Introduction to Investing

1. The Power of Financial Goal Setting

Introduction

Setting financial goals is like mapping out a journey. Without a clear destination, you might find yourself wandering aimlessly, spending impulsively, and feeling anxious about your financial future. With well-defined goals, you can create a plan that helps you get to financial stability.

Let’s dive into the essentials of financial goal setting and explore practical steps to get started, along with some examples.

Identifying and Prioritizing Your Financial Goals

Financial goals help pinpoint your destination and will serve as the foundation for your investment strategy. They define what you are working towards and influence how you manage your money. Whether you aim to build a retirement fund, save for a child’s education, or buy a home, each goal will shape the types of investments you consider and the level of risk you’re willing to take.

Before you invest, it’s essential to identify and prioritize your financial goals. Financial goals can be broadly categorized into **short-term**, **medium-term**, and **long-term** goals. Understanding these categories helps you allocate resources appropriately and set realistic time frames. Here are some examples:

Short-term (0 - 3 years):
- Building an emergency fund
- Paying off credit card debt
- Saving for a vacation or a new gadget

Medium-term (3 - 5 years):
- Saving for a down payment on a home
- Paying off a car loan
- Starting a business

Long-term (5+ years):
- Retirement savings
- Funding your children’s education
- Building an investment portfolio

Steps to Setting Financial Goals

Setting goals is one thing, but the true value lies in developing a **realistic and attainable plan** to achieve them. Let's explore the steps involved in setting financial goals.

Meet Omar:

Omar

- 30 years old
- Marketing professional
- Annual salary $48,000
- Rent $1,000 per month
- Other expenses $2,500 per month
- Has 2 credit cards (owes total $2,000)
- Savings in the bank $11,000
- Loves cappuccinos and electronic gadgets
- Wants to buy a house

How should Omar start to plan and set his financial goals so that they are clear, actionable and tailored to meet his unique circumstances?

- *For simplicity, the following example assumes savings are not invested and therefore ignores the impact of potential investment returns. In practice, investment returns on your savings may help you achieve your goals faster.*
- *Please see the glossary on page 4 for words that are in **bold**.*

Steps	Omar's Planning
1. Assess Your Current Financial Situation: Before setting goals, understand where you stand financially. List your **assets, liabilities, income, and expenses.** This gives you a clear picture of your starting point.	Omar takes the first step in assessing his financial situation by listing his assets, liabilities, income, and expenses. His assessment shows he has: ▪ $11,000 in savings (asset), ▪ $2,000 in credit card debt (liability), ▪ a steady salary of $4,000 per month (income), and ▪ monthly expenses totaling $3,500 (rent plus other expenses). ▪ Therefore, his monthly surplus is $500 ($4,000 - $3,500). By understanding his financial position, Omar gains clarity on his starting point and can make informed decisions to progress towards his goals.
2. Define Your Goals Clearly: Make your goals **SMART** – **S**pecific, **M**easurable, **A**chievable, **R**elevant, **T**ime-bound. By setting SMART goals, you provide yourself with a clear roadmap and actionable steps to achieve your goals.	Instead of saying, "I want to save money", Omar sets a **SMART** goal: "I plan to save $25,000 for a down payment on a house within the next 4 years. I'll do this by saving $500 a month and I'll use $1,000 from my existing savings and leave the rest as an emergency fund." ($500/month from his monthly surplus x 48 months) + $1,000 from his existing savings = $25,000 Omar's goal is: ▪ Specific: The goal is clear and well-defined – saving $25,000 for a house down payment. ▪ Measurable: Progress can be tracked by monitoring the amount of money saved over time. ▪ Achievable: The goal is realistic and attainable based on Omar's income and expenses.

