

# Focus On Financial Goals

Choose your destination.

If you have ever planned a long trip, you will appreciate the importance of a good map. Of course, the purpose of a map is to help you find your way to where you are going. It isn't much use if you don't know your destination!

**L**ike a map, your financial plan is designed to provide the best route to your targeted financial destination (your financial goals).

Your financial adviser will need to know what you want to achieve financially to help you reach your goals, and will work with you to identify them.

## What are financial goals?

Your financial goals or objectives include a number of financial targets you may have. This may be anything from going on an overseas holiday to retirement.

Some examples of financial goals include:

- Paying for your children's education.
- A one off, or regular, overseas holiday.
- Upgrading your car regularly.
- Taking a year off work for a break or to start a family.
- Changing from full time to part time work.
- Buying a home.
- Protecting your family if something happens to you.
- Retiring at a certain time with a certain income.
- Generating a particular level of income.
- Passing your wealth to future generations.

## Financial goals are specific

While it is fine to have some general ideas about what you want to achieve, it is important to allocate a time frame and dollar amount to as many goals as you can. By doing this, your financial adviser can determine exactly what is required to achieve them.

For example, you might want to upgrade your car regularly. Does this mean every three years, five years or ten years? How much will your upgrade cost? \$5,000 each time? \$10,000? \$20,000? The answer could have a huge impact on the investment strategy that is right for you.

Likewise, your goal might be to retire comfortably. In order to plan for this, you need to decide what "comfortable" means to you. For some people, an annual income of \$25,000 (after tax) may be enough while others may need \$60,000. You may also have a history of longevity in your family and expect to live for a century. In this case, your fully defined financial goal might be to "retire at age 60 on an income of \$40,000 a year for at least 40 years".

Do not worry about inflation when setting your goals initially. Your financial adviser will make allowances for this when he or she prepares their recommendations.

## Financial goals need a time frame

Returning to our map comparison, the time you have to reach your destination will affect your travelling plans. If you need to

reach your destination within a day, this may require an early start. You might take your food and drinks with you to avoid unnecessary stops and have a plan to rotate drivers rather than pull over for a break. Alternatively, if you have a few days to reach your goal, you could leave later, stop for lunch and even plan overnight stays at some places you have always planned to visit.

In the same way, setting a time frame for your financial goals will allow you to achieve them in the most appropriate way. Once you have set specific goals, think about when they need to be achieved. Time frames need to be specific and can be broken into three categories:

#### **Short Term: less than two years**

Example - a \$5,000 overseas holiday next September

#### **Medium Term: three to five years**

Example - private school fees starting in 2010

#### **Long term: more than five years**

Example - retirement in ten years

The time frame for your financial objectives will determine the investments that are best for you and how much you need to start saving now. For example, savings for short term goals will generally be put into short term investments like cash. Long term goals could be funded using assets like shares that are likely to go up and down in the short term but deliver long term growth.

Of course, some goals are ongoing such as your regular income requirements and annual holidays.

#### **Financial goals need to be prioritised**

Even with the best plan, you may need to compromise on some of your goals. Once you have listed your financial goals and time frames, think about which are most important to you in case you need to make changes.

Decide which goals you are willing to change, either in terms of time frames or financial amounts. If you can not retire at the age and income you desire, consider whether you would be willing to work a little longer or whether you would prefer to lower your income? Or would you rather reduce your spending now to increase your savings towards this goal?

Of course, your financial adviser will aim to prepare a financial plan that meets all of your goals. However, if this is not possible, it is a good idea to let him or her know where you are willing to make adjustments.

#### **Decide on your Risk Profile**

Your financial adviser will ask you a number of questions designed to determine your risk profile. This refers to how much investment risk you are willing to take in order to achieve your financial goals. Portfolios with higher levels of managed risk, like shares, can provide you with higher returns over the long term, but are likely to go up and down in value over the short term. If you have a conservative risk profile, these investments may not be suited to you.

If you have a conservative risk profile, you may need to make a decision about whether you are willing to accept more risk to achieve your goals. Alternatively, you may need to revise your goals so that they are achievable within your risk range.

#### **Write down your goals and make sure you share them!**

Before seeing your financial adviser, sit down with your spouse and agree on your goals. If you plan to retire to a city apartment while your partner has dreams of country living, it is best to sort this out before you meet your financial adviser!

It is important to put your goals in writing. Psychologically, it helps you to commit to achieving them. You can also see all of your goals on a single page and decide which are the most important to you.

**Your Infocus Financial Adviser will help reach your financial destination. Write down your Short Term, Medium Term and Long Term goals and bring them along with you when you see your Infocus Financial Adviser.**

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