25 Ways to Discover and Reach Your Financial Goals

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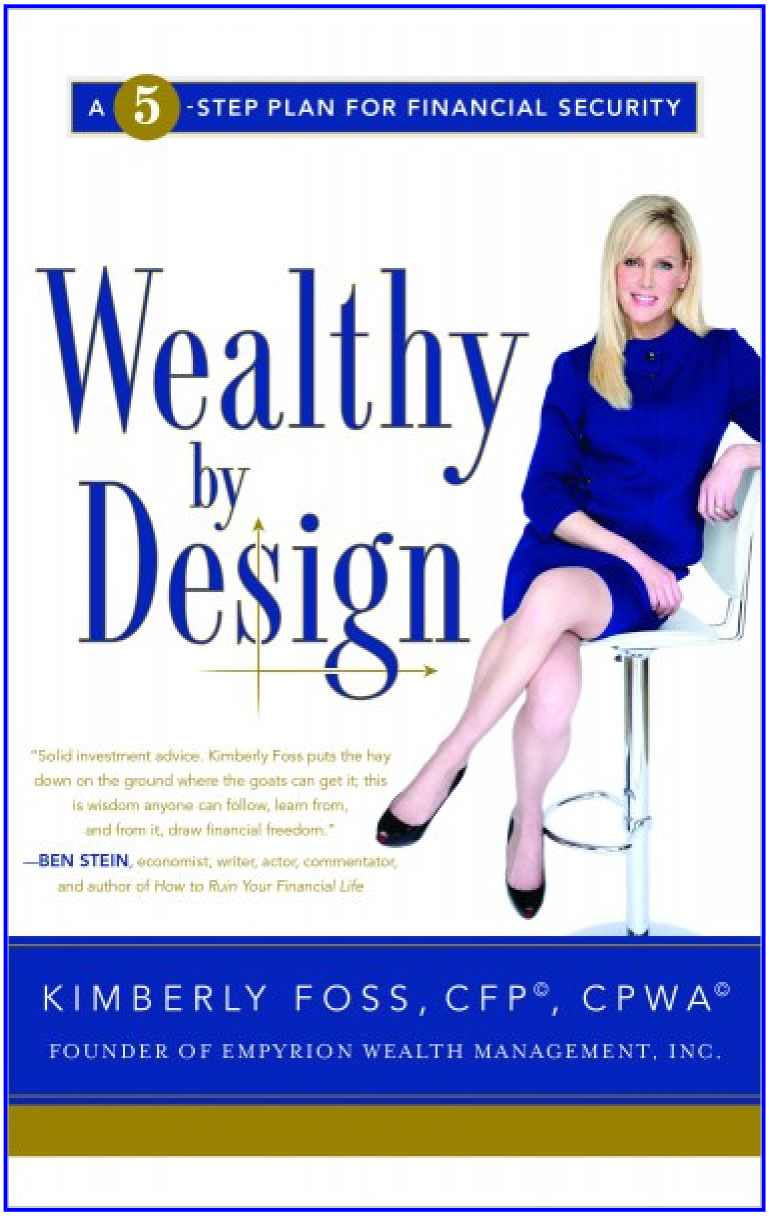

By Kimberly Foss, CFP, FCWA, and author of Wealthy by Design: A Five Step Plan for Financial Security.

A friend of mine recently shared the story of an unsettling trip to the supermarket. Her husband was out of town and their three kids were off in different directions for the summer evening. They'd just returned from vacation, so the kitchen was bare. She went to the neighborhood grocery store, figuring to pick up something to prepare for herself for dinner and leave the major fill-the-fridge shopping trip for the next day. She found herself wandering the aisles, unsure of what to buy. What she realized in the grocery store was that normally she's so focused on buying what her husband and children like to eat, that it was initially difficult to shop for her own dinner.

I see that a lot when I meet with clients to discuss their financial goals. Folks get so locked into their day-to-day financial responsibilities and providing for their families that they fail to dream and set personal goals. In fact, the advice I would have offered to my friend to help her plan her meal is strikingly similar to how I counsel clients to help them set and achieve financial goals. You start by thinking about what you what you enjoy, factor in what's healthy (watch out for market risk) and make sure that you put a well-balanced meal (a diversified portfolio) on the table. More specifically, I encourage my clients to:

List your goals

In our first meeting, I ask clients about their dreams and prefer that they not preface a goal with a disclaimer like, "I know I'll never be able to afford this, but…" It's important to dream – and to write those dreams down! In fact, studies show people make greater progress toward their goals when they take the time to record them. I can only imagine that actually discussing one's goals increases the chances of success.

