

## *Chapter 1*

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# Setting Financial Goals

**TIP** Develop strategies that, once in place, will help you to roll with short-term swings, confident that your overall long-term goals will be met.

Things such as losing weight or quitting smoking may top your list of resolutions, but getting your financial life in order is just as important. I have already shown thousands and thousands of African Americans how to successfully manage their money and make even more while they're doing it. When new clients ask me what their resolutions should be, I say:

- Review your investment portfolio once a year. It is important to make sure you're on track to meeting your goals.
- Fund a retirement plan. If you are currently contributing to a 401(k) or other employer-sponsored plan, see if there is any way to increase your contribution. If you do not contribute to a plan, set one up and commit to saving a certain amount each month.
- Review your insurance coverage. Analyze your home, auto, life, disability, and health policies to make sure you have adequate coverage and fair premiums.

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- Create or update a will. If you don't have an up-to-date will, see your attorney. A will is essential for making sure your assets will be distributed according to your wishes.
- Prepare a budget. Look at your monthly expenses and account for irregular expenses such as Christmas gifts or unexpected home repairs. Consider using one of the many computer software programs available to make this a quick and easy task.
- Eliminate credit card debt. Make it a goal to pay off any balances you have on credit cards. Credit card debt carries high interest rates, and paying off your balance will free up money that you can save or invest.

Anyone can learn the financial rules of the road. The trick is to start. That's the hardest part.

### **Five Easy Steps**

If you are ready for financial freedom, let this book be your guide. If you are ready to take these five easy steps, we can get going:

1. Review your current financial situation. You need to have a realistic understanding of where you stand as far as assets, liabilities, savings, and so on. Once you know your current situation, you can plan for the future.
2. Set goals. Think about what you want and need to do in the future. Financial goals can be very diverse—anything from traveling six months out of the year to paying for grandchildren to go to college. Also think about when you will need this money.
3. Develop a plan of action. Once you know how much you need, you should develop a plan to help you get there. Selecting investments that fit your goals and risk tolerance is essential to forming a plan you will stick with over the long term.
4. Be consistent. Whether it's a dollar cost averaging investment program or weekly savings goals, you must do what you committed to in your financial plan.

5. Review your progress. Once you've started implementing your plan, you will want to see how you are progressing. Look at your quarterly statements and make sure you understand what's going on. If you want your plan to help you meet your goals, you need to review it regularly.

### The Problem with Procrastinating

Procrastinating is harmful in every aspect of our lives, but especially when it comes to our finances. Saying you'll save more money after you get that job or you buy that new house or the kids are done with school is a dangerous habit to get into.

It's helpful to look ahead and realize that if you don't start saving now, your retirement won't be all you hoped it would be. When you save money early, the power of compounding can potentially benefit you for your diligence over time.

**TIP** Developing a habit now of saving and planning for the long term is very important.

## Parents Lead the Way

*My daughters seem to live hand-to-mouth. They do not have savings accounts for their children, they stopped paying into the investment plans that I started for their children, they have no wills, and they constantly let their life insurance policies lapse. I know times are hard for all of us, but I have always believed that if you have kids you should make plans in the event you can no longer care for them. How can I convince my daughters to take better care of their children's financial future?*

Erma M. of St. Louis, MO

**A** Erma, you sound like a very responsible mother and grandmother. There are several important benefits that will help convince your daughters to follow a more responsible financial road for your

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grandchildren. The more you know about your money, the more able you will be to:

- Talk to your children about money. Show your children and grandchildren, by example, how to save and manage money. This can help equip them for a lifetime of responsible financial decisions.
- Help your children put money away now for college for your grandchildren. Even if you can only start out with small amounts, they need to start saving now for college costs.
- Purchase sufficient insurance. Make sure you have enough life insurance to provide for your children and grandchildren. Also ensure that you have adequate disability insurance.
- Save for your retirement. It's important. Your retirement money may help your grandchildren through college one day.
- Gift assets to your children. If you plan to leave your assets to your children, you may want to make annual gifts during your lifetime. This not only reduces the value of your estate for tax purposes but also allows you to watch how your children use their gifts and share in their joy.

