A budget is not a 'fixed forever' plan. You can keep making adjustments over time until you are comfortable and have a good strategy in place that will meet your goals.

There are two sides to a budget:

- Your after-tax income – from all sources such as salary, interest, rental income and dividends
- Your expenses – includes mortgage repayments, bills and general living expenses

You could also consider keeping a diary to record all your expenses – and don't forget all the little ones as this is where you can often make some significant savings.

Setting a budget is a simple step but sticking to the budget can be harder. Here are 10 tips for setting a good budget:

1. Make it realistic or you will never stick to it
2. Budget an amount for fun, leisure and personal expenses so you can avoid impulse buying
3. Save your pay rises, bonuses, special payments or tax refund
4. Look for small savings – for example, take your lunch to work, or use internet banking to reduce bank fees
5. Pay by cash or EFTPOS to avoid credit card fees (and also avoid accumulating debt)
6. Reduce fees and charges – combine bank accounts to reduce fees
7. Put your change into a savings jar at the end of every day
8. Shop around and compare prices on insurance policies. Look for companies that offer discounts for multiple policies
9. Use lay-by options instead of debit and credit cards
10. Update your budget each year

Understanding Debt

When used properly, debt can be an effective tool that may help you to achieve your financial goals. Debt can be used to buy something before you've saved the full purchase price.

It is important to understand the difference between 'good' and 'bad' debt. Debt can help you buy the family home, purchase a car or major consumer goods and also enable you to purchase investment assets such as shares, managed funds or a rental property.

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Where debt is used to acquire investments such as shares or property, this is known as gearing. This is often referred to as 'good' debt because it gives you the potential to claim a tax deduction for borrowing expenses and assets that will hopefully appreciate in value over time.

Borrowing to invest (gearing) simply allows you to use a combination of your own money and borrowed funds to accelerate wealth over the long-term. However, it’s a higher risk strategy that magnifies both the gains and losses from your portfolio.

'Bad' debt is non-deductible debt like borrowings for consumer goods such as cars and holidays. Even though a loan for the family home is non-deductible, it should not necessarily be viewed as 'bad' debt because the value of the home has the ability to grow over time. But looking at strategies to pay off this debt as quickly as possible will increase your wealth.

In any case, paying off non-deductible debt before deductible debt will usually be the most appropriate course of action for many people.

The cost of borrowing can be high, so you need to be disciplined and consider strategies to reduce the total interest cost, reduce the term of the loan and improve your cash flows.

Superior Alliance Financial Consulting are specialists in financial planning strategy and execution. We stay at the leading edge of the best ways to make your money work harder for you. If we can help you to start or refine your financial plan, call us today.