



A Guide to Financial Planning

You should always make investments based on sound financial objectives which are clearly defined in specific and measurable monetary terms. If as an investor you are not clear on your purpose for saving you will undoubtedly not achieve your desired objectives.

As an investor you should write down all of your financial goals and on this basis prepare your financial plan. If you determine that you do not have the financial capability to achieve them, then these goals have to be prioritized.

The investor's financial needs will be influenced by his age, his family composition and needs, his position in his career path etc. Not all needs can be precisely determined. Contingencies must be provided for in the event that some unforeseen needs arise. Changing life circumstances like the death of a family member or the loss of a job also cause financial needs to change.

Financial planning therefore is the allocation of today's money to meet tomorrow's needs.

It is important to remember that the financial plan is not static and is to be reviewed and amended as changes in needs arise

The next step is to determine your financial position or balance sheet. That is your individual income, assets, and liabilities. Income includes salary, interest, dividends and self employment earnings. All routine expenses are met out of this income.

You next have to determine all expenses and prepare a cash flow statement which itemizes your income and expenses. These expenses include living expenses, payments already committed such as mortgage payments, insurance, loans and taxes. As long as your total assets exceed your total liabilities you have positive net worth.

The balance sheet shows what the investor owns and what he owes. The cash flow statement shows cash inflows and outflows. Together these statements tell an investor's financial status and hence what money may be available for investment or saving potential.

It is critical that the investor lives within his means or income. Whatever is left over after this is considered surplus and is available for saving or investment. His choices will be determined by the investment choices available within the economy with the intent to meet his stated objectives.



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