### **Financial Planning for African American Women**

*I am a fifty-year-old woman with a great career and three grown children. I am engaged to a sixty-year-old man with no children and lots of money. I am in love, and have no desire to bury my husband-to-be, but I know statistics say that I probably will outlive him. Give me some tips on how to develop a financial plan that will help me in the event he dies before I do.*

Joyce S. of Mount Vernon, NY

**A**Whether they are executives, entrepreneurs, mothers, or teachers, many women hold substantial wealth and are in need of solid financial planning advice. Since the roles women play vary so much, each woman has unique needs. However, there are several common areas of concern.

Investment planning is one important issue for most women. Selecting investments that are appropriate for your financial goals and situation is key to creating a plan that will help meet your needs.

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Consider your investment objectives and make sure your plan takes into account your:

- Financial resources
- Time horizon
- Future needs
- Risk tolerance

It may be wise to entrust this planning to a financial professional. That way, once your plan is formulated, you just need to follow it and leave the periodic monitoring to your financial planner.

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Another area of importance to women is estate planning. It doesn't matter if a woman has inherited her husband's estate or acquired her own through work or investments—all women should review the estate planning options available. Things such as making lifetime gifts to reduce estate tax burdens, using trusts for minor children or grandchildren, and making charitable contributions are all possibilities women should understand to decide what is best for their situation.

Planning for retirement is also a key concern for women. Whether they have their own retirement plan through an employer or inherit their spouse's retirement plan, they will need to make decisions about those retirement benefits. Questions such as "What distribution option is best for me?" and "Will my retirement nest egg be enough to live on?" must be answered, and women need to be able to make knowledgeable decisions.

**TIP** Establishing a financial plan is an essential part in helping to ensure that we meet our financial goals. It's not a difficult process, but it does require some time and effort.

A variety of concerns exist for women to consider in planning their financial lives. Since no two women are exactly alike, there is not an easy answer to any of these questions. Seeking the advice of a trusted financial professional is one way that women can wade through these issues and work to achieve their financial goals.

### **Three Steps toward Meeting Your Financial Goals**

1. The first step in establishing a financial plan is assessing your current financial situation.
2. The next step is identifying your financial goals. You need to think in specific terms in order to establish goals you can work to achieve. Maybe you want to travel after retirement, move to a different state, or stay at home and enjoy your hobbies.
3. Once you have identified your priorities for the future, the third step is deciding how to reach those goals by sifting through the many investment vehicles to determine which products are most appropriate for your situation.

## **Start to Build Wealth at Any Age**

*I am a recent high school graduate. I can't play basketball or rap, hate jail, and love life. Since I got good grades in school, I was able to get a scholarship to Tennessee State University. My plans after college include earning lots of money and getting my mom out of the projects. Where do I start?*

Anton W. of Detroit, MI

**A** Wealth building requires organization, planning, and motivation. To help in that quest, remember the following principles:

- The first step to building wealth is making the decision to do so. Set a goal and then begin mapping out a strategy to achieve it.

- Money begets money. When you save and invest a portion of your income, you can begin to reap the benefits of money that is working for you.
- Spend less than you earn. Save at least 5 percent of everything you make; 10 percent is even better.
- Earn interest, don't pay it. Put your credit cards away, except for emergencies, and reduce your installment debt to zero. This will help you begin to pay yourself rather than your creditors.
- Put time on your side. If you have ambitious financial goals, one of the best moves you can make is to start saving as soon as possible.
- Be consistent. Many savings plans fail because people don't have the motivation to consistently invest over the long term. Your goal should be to build wealth gradually, steadily, and consistently.
- Pay yourself first. If you pay all your bills each month and then try to save what's left, you'll probably find little left. Instead, treat your wealth-accumulation plan as a bill—money you owe yourself.
- Protect your assets. Make sure you have adequate medical, homeowners, life, and disability insurance. This protects you and your family from the unexpected.

