The Financial Planning Process

Financial planning consists of a series of steps -

Step 1: Identify your current financial situation Sit down with all the earning members of your family and gather all information about your sources of income, debts, assets, liabilities, etc. This gives you a picture of your current financial situation.

Step 2: Identify your goals Ask each member to list what they think are current and future family goals. Prioritize each goal by establishing consensus and put a time period against each, i.e., when will you need the finances to achieve that goal. If possible, quantify each goal. This exercise enables recognition of short term and long term goals, and how much money you need for each.

Step 3: Identify financial gaps Once you know where you stand financially, and where you want to be, i.e., how much you have or can expect regular sources of income to generate, and how much you need to fulfill various goals. A simple calculation gives you an idea of the shortfall. This is important, because, identifying the right investments to cover the shortfall depends on you quantifying the income from your investments.

Step 4: Prepare your personal financial plan Now review various investment options such as stocks, mutual funds, debt instruments such as PPF, bonds, fixed deposits, gilt funds, etc. and identify which instrument(s) or a combination thereof best suits your needs. The time frame for your investment must correspond with the time period for your goals.

Step 5: Implement your financial plan It's now time to put things into action. Gather necessary documents, open necessary bank, Demat, trading accounts, liaise with brokers and get started. Most importantly, start investing and stick to your plan.

Step 6: Periodically review your plan Financial planning is not a one-time activity. A successful plan needs serious commitment and periodical review (once in six months, or at a major event such as birth, death, inheritance). You should be prepared to make minor or major revisions to your current financial situation, goals and investment time frame based on a review of the performance of your investments.

Financially challenged individuals who feel this is just beyond them, can of course always consult professional financial planners, who takes one through the whole process. Being a long-term commitment, financial planning goes on until one meets his last goal. It is also a personal decision, which implies that a person must select someone who he is comfortable with, and can build a long-term relationship that is mutually beneficial.

Tips for making the most of the financial planning process

1. Start now. Even if you are in your mid-thirties or forties, it's better to start now than dawdle for another five years. Every day counts.
2. Be honest with yourself. Seek help when needed.
3. Set sensible, measurable goals for yourself. Be realistic in your expectations of the results of financial planning.
4. Review your plan and financial situation periodically and adjust as needed.
5. Always review the performance of your investments; pull out if needed and reinvest the money elsewhere.
6. Be hands-on. It's your money and no one else will do your work for you. Features of a good financial plan

How do you evaluate the quality and effectiveness of your financial plan?

Well, here's a checklist you can use.

- Does it indicate your current financial situation?
- Does it list out all your goals in measurable terms?

If professional help is sought, your financial planner will ensure that your financial plan also contains the following:

- List of possible risks and a risk management plan.
- Expected returns from each investment.
- A mapping between the investments and goals, i.e., how each investment helps you
- Details of one time and recurring fees charged by him