	▪ Relevant: Saving for a down payment aligns with Omar's aspiration of becoming a homeowner. ▪ Time-bound: The goal has a specific timeframe of four years, creating a clear deadline for Omar to work towards.
3. Prioritize Your Goals: Not all goals are equally urgent. Prioritize them based on your needs and timeline.	Omar lists his goals and ranks them in order of priority based on his preferences. Omar's highest priority is to maintain an emergency fund with a minimum balance of $10,000. His next priority is to pay off his credit card debt of $2,000 (liability) before focusing on his house down payment savings. This will help him reduce interest payments.
4. Create an Action Plan: Break down your goals into actionable steps. Determine how much you need to save or invest each month and identify ways to cut unnecessary expenses.	Omar calculates that he can fully settle his credit card debt of $2,000 by: • using $1,000 from his savings and • paying $500 from his monthly surplus over the next 2 months (i.e. $500 x 2 = $1,000) With his credit card debt settled, Omar can now focus on saving his monthly surplus towards achieving his house down payment goal. Omar downloads a budgeting app on his phone to track his spending. He also sets up automatic transfers to his savings account.

5. Monitor and Adjust Regularly:
 	
Regularly review your progress and adjust your plan as needed. Life circumstances can change, and your financial goals might need to be updated accordingly.
	After a year, Omar received a promotion and a raise. *Congratulations Omar!*
	
	Omar's monthly surplus has increased from $500 to $1,000. Omar therefore adjusts his savings plan, aiming to reach his house down payment savings goal faster. Let's look at this in more detail
	
	• In the first 2 months of the year, Omar paid his credit card debt of $2,000 using $1,000 from his savings and his monthly surplus ($500 x 2 = $1,000)
	• For the remainder of the year, Omar saved his monthly surplus towards his house down payment goal and at the end of the year, he had saved $5,000 (i.e. $500 x 10 = $5,000). At this point, Omar still needed to save $20,000 to meet his house down payment goal (i.e. house down payment goal of $25,000 – $5,000 saved in the first year = $20,000).
	• After a year, he got an increase and his monthly surplus increased from $500 to $1,000 which he will put towards saving for his house down payment goal.
	• He looks at this action plan and realizes he can reach his house down payment goal faster than the 4 years he had originally planned:
	    • By saving $1,000 of his monthly surplus for the next 20 months, he will have saved $20,000 balance needed to meet his house down payment goal (i.e. $1,000 x 20 months = $20,000)
	    • Taking this $20,000 plus $5,000 saved in the first year, Omar will have $25,000 after 32 months (i.e. $5,000 from 10 months in the first year plus $20,000 over the next 20 months) which is faster than his initial goal of saving this amount within 4 years (i.e. 48 months)

Conclusion

With your financial goals clearly defined and a solid plan in place, you're in a much better position to achieve financial success.

Here are some additional tips to ensure a smooth journey:

- ✓ **Be Realistic:** Set achievable goals based on your financial situation and income.
- ✓ **Stay Flexible:** Be prepared to adjust your goals and plans as life changes.
- ✓ **Celebrate Milestones:** Reward yourself for reaching significant milestones to stay motivated.
- ✓ **Stay Informed:** Educate yourself about personal finance by reading books, articles, and reputable online resources. Additionally, when faced with complex financial decisions or unique circumstances, consider seeking professional financial advice.

Every investment decision should be driven by well-defined financial goals – this not only helps manage risk but also increases the chances of achieving your financial targets.

Financial goal setting is more than just a planning exercise; it's a powerful tool that will help you create a disciplined framework for making informed financial and lifestyle choices. Start today - your future self will thank you!

Glossary

- **Assets:** Resources or properties owned by an individual that have economic value. Examples of assets include cash, investments, real estate, and vehicles.
- **Liabilities:** Financial obligations or debts owed by an individual. This can include loans, mortgages, credit card debt, and other outstanding payments.
- **Income:** For most people, income is the money you earn from your work, such as your salary, wages, tips, and commissions. It can also include other sources of earnings like returns on investments, pension distributions, and other receipts.
- **Expenses:** Costs or expenditures incurred by individuals or organizations to meet their needs or carry out activities. They include payment for goods, services, utilities, rent and other operational or personal costs.

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