Personal Financial Planning by Mr Rahul Jain & Mr Rohit Nayar

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Personal Financial Planning

TABLE OF CONTENTS

INTRODUCTION

In today's economy, it is more critical than any time in recent memory to have personal financial plan & manage your money. Having a financial plan that fits your budgetary way of life can enable you to acquire the bearing you need and enable you to deal with your financial goals in life. With Indian's national debt becoming crazy the time has come to investigate what we can do as Indians to change the way we live financially. Do you currently have a personal financial plan or would you say you are paying off debtors?

The first thing to do is get a personal financial plan together to achieve your objectives financially. Where would you like to be financially for the short-term & long-term? Take a gander at your present financial position, tax planning, investment goals, investments & estate. When you have your objectives set-up, at that point you should concoct a plan. The plan should comprise of objectives and ought to be realistic in regards to what you need to accomplish with your financial goals. So where do you start? Let's proceed to the next chapter!!!

CHAPTER ONE

PERSONAL FINANCIAL PLANNING

Successful planning regardless of what form it takes is essential if you are to succeed in life. Whether it's planning a weekend away or an incredibly complex yearlong project planning forms the very foundations and is integral to success.

What is it?

Essentially, financial planning can be described as creating a roadmap that includes various financial goals which factor in individual or in some cases business assets, liabilities and current credit. Financial planning is a means by which you can take control of your finances by seeking the expert advice of a leading expert.

Typically the following aspects will be assessed when creating your personal financial plan: budget, asset allocation, savings and investment, risk management, insurance, cash-flow, taxation, life cover, retirement plans and estate management.

What's involved?

Personal financial planning involves setting clearly definable objectives, assessing your current resources, estimating your future needs and expenditure and attempting to correlate them all in order to achieve your desired goals. In order for this to be a success, a long-term view needs to be taken of personal financial planning. The aim here is to effectively manage your finances while at the same time negotiating and responding to any problems that may arise.

It is necessary to gain as much information-as-possible about your current-financial position and your future goals in order to devise a clear plan. Solid financial planning allows you to achieve a stable financial future and helps you save time and money by efficiently investing your resources so that your money is always working hard for you. A skilled financial advisor can help you effectively allocate your finances and make the right decisions to ensure long-term financial stability.

A key to financial planning is to create truly bespoke and tailored solutions to your own individual needs. A generic approach simply won't work as everyone has their own personal preferences and different goals they wish to achieve in life.

Who would benefit?

For those who've accumulated considerable wealth over the years in the form of property, highly liquid assets or simply cash the services of a financial advisor will allow the individual to secure a sound financial future.

If you have considerable material wealth and would like to secure your own personal financial future a personal financial advisor could analysis your current financial position and help you create an individual plan that enables you to get the most from life.

CHAPTER TWO

GETTING STARTED WITH PERSONAL FINANCIAL PLANNING

Today, when most people hear the word "budget", it readily implies a negative connotation. They think that budgeting is only for those experiencing financial shortage or crisis. However, even with enough financial resources as of the moment, an effective financial planning program will ensure that you will be able to maintain your financial status.

Therefore, personal financial budgeting involves the following:

- Financial budget for your day-to-day finances while not depriving yourself of what provides you enjoyment and satisfaction.

- Setting up larger financial goals to which your daily budget and planning is aim towards.
- Making sure that you have enough savings in case of emergencies or unexpected financial struggles.

The Importance of Budget

Others think that by creating a budget for your finances, it is similar to lack of financial freedom. However, it is of the exact opposite. By creating a budget, you are able to create a financial safety net so you have enough money to spend on things that you want without hurting your financial condition.

Regardless of how little or large you earn on a monthly or yearly basis, budget enables you to take an effective step towards a healthier financial foundation. Hence, you can easily realize whatever financial goals you have.

When making a budget, it is important to keep track of every detail of your expenses. Hence, you can also evaluate your spending habits. It allows you to determine whether you are placing your money on important things or whether you can do without it.

Living Beyond Your Means

Most of us at some point in our lives will "live beyond our means" whether by choice or necessity, but when this idea, along with overspending, becomes regular practice it's only a matter of time before something happens that could create very real and big financial problem. Living beyond your means keeps you on the edge of paycheck survival and beyond. Below are some behaviors of living beyond your means:

- Using a credit card to pay for everything
- Using a credit card to pay for emergencies (no need for this - save an emergency fund instead)
- Spending more when paying by credit card vs. paying with cash
- Using savings, retirement money, or other investments to pay for regular bills and goods
- Having a spenders mentality
- Not tracking what you earn and spend (living on a budget)
- Making purchases based on the thinking "I can afford the payments"
- Playing the game "keeping up with the Joneses"

A Sound Financial Plan

A strong financial plan starts with your desire to get your finances in order and then your ability to put your plan into action. Once you begin your plan and stay with it you will begin to experience many great benefits such as:

- Never paying credit card interest rates and bills again
- Never having to scramble for money when there is an emergency
- Not having to live pay check to pay check for the rest of your life
- Knowing how to control your money
- Knowing where your money is going
- Making your money work for you
- Being able to purchase more expensive items with cash
- Being able to treat yourself without it creating a debt burden

That's just the tip of the iceberg and every individual will have different benefits. Having a positive surprise from hard work on your finances is one of the best feelings of accomplishment and pride. It's also addictive! Below is a small list of steps you can take to begin creating your own financial plan.

