Wealth Strategies
The Building Blocks to Creating Your Financial Road Map Part 3 of 12
So you’re planning for a road trip, except this road trip leads toward the path of your financial future. You must ask yourself:

→ Where am I now?

→ Where do I want to be?

→ How am I going to map out my path?

→ Will I take advice from peers, blogs, or professionals?

There’s no better time than now to start planning your financial future. In this day and age it is easy to find ourselves over saturated with information. We’re constantly connected to something, whether it is our smart phones, TVs, social media, or our latest new gadget. It can be daunting to mentally file through all of the data, all of the guidance we may have accumulated whilst on this journey of ours. Just as you wouldn’t leave on a road trip without your GPS system or a prior inspection of your vehicle, a financial professional may be able to provide invaluable assistance along your journey. Regardless of where you are going, or whom you are planning on bringing with you, a successful financial future begins with creating a plan, and requires the following building blocks:

1. Set your destination: Building your financial goals
2. Take inventory: Assessing your financial position
3. Map out a path: Creating a budget and savings strategy
4. Rerouting: Planning for unexpected, unanticipated, inevitable change
5. Keeping your long-term destination in mind: Maintain a consistent strategy

Setting Your Destination
Building realistic, tangible financial goals is arguably the most fundamental part of the financial planning process. Regardless of whether you are just starting out or nearing closer to your anticipated retirement date, it is essential to have an idea of where you want to be and the kind of lifestyle you want to live. Whether you are planning to purchase a new home, finally go on that dream vacation, or start a business, write these goals down, discuss them with your spouse or significant other and start planning!

After you’ve determined where you are going, it’s time to prioritize your goals into needs, wants and wishes. Needs are those goals which are essential to your lifestyle, such as certain recurring monthly expenses (i.e: your mortgage payment, health care expenses, utilities, food, etc.) or purchasing replacement cars. Wants are discretionary goals, such as travel or home improvements. Wishes are typically goals such as charitable gifting, bequests, and weddings. Once these goals are prioritized and mutually discussed with your spouse or significant other, it may be helpful to create small milestones along the way to stay motivated throughout the financial planning process.
For example: Let’s say you have a goal of remodeling your home. Creating smaller milestones such as painting the exterior, then remodeling the kitchen, and three years later landscaping the backyard, may make this process more viable, mentally.

You’ve brainstormed, discussed, transformed and altered your financial goals. This is a constant process, one which there is only one constant factor, change. You’ve set your destination, now it’s time to take inventory.

Take Inventory
Before setting off on the open highway with the wind in your hair, it’s time to take inventory. Assessing your financial position can be a part of the process many of us attempt to avoid for as long as feasibly possible. This may involve gathering all of your student loan balances, credit card statements, outstanding mortgage balances, retirement accounts, as well as any other assets or liabilities. If you do not currently have a relationship with a financial professional, start by creating a spreadsheet of your assets and liabilities. Once you have gathered and organized your personalized balance sheet of all current assets and debts, you will then be able to simply compute your net worth (definition: The amount by which assets exceed liabilities).

Net Worth = Total Assets – Total Liabilities

If your net worth is negative, meaning your liabilities are greater than your assets, tackling your debts should become your first priority.

If your net worth is positive, meaning the value of your assets exceeds the value of your liabilities, focus on maximizing monthly savings.

Assessing your net worth will provide you a clear picture of your current financial position. Whether your net worth is currently negative or positive, establishing a monthly budget is the key to maintaining financial stability.

Map Out a Path

You know where you want to go and now have a basic understanding of your net worth. It’s important to note that there are thousands of different ways to get there. Maybe you’re comfortable taking it slow, and would like to take the scenic route. Or perhaps you’re playing catch-up and are looking for a fast-track route to early retirement.

Either way, creating a detailed budget is essential when beginning to map out your path. Budgeting is a process for tracking, planning, and controlling inflows and outflows of income. When creating a spending plan that fits your lifestyle, distinguish between your essential (every-day) and your discretionary expenses (lifestyle-oriented expenses such as travel, eating out, shopping, etc.). Once you are able to compute the difference between your monthly income and expenses (essential and discretionary), you will have the result of your net cash flow. As detailed as a monthly budget can be, it should be viewed as merely a tool from which to learn and maintain a financial lifestyle, rather than a statement of rules by which we must abide.
Debt Management
If you are spending more than you are earning, debt management will be the key to achieving financial freedom. Whether you are working on paying down student loan debt or multiple credit card balances, paying off the loan with the highest interest rate first and the lowest balance will create an increase in your monthly cash flow more rapidly. If you are putting extra payments toward a higher interest rate loan, make sure to maintain the minimum payments on your other outstanding debt. In the end, it may be best to consult a financial professional for additional and more personalized information.

Pay Down Debt or Save?
If you have a positive cash flow and need to make the decision of whether to make additional payments on your debt or to save additional income, consider both the interest rates of your loans and the rate of return you could potentially be receiving on your investments. This process is called the ‘opportunity cost of investing’.

For example: You have a credit card with a $25,000 balance on which you pay nondeductible interest of 15%. Unless your investments are consistently earning an after-tax return greater than 15%, making additional payments toward your credit card balance with your extra income will make more sense. If you were to be earning a higher return on your investments than the interest rate you are paying on your debts, consider contributing that money to your investments instead of your debt payments.