Pen an investment plan

It's also beneficial to put your investment goals, asset allocation, and the risk you are comfortable shouldering in writing. That way, if the market takes a nose dive, you have a long-term plan that can provide the assurance you need to stay the course you've set for yourself.

Separate needs from wants

Prioritizing spending involves a give and take between needs and wants. It's easy to attack a budget and eliminate the true fluff – magazines you just recycle or the gym membership you haven't used in a year. When your budget cutting gets more difficult, it can help to consider the expense in question in terms of the cost of one of your fixed expenses. For example, let's say college costs you $40,000 a year and you are debating spending $4,000 on a vacation. Viewing those potential vacation funds as 10% of your college expenses can help you make up your mind whether your trip is a true need or a mere want.

Check in with your spouse

Do you talk with your spouse about your long-term goals? Surprisingly, a May 2011 study by Fidelity Investments found Baby Boomers, caught up in the day-to-day pressures of work and family, tend to avoid talking with their spouse about the future. If you fail to connect with your spouse on a routine basis, you may find yourself at odds about when to retire. In fact, 62% of respondents in the Fidelity study disagreed on the timing of their retirements.

Carefully consider risk

How much risk are you are willing to take in exchange for the potential to earn higher returns? Given that the recent market downturn moved risk out of the theoretical realm, you might feel like it's time to dial down the risk in your portfolio. Or you could feel like you weathered the storm well and are ready to take on additional risk.

Improve your decision-making

Job one in making more rational decisions? Harness your emotional reactions to the ebb and flow of the markets. That means not being gripped by fear in a bear market or driven by greed in a bull market, but maintaining the poise necessary to make rational choices.

Understand that big decisions benefit from the big picture

If you're debating a big step like buying a second home or retiring early, it's important that you have a complete picture of your assets and liabilities. Frankly, many clients have rollover IRAs, other investment accounts or property that they do not pay their advisor to manage. That's fine. But when it comes to major financial moves, it greatly behooves you to put all your cards on the table because there may be risks or opportunities you have not considered.

Make changes slowly

Just as a doctor would advise an inactive person to begin an exercise program slowly, you don't want to make sweeping financial changes – no matter how good they'll be for you – immediately. In fact, University of Chicago's Professor Richard Thaler finds that we are more likely to accept the need to change our behavior when we plan to implement the change in the future. So, open your calendar and schedule a few of these tips. And remember, a series of small steps can equal a giant beneficial leap.

Spend time with your family and loved ones

After all, that's where you get the motivation to dream – and the strength to make good decisions. Many people focus on the inheritance they will leave their children, without realizing that children most cherish memories of the time they shared with their parents. So think about embarking on a multi-generation vacation or plan a family reunion.

Stay current with an annual review

Your life can change significantly over the course of a year. Maybe you got married or divorced, had a child or grandchild, changed jobs or health plans, finished paying for college or started your own business, bought a second home or retired. Some of these changes could require that you adjust your investment plan.

There's no doubt that working hard and finally achieving your goals enhances your ability to set and meet future goals. For that reason, any discussion on how to discover your goals requires guidance on how to reach your goals. Here are some tips I share with clients to ensure they cultivate their power to dream and continually set and achieve new goals.

Determine your net-worth

List all your assets and liabilities. You should repeat this exercise every year. It's important to see your wealth accumulate, but it's also gratifying to achieve some of your short-term goals.

Try to save at least 10 percent of your annual income

It all begins with your workplace's retirement plan. If you're lucky enough to work for a company that offers a matching contribution, make sure to contribute enough to qualify. That free money can really give your savings a boost.

Maximize your pretax savings

Contributing to a pretax savings plan like a 401(k) or 403(b) reduces the current year's taxable income and delivers tax-deferred growth. If you receive a raise, consider increasing your contribution to your retirement savings plan. If you change jobs, rollover your 401(k). Don't cash it out.