Set Goals - Create some realistic and reasonable goals for your plan. Take it slow at first and once you have reached a goal, review it, revise it, or change it as needed.

Track Your Money and Create a Budget - I am a big money tracking and budget nerd because they work so well. If you know where your money is going you can then make educated decisions about how to handle your money.

Save an Emergency Fund - Saving 3-6 months of your expenses is a great way to have a decent sized stash of cash to pay for those unexpected, but all too regular, emergencies we all have.

Pay Off High-Interest Debts - High-interest credit cards, auto loans, or any other loan that isn't directly related to improving your finances (example: a business loan) that is at a very high rate must be paid off and destroyed.

Save, Invest, and Build Wealth - Choose a savings or investment method that you are comfortable with and can understand. Savings accounts and some investments are pretty simple. Other investments may be very complicated. If you can't understand it doesn't invest in it.

Have Fun and Enjoy - The whole reason for creating this plan is giving you more enjoyment out of life. Once your plan is set and working, you will see that it is well worth the time, and you will wonder how you ever got along without it.

Hopefully, you can see that it's not too difficult to create a very reasonable and sound financial plan to fit your needs. The hardest part now is to stop reading and thinking about it and begin to take action. So, close down your web browser and get to work!

How to Set Financial Goals?

Financial goals serve as the endpoint of all efforts toward controlling your finances. Therefore, you need to clearly state what your goals are when it comes to your finances and what steps you need to achieve it.

Step One: Choose a specific goal. It could be saving for your house's down payment, sending one of your kids to college, buying a new computer, or going on vacation.

Step Two: Your main financial goal is typically long-term. Hence, you need to break it down into smaller goals, which will serve as your stepping stone towards that bigger goal.

Step Three: Inform yourself about ideas or strategies that will enable you to effectively handle your finances. There are several books or materials over the internet that provides the information you need.

Step Four: Keep track of your goal. Evaluate your financial records alongside your spending habits. Then, you can determine whether you are following the necessary steps that will lead towards your goal.

Therefore, you must get started on devising ways to maximize your finances and enjoy it to the fullest. A personal financial planning program would help you establish the steps that will lead towards more financial success in the future.

CHAPTER THREE

BEHAVIORAL FINANCE AND MARKET BEHAVIOR

Ever wonder why markets make sudden moves from one extreme to the other, or why markets may decline in the face of good news and rise on bad? Seems crazy, right?

Well, many times stock market movements are based on more than new information such as earnings reports or corporate downgrades... markets are quite often moved by investor sentiment. Psychological factors affect not only the average investor but also professional money managers who tend to be driven by greed, euphoria, and fear!

Behavioral Finance

Believe it or not, there is a legitimate field of study which seeks to quantify the impact of emotions, psychology, and behavior on investing and financial decisions - it's called Behavioral Finance.

Behavioral Finance teaches us that just as the stock market operates in up and down cycles, markets also operate on their own "cycle of market emotions". Interestingly these two cycles tend to move in tandem.

For example, when the market is at its peak, most investors are in a state of emotional euphoria. Then as the market trends downward toward a bottom, investors' emotions become darker and more fearful, shifting from slight anxiety to despondency or depression.

This is the shift which can have the greatest impact on your decisions and investment results.

A Little Fun...

Take a short quiz to gauge your investor temperament.

A wager is offered where you must pick one of the following choices:

Wager (Investment) A: Gives you a 50% chance of gaining ₹1,000, and a 50% chance of gaining ₹0.

Or

Wager (Investment) B: Gives you a 100% chance of gaining ₹500.

Which do you choose?

If you chose B then you are like most investors who are careful to avoid losses and concentrate on gains.

If you chose A, you are concentrating on the chance of winning = ₹1,000.

Interestingly, both bets are statistically the same. Wager A has the same statistical outcome as wager B because the average gain is the same. And yet the overwhelming majority chooses Wager B.

Behavioral Finance refers to this as Loss Aversion which refers to individual's tendency to strongly-prefer-avoiding losses to acquiring-gains. Some studies even suggest that this version is twice as powerful as the desire for gains.

Avoiding loss by refusing to sell an investment when it starts to deteriorate can cause permanent destruction of your wealth. Understanding loss aversion as a personal trait can be the difference between investment success and failure.

Key Takeaways-What to do

Loss Aversion is one of many behaviors to keep in mind when you make investing decisions-here is the summary:

- Emotional and psychological factors impact our decisions.

- People will base decisions on perceived losses more than perceived gains. (That's what our quiz also showed us.)
- Losses have more of an emotional impact than equivalent gains. This reinforces the earlier point that individuals are more loss-averse than gain-driven.
- Investment decisions are usually based on beliefs and feelings and not on facts. So even though you may do a lot of analysis on a stock, ultimately, it's perhaps your emotions that influence how and when you pull the trigger, unfortunately investing needs to be strictly non-emotional so the impact on your results can be quite devastating.

Things to Remember

So based on all of the above... when investing:

- Remove as much emotion as possible and stick to your game plan.
- Do your research and due diligence, and understand the upsides and risks.
- If your investment is solid, do not deviate from it just to follow the masses or to time the market. Hang tight, ride out the storms, and you will come out better-off in the end. (Remember how Buffet sat out the dot-com boom despite a lot of heavy criticism, but came out a hero.)

Fundamentals impact market moves, but so does investor behavior. So avoid making investment mistakes, and allow professional advisors to manage your investments or guide you through the process.

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