

Five Steps to a Great 2008

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By now the bubbles have gone flat, 2007 is history and the New Year is here. Not one to make resolutions, below are five actions to get your financial new year off to a great start.

First; evaluate your goals, and decide if any have changed over the past year. If they have, what impact will it have on your financial life? Adjust your plan to reflect any changes that have occurred.

Second; put together a financial statement. This is a listing of all your assets and liabilities. Subtract the liabilities from your assets, and you have your net worth. Compare your financial statement with last year's if you have it, to see if you have made progress toward your goals.

Third; if there is a discrepancy between the progress you need and the result of 2007, check your cash flow to see if you are spending in line with your goals and values. To prepare a cash flow statement analyze your expenses, check register, charge slips, or your on-line bank statements. If there is a large amount of spending that is missing that isn't unusual; it is estimated that Americans have no idea where about 12% of their money goes. If you are spending less than you make, you are making progress. Once you have determined where your money goes, compare that to your income, and goals.

Fourth; look at your investment assets on your financial statement. Are they allocated in the same percentage that you set them to last year? If not, in light of your goals, should they change? Now is a great time to rebalance to the percentage you need to diversify your portfolio. International stocks lead the charts in 2007, and you may find that a 20% allocation at the beginning of 2007 could now be 25%. By rebalancing you are selling high and buying low, just the thing our emotions don't like to do, but is exactly what we should do.

Fifth; make sure that you have an adequate emergency fund. Most financial planners agree that you should have 3-6 months of expenses, in liquid assets. Check your cash flow statement to see how many months you have. Count those assets that can be quickly converted to cash, but also which will not cause a big loss. Emergency fund assets are items such as cash, money market accounts, short term bond funds, and short term CD's.

Review your financial life with these five steps, and you will be set for a great 2008.

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Charles Buck CFP®

"If you are not happy while getting rich, chances are that you will not be happy when you do get rich."

Robert Kiyosaki

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Why is it so important to start saving early?

Albert Einstein said "Compound interest is the greatest mathematical discovery of all time." If you understand the time value of money you realize a dollar today is worth more than a dollar a year from now. Likewise a dollar invested today is worth more a year from now.

It is best to give a couple examples. Assume you earn 7.2%; your money will double in 10 years. If you invest \$10,000 at age 25, it will double four times by age 65 making your investment worth \$80,000. If your age is 35 your money will double only three times, making your investment worth only \$40,000. Your investment will grow to twice the size by starting 10 years sooner.

Another example is the story of twins; one starts to invest in his IRA at age 20, and invests \$4,000 every year for 10 years and stops. The other twin, starts at age 30 and invests \$4,000 every year until he is 65. Assuming it is a Roth IRA, and they each earn 10%, the first twin will have \$1,791,522. The second twin will have \$1,084,097. The first twin invested \$40,000, the second \$140,000.

From my point of view, time is why it is important to start now!