Diversify your assets

It's a cliche, but here's the most valuable piece of investment advice I know: "Don't put all your eggs in one basket." Your risk tolerance and your investment goals will determine how many baskets carry your eggs and how many eggs you put in each basket. However, by investing in domestic and international stocks, a variety of bonds, and cash – asset classes that react differently to market events – you structure a portfolio where, if one investment declines, others will rise, hopefully enough to offset the loss.

Keep your eye on the long-term

Successful investing requires patience and the ability to stomach market volatility. If you are saving for a retirement that's decades in the future, it doesn't make sense to check your portfolio every day, provided you've built it to last with a sensible diversified allocation. Also, overtrading your portfolio based on short-term market movements can result in excessive trading costs that can really diminish returns.

Routinely rebalance

Periodic rebalancing forces you to do the counter-intuitive – sell your winners and buy more of your losers. Interestingly, numerous studies have shown that individual investors tend to earn less than market returns because they hang on too long or sell too early. Sticking to a rebalancing schedule takes your emotions out of the trades.

See how far you can stretch your money

After you've funded your fixed expenses such as the mortgage, see just how frugal you can be. For one week out of the month, try an experiment: walk by Starbucks, pack your lunch, and stay in for a weekend movie night or pot luck dinner. You'll be surprised how much you'll save. And the extra cash in your pocket may motivate you to save more!

Take your credit card out of circulation

That's right, leave it at home so you won't be tempted. It's this simple: If you can't pay cash for it, you can't afford it — no ifs, ands, or buts about it. Importantly, if you create an emergency fund of three to six months of living expenses invested in liquid accounts, you won't need to pull out your credit card for an unexpected expense like a car or roof repair.

Review your progress

Think of the old trick of saving coins in a jar. Being able to see progress toward a savings goal can inspire you to save more. So, review your retirement and investment accounts regularly. You may even want to contact Social Security to get an estimate of your benefits so you can map out what your retirement income stream will look like.

Work with a fiduciary

Unlike the legal and medical professions that require specific degrees and extensive exams, anyone can call himself or herself an investment advisor. However, consumers often mistakenly assume that there are professional standards and that the advice they receive will always be in their best interests. In reality, only professionals registered as investment advisors with the Federal Securities and Exchange Commission (SEC) or comparable state regulators operate as fiduciaries under a legal obligation to put their clients' interests first.

Calculate your entire net worth annually

In addition to checking your portfolio's returns, include other assets such as legacy stocks and real estate in your review. This exercise gives you the perspective you need to make good investment decisions. It also minimizes the pressure you may feel for every investment in your portfolio to beat the market. That is, even if some investments under-perform, your real estate holdings may be up.

Update your insurance

Dig into your policies. The fine print matters. Homeowners insurance usually covers wind and fire damage, but you'll need separate flood coverage if that's a concern. Also, re-estimate the value of your household goods. Low policy limits may mean you need to insure your jewelry separately. Finally, look for opportunities to cut premiums by consolidating policies with one insurance company.

Check your credit report

Take the time to request a free credit report each year from Equifax, Experian, and TransUnion, the three main credit reporting companies. You can get the free report at AnnualCreditReport.com which is the official site set up by the Federal Trade Commission. Monitoring your credit report is a crucial step in protecting yourself from identity theft.

Disaster-proof your financial records

The recent Colorado floods should prompt us to ask: "Am I prepared to get out of my home quickly?" To that end, put copies of all your important papers including your will, passport, mortgage and financial statements, car titles, birth certificates, and other personal records in a bag that you can grab quickly. You'll also want to include some cash and any necessary medications.

Consider your estate plan

The new $5 million exception has made trusts less essential, but estate planning is still important. Apart for your finances, it's important to name a medical advocate, someone to make medical decisions in the event you can't make them. Also, in addition to your will, prepare a letter of instruction to provide your family and executor with the location of assets and financial records as well as contact information for your professional advisors.

Working with a trusted advisor who is a fiduciary can help you to discover your goals and develop a flexible game plan to reach them. Your advisor also will help you to monitor your progress toward your goals and adjust your goals to reflect any changes in your life.

Kimberly Foss (CFP, CPWA) has spent 30 years helping people grow their wealth with solid investment advice. She currently runs Empyrion Wealth Management Inc. as the president and founder of the company. She also takes her wealth management advice and insights on the road as a popular speaker. Her new book, [Wealthy by Design](), is currently available for purchase.

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