### Five Tips to Start With

*I just got engaged to a man who has promised me the moon and stars. It appears that he may be able to deliver. Before the wedding day, I need some tips on how to increase my net worth.*

Frances H. of Baltimore, MD

**A**To achieve your financial goals, you need to find ways to increase your net worth, which can be accomplished by increasing your assets and/or decreasing your debts. These five basic tips can help:

1. Set rewarding financial goals. Putting money aside for a distant goal, rather than spending that money now, is a difficult thing

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for most people to do. So set goals that will reward you and motivate you to achieve them. Then quantify your ultimate goal as well as interim goals, so you'll have a way to track your progress.

2. Spend less than you earn. The amount of money left over for saving is a direct result of your lifestyle. Your lifestyle decisions will affect you now and in the future, since you will probably want to continue the same lifestyle after retirement. To get a grip on your spending, take time to analyze your expenses and to set a budget. Try reducing nonessential expenditures. Another strategy is to find ways to spend less money for the same things.
3. Save it before you see it. If you have to find the money for saving every month, you'll likely find that there isn't much left after all the bills are paid. Typically, a better strategy is to set up an automatic savings program in which money is automatically deducted from your bank account every month and deposited directly in an investment account. Another good alternative is to sign up for your company's 401(k) plan, having funds withdrawn every paycheck. (Remember that an automatic investing plan, such as dollar cost averaging, does not assure a profit or protect against a loss in declining markets. Since such a strategy involves periodic investment, consider your financial ability and willingness to continue purchases through periods of low price levels.)
4. Don't let debt sabotage your goals. If a significant portion of your income is going to pay interest on your loans, that leaves less available for saving. Strive to eliminate all your debts except your mortgage.
5. Invest, don't just save. Your ultimate nest egg will be a function of two factors—how much you save and how much you earn on those savings.

**TIP** Become familiar with various investment alternatives so that you'll feel comfortable investing in more aggressive alternatives that offer potentially higher rates of return.

### Make Sure to Follow Through

Preparing a comprehensive financial plan can be a difficult and complicated task. To help assure that your plan helps you accomplish your goals, consider the following tips:

- Take action on your plan. You need to make sure to implement the actions outlined in the plan, which requires commitment and dedication on your part.
- Review your plan at least annually. Changes in your personal situation may necessitate changes to your goals and implementation strategy. Those can include events outside your control, such as a major stock market decline, or personal circumstances, such as getting married, having a baby, losing your job, getting divorced, and retiring.
- Maintain a long-term perspective. Many financial goals take years to accomplish. For instance, you may need to start saving for retirement twenty or thirty years before you actually retire. Maintaining the commitment to accomplish that goal over such a long time can be difficult.
- Consider using a professional who can provide assistance in areas you are unfamiliar with, such as estate planning or investment strategies, and can also help monitor your progress. Sometimes it's easier to stay committed to long-term goals if you know someone else is also watching your progress.

### Working on Your Financial Goals

*My former boyfriend was a great financial analyst. He mapped out everything for me and kept me on track. That was the only part of our relationship that worked, because he has some of the most irritating habits of anyone I know. I had to dump him to maintain my sanity. But now that he is gone, I don't know how to keep on track of my financial goals.*

Eva T. of Powder Springs, GA

What steps are you taking to help ensure that you are making progress toward your financial goals? Developing and following a written financial plan will give you a road map to help you accomplish them. The six steps involved in that process are:

*1. Assess your current financial situation.*

This involves preparing a net worth statement. List your assets and liabilities—the difference represents your net worth. Periodically preparing a net worth statement will help you assess whether you are making progress toward your goals.

You should also analyze how you spend your income. Prepare a cash flow statement, detailing your income and expenditures by category for the past year. Even if you haven't been keeping track of expenditures, looking at canceled checks, credit card receipts, and tax returns will provide much of the needed information. If you can't account for large sums, keep a journal of all expenditures for a month. You are likely to be surprised by the amount spent on nonessential items like dining out, entertainment, clothing, and vacations. This awareness may be enough to cause you to reduce your spending. If not, prepare a budget for future spending that incorporates your financial goals.