When analyzing your investment return versus your debt payments, it is important to consider the after-tax return (your total return, minus the tax paid on your investment earnings or the interest deducted on your loan payments). If you itemize deductions, some interest, such as home mortgage interest and student loan interest, may be deductible. Be sure to note that mortgage interest is deductible up to debt totaled to $1 million. Student loan interest is deductible up to a maximum of $2,500 if your modified adjusted gross income (MAGI) is under $65,000 for single filers or $130,000 for joint filers.

Where to Save?
You have made the smart financial decision to begin saving, but now what? If you have not established an emergency fund, now is the time to begin to build one. Periods of unanticipated events such as unemployment or disability could catastrophically affect your financial stability. Typically, 3-6 months’ worth of monthly living expenses is advisable to maintain in an emergency cash account. Not only is this an excellent stress reliever, it’s a great lifelong habit to maintain throughout pre-retirement and retirement years.

Taking Advantage of your Employer Match!
After you have established an emergency savings fund, find out if your employer has an employer-sponsored retirement plan, such as a 401(k). Then, determine if there is an employer match. An employer match is essentially free money and should always be taken advantage of to the full extent.
**Example:** Your salary is $50,000 and your employer matches 100% of the first 3% of your salary. If you put in 3% of your salary ($1,500), also known as an employee deferral, your employer will match your full contribution ($1,500).

Once you have a general sense of your monthly expenses, debt payments, and have determined a comfortable savings level, you’ll need to evaluate alternative strategies.

### Adjusting your financial goals to reflect these changing circumstances is an intrinsic element of the financial planning process.

### Rerouting

You’re making excellent time, cruising through life’s highway. You’re passively listening to the radio alerts about the nearest snowstorm ahead. Do you drive through it? Do you reroute your roadmap to take a safer alternative? It’s important to be mindful that we will not always be able to take the fastest route to our destination. Life happens. It’s how we adjust to changes that will determine if we reach our destination safely.

There is a certain amount of risk inherent in all of the decisions we make in life, whether it is a career change, a move to a new country, or marriage. There is also risk associated with events in which we cannot anticipate, such as another great recession similar to 2008, or finding out you are not going to receive the inheritance you were expecting. You cannot plan for every event, but you can mitigate your personal risk exposure by maintaining an emergency fund, transferring certain risks to an insurance company, and limiting your investment exposure to only the amount of risk you need to take to fund your financial goals.

The amount of risk (definition: a condition where there is a possibility of adverse deviation from the desired outcome) should not be based on the question “How much risk are you willing to take?” Rather, it should be based on the amount of risk you **need** to take.

**For Example:** You are several years out from retirement and have all of your retirement accounts invested in the stock market, exposing yourself to a significant amount of risk, but also possible high investment returns. However, you’ve discovered that you may only need a portion of that return to fully fund your financial goals. While you may be able to fund all of your goals in your current portfolio, the amount of risk in your portfolio may not be necessary. By reducing the amount of risk associated with your investments (by moving to less volatile investments), you may still be able to achieve your goals while still preserving your wealth.

Although the fastest route to your destination may involve driving through that blizzard, rerouting through life transitions or unanticipated events is part of the journey. Adjusting your financial goals to reflect these changing circumstances is an intrinsic element of the financial planning process.
Keeping Your Destination in Mind:
The ride isn’t always a smooth one, which is why it is important to keep your long-term goals in mind. Maintaining a consistent strategy for the long-term will help you ride out the waves of volatility and unanticipated events.

Review your savings strategy and make sure it is an appropriate one. A rule of thumb for those starting out is to gradually increasing your savings to approximately 10% of your salary each year. Maximize your savings through employer matches, tax-deferred contributions to retirement accounts such as IRAs, or monthly additions to traditional brokerage accounts.

Review your asset allocation and rebalance your investments every 6 months or so to keep your investments in line with your targeted portfolio strategy (ie: 70% stocks/ 30% fixed income).

Review your financial goals on an annual basis at a minimum, or as circumstances change. Track your progress and develop a sense of the kind of lifestyle you want to build. Avoid putting future burdens on your financial future by increasing your lifestyle faster than your income. The key to building sustainable retirement savings is to gradually increase your lifestyle spending at a much slower rate comparable to your earnings increases.

Aside from investing for your retirement, it is essential to invest in yourself along the way. We call this human capital. The decision to improve your job skills by paying for a couple classes now or earning a professional designation could significantly improve your earnings over a long period of time.

Understanding the basics is a good first step to formulating a successful financial strategy. A professional financial planner can act as a guide and resource for you along the way. Understand all of the investment options appropriate for your goals, risk tolerance, and time horizon. Determine your retirement income needs and design a personalized strategy to help meet those goals. Provide a framework from which you can evaluate alternatives and make decisions suitable for you and your family.
About RFA

Reilly Financial Advisors is a fee-only Registered Investment Advisor, aimed at helping our clients both define and achieve their individual financial goals through four unique service offerings:

1. **Wealth Building** – for those still accumulating their investment portfolios

2. **Wealth Management** – for those who have amassed their savings and have specific needs associated with their wealth

3. **Wealth Legacy** – for those who have accumulated a significant amount of wealth and face unique wealth transition needs

4. **Corporate Retirement Services** – tailored solutions for plan sponsors and participants

RFA, founded in 1999, services clients around the United States and in more than a dozen countries worldwide. As an independent advisor, we are able to provide our clients with the highest level of Fiduciary services which allows us to make investment decisions based solely in the best interest of our clients. Our goal is to be our client’s first point of contact for all of their financial needs, serving as a trusted financial partner for the long term.