



FiLife Contributor

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One Smart Guy: Wealth Building Tips For Entrepreneurs & Individuals

3 Key Steps for Financial Success – Part 1

by OneSmartGuy

There are two types of wealth building obstacles that prevent people from successfully managing and growing their personal finances: emotional obstacles and practical obstacles.

In previous articles we discussed how to deal with the emotional obstacles: procrastination, fear of loss and fear of making a wrong decision. Now I want to talk about the three most common challenges that, when identified and addressed, will put you on the road toward financial success:

1. Goals and numbers
2. A written financial plan
3. A road map for implementing your plan

If you lack these three essential tools today you've been letting practical obstacles get in the way of you maximizing wealth growing opportunities in your personal finances and in your business.

Today, let's talk about the first item on the list.

Goals and numbers: You need both

Without clear goals and numbers, you lack a point of reference for managing your personal finances and investment portfolio.

Accumulating wealth is a financial journey. For those who lack specific goals and numbers, the journey is long and aimless. To build an effective financial plan you first need to decide where you want to head and know where you are now.

Here are seven key questions to ask yourself to help you define your goals. You will determine what numbers are right for determining where you stand today and where you want to go. Have your wealth adviser (who should also be a CPA) help you crunch the numbers relevant to you and your business.

1. How do I visualize my future desired lifestyle?

As straightforward as this first question sounds, don't be surprised that it really takes some thinking to answer it. For example, "going fishing" isn't enough of an answer. Do you think you would remain where you currently live or would you move? If you're going to stay put but travel to your fishing destinations are you planning to go first class all the way or would doing it 'economy' be fine with you?

2. Specifically, how much money will I need to support that lifestyle per year?

When you plan next year's vacation I'm sure that before you book the trip you'll see what it will cost to travel, to stay at your destination, to eat out and to do some shopping. While many people will take the type of trip they can afford, some will throw caution to the wind and book themselves a huge trip that costs more than they can typically afford. They'll borrow money to spend more on that one vacation, and they'll pay back the loan over time.

When it comes to paying for retirement, you can't live off borrowed money each year. At retirement the rules suddenly change. You fund it by spending some of your accumulated pot of wealth each year. And that's going to be some finite amount.

It's really important to make yourself an itemized first draft budget now and get a realistic sense of just what your desired retirement lifestyle is going to cost you. People often assume their retirement years will cost them much less than what their current lifestyle is costing them. Don't count on it! I find that many people's desired retirement lifestyles tend to cost as much as their pre-retirement lifestyles do.

After you've written your first draft budget for funding your lifestyle in retirement, take it to your wealth adviser and ask him to see if there is any expense category you might have missed and determine your annual costs. (Remember, wealth advisers do this every day so they're likely to remember some items you might have forgotten.)

3. Exactly how much wealth will I have to accumulate to live the lifestyle I want in retirement?

At this point you've determined what kind of lifestyle you'd like in retirement and you have an approximate idea of what your annual budget will be. Now you need to calculate how much wealth you need to accumulate to afford that lifestyle for all the rest of your years. For most people, the needed sum is more than they current have. (And in my columns I'll be showing you a variety of ways to accumulate more wealth.) Do the math and figure out how much money you need on top of the amount you currently have in savings and investments that you won't spend away over the short- to mid-term.

4. How many more years do I have to work?

It's time to introduce a concept. The key objectives our clients have at Zdenek Financial Planning is first to achieve financial independence and then to maintain it. Financial independence is the point at which you have the choice as to whether to continue to work or not.

Some of you may wish to stop working and "retire." Others may enjoy what they do for a living and would like to keep on doing it, in some form or other, even once they're assured they have taken care of themselves and their loved ones financially.

No matter which camp you put yourself in I recommend your financial planning and wealth building focus be on financial independence rather than retirement.

5. To achieve my desired wealth, how much of this money could reasonably come from my business income or salary and how much from investments?

If you're a small business owner and you've gone without a wealth adviser up to this point, running the numbers to answer this question is yet another reason you need to get one.

6. What do I plan to do with my business?

Assuming you plan to remain the owner of your business, what will you do once you achieve financial independence? Sell it? Close it? On the other hand, maybe bringing others on as equity partners will be needed to grow your business. What will the wealth advisory implications be for your business? And what, if anything, will you need to do to work towards getting your financials in order so you can pass due diligence that prospective equity partners are bound to conduct?

7. What is my business exit strategy?

How will you plan for and manage your "Elvis has left the building" moment for your business? And what are the potential implications for your personal finances?

Answer these questions and you will be in a better position to ensure your odds of success for achieving your specific financial goals.

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