*2. Establish written, specific financial goals.*

Your goals should be defined in specific, quantifiable terms, so you have a means to measure your progress. Be sure to attach a timetable to each goal. If you have several financial goals, you should prioritize them so you devote resources to those most important to you. The most common long-term goals include:

- Financial independence (at retirement or sooner)
- College education for children
- Debt reduction
- A desired lifestyle
- Business ownership
- Major charitable giving

### *3. Develop a detailed plan, with specific strategies and time-tables.*

Your financial plan should coordinate strategies in several important areas:

- *Investment strategies.* Determine what investments should be used for your savings. Develop a strategy you are comfortable with, taking into account a reasonable risk level and your time frame for investing.
- *Tax planning strategies.* Reducing your income taxes can provide additional funds for saving.
- *Debt strategies.* While debt may be necessary to help achieve some goals, such as home ownership, you should develop ways to avoid incurring excessive amounts of debt.
- *Risk management strategies.* To ensure your plan won't be derailed by catastrophes, assess your life, health, disability income, property, and liability insurance. Also make sure you have an emergency fund covering several months' living expenses.
- *Estate planning strategies.* Proper estate planning helps ensure that your wealth is distributed according to your wishes at a minimal estate tax cost.

### *4. Implement your financial plan.*

Carrying out your plan requires a lifetime of discipline and dedication. Make saving and investing part of your monthly routine so they become strong habits. Don't become overwhelmed by the amounts you need to save, since it often takes years to see substantial progress toward your goals. Don't try to accomplish too much, or you may become disillusioned with your entire plan. Strive to make slow and steady progress.

### *5. Monitor your progress.*

At least annually, review your progress toward your goals:

- Update your net worth statement and analysis of spending.
- Evaluate your investment performance.

## **Your Spouse and the Family Finances**

In many families, one spouse takes primary responsibility for the family's finances, doing everything from paying bills to making investment decisions to reviewing insurance policies. If that spouse dies first, the other spouse may have difficulty taking over these tasks. Therefore, if you take care of money matters in your marriage, one of your more important financial duties is to prepare your spouse for handling the family's finances. Some strategies to consider include:

- **Maintain good records.** Financial records should be well organized, located in one central spot, and contain only pertinent information. Old or outdated information may confuse your spouse.
- **Prepare written instructions.** These instructions should cover everything from insurance policies to investments to company benefits to monthly bills, ensuring that nothing will be overlooked. Also list all your assets, why you own them, and where important documents are kept. Update these instructions at least annually.
- **Discuss your finances with your spouse.** Go over your written instructions, explaining your rationale for major financial decisions. Your death would likely necessitate changes in investment allocations, insurance policies, and other financial matters, so encourage your spouse to explore all options before making decisions.
- **Involve your spouse in the family's finances now.** Your spouse can start by paying monthly bills, balancing the checkbook, or reviewing credit card charges. Increase his or her involvement as confidence builds.
- **Line up professionals for your spouse.** Even if your spouse assumes some financial duties, there may be areas that he or she will never feel comfortable handling. Identify those areas, find knowledgeable professionals who can help, and introduce your spouse to those professionals now.

- Rebalance your investments if changes are needed to maintain your desired asset mix.
- Decide if any changes should be made to your financial goals.

*6. Seek help with your plan.*

While you can prepare a financial plan by yourself, there are some advantages to having a professional's help:

- To obtain the advice of an objective person, knowledgeable in all areas of financial planning, who can ensure that significant concerns are not overlooked.
- To keep up-to-date on new developments in the financial arena.
- To ensure that all financial decisions make sense in the context of your overall financial plan.
- To help provide the discipline needed to implement your plan. You may be more inclined to follow your plan if you know someone else is also monitoring your progress.

## **FYI**

Developing a written financial plan is a complex process requiring coordination of all your finances. But the process is well worth the effort, since it gives you a road map to help achieve your financial goals. ■

