Ask Bert Griffin: Creating A Financial Plan In 10 EASY Steps

Always have a financial plan.

That advice may be something you have heard a couple of times in your life but have not heeded. The fact is that a lot of Canadians do not have financial plans that serve as roadmaps for their goals, their lives and their future.

But how do you come up with a financial plan?

1. Get your spouse in on the action.

Be sure to talk to your spouse first before you come up with a financial plan. Talk about your values, goals and the kind of life you want to live. This way, you are both aware of each other's financial goals and you can help each other come up with a more realistic financial plan.

2. Assess where you are now.

As with any plans, you will want to know where you are currently before knowing how you are going to proceed about achieving your goals. You will want to know what your net worth is at the moment so you have an idea of your wealth. To come up with your net worth, tally your assets and then your liabilities. You then subtract your liabilities from your assets to get your net worth.

Your assets are basically the things you own: cash, investments, homes, cars and other stuff. Liabilities, on the other hand, would include loans, mortgage and your credit card bills.

A simple way to know if you are getting richer or poorer is to compare your net worth over the years. For example, if you have a higher net worth last year, then you are diminishing your wealth.

3. Monitor your spending.

An important step to building a great financial plan is to know how much you are spending and how much you are saving right now. Monitor your cash flow and it can help you in controlling your finances and in feeling confident that you can make financial changes.

You should keep a journal of your expenses to see where you are overspending. If you need to change your spending behavior, looking at your list of expenses will be a good place to start. For example, if you have a journal that details your expenses, you might discover that you are spending way too much on clothes or on your car. You can then take steps to cut back on these types of spending.

If you are able to keep track of your cash flow, you are well on your way to financial freedom. Why? Because, it makes you aware of where your money goes and this could help you realize that you could put your money in something that has more long-term value that what you are spending on now.

Also, it will help you determine whether you have a cash surplus at the end of the year, or just the opposite. It helps you know if you are living within your means or if you are spending much more than what you are earning.

4. Cut back on your expenses.

When you realize that you are spending more than what you are bringing in, it helps if you cut back more. You really do not have to change your lifestyle, but knowing that you are in danger of going into debt or deeper into it, you can make a conscious decision to spend less and still maintain your current lifestyle.

Also try to cut back on your debt. For example, you can try to renegotiate your mortgage so that you pay less interest on it. Or if you have a little money left over, you might want to pay off more than just the minimum of your credit card bills.

The trick here is to cut back on spending on things that are not that important or necessary so that you could have a surplus, which you could start putting into your goals.

5. Set your goals.

We have always talked about financial goals. But what are these? Your financial goals should be aligned with your life goals, or with where you want to be some 5, 10, or 15 years from now. Say for example you want to pay off your mortgage before turning 50, or perhaps you would like to retire at 55. Then your financial goals should be to have enough money for an early retirement or to pay off your mortgage within that time. Or it could be a family vacation within the next year or perhaps getting insured from financial disasters.

You need to set your goals and work hard to keep them. It might help to write it down so that you could go back to it from time to time.

6. What is your strategy?

After you are tracking your cash flow and you get the whole picture of how money comes in and goes out, and after you have set you financial goals, it is time to think about how you are going to achieve your goals.

We have already touched on the first part of this process, which is to spend less so that you get a cash surplus or paying off some of your debts.

After that, you might want to develop your strategies to make your financial goals happen. For example, if, after setting a goal, you realize that you might need another $50,000 for the next five years to achieve it. Do you take on another job? Do you sell some assets? Do you find some lucrative investment vehicles? It is all up to you!

7. Check your insurance.

You should be adequately covered by your insurance policies, but you should not be paying for more than what you need. Maybe you could cancel paying for your own disability insurance if your employer has taken out a group plan and provides you with the same.

What about life insurance? If you have kids under 10, you might want to be covered for 10 times your income to make sure that they are okay if you suddenly die. More than that and you are getting oversold.

8. Smooth out your tax.

You can never get out of paying taxes for what you earn, but the good news is that you can lower the amount you need to pay.

For example, using RRSPs or Registered Education Savings Plans or even Tax-Free Saving Accounts. All of these can get you some significant tax cuts. You might also want to talk to a financial advisor so that you would know the different ways investment income is taxed, so that you could reduce your taxes on your investments.

9. What is your policy on investing?

You need to write down your investing policy so that you could be more disciplined when it comes to your investments. This will serve as your road map so that you do not change course or get lost when the stock market and other investment markets becomes volatile.

You should know what types of investments are right for you, as well as have an inventory of each and every investment that you own now. Also, know your investment profile and how much risk you could stomach.

10. Get your will in order.

Everyone should have a will that is updated and accurate. This is to ensure that your assets will go to those who you want to have them, instead of let the government decide for you.

All of these will help you get a financial plan in order. In any step, it would be great to get help from a professional investment or financial planner to make sure that everything is in order. At the very least, you need professional advice on some things that may confuse you. After all that, you would need to create a finalized financial plan that would detail:

1. Your current situation.
2. Your financial goals.
3. Your net worth.
4. Your plan on how to get your goals.
5. You invest policies.