

Preparing your own financial plan

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Embarking on a do-it-yourself strategy requires initiative, discipline and knowledge.

The first step towards financial planning is to formulate your goals. You should clearly define these, with approximate time lines to have a clear picture of your existing financial situation. This has to be analysed with respect to your goals. If there is a discord, incorrect investments need to be reconsidered.

This process has to be done keeping in mind the penalties on early exit, as well as the tax implications. Then there has to be cash drawn for the income, expenses and their alignment with the goals. This will be possible only when there are details available for income from all sources and all the expenses. The latter would include the smallest ones like the monthly newspaper bill to larger ones like monthly instalment payments or children's school fees. Also, intermittent expenses such as gifting.

You also need to check your requirement for protection in terms of life insurance, health insurance, home and content insurance and so on. This would call for reading through the fine print of your existing policies and possibly calling for statements on unit-linked insurance products. All this activity will give you a fairly clear picture of your financial health. Based on this, you can decide the future course of action.

You need to be prepared to allocate time and efforts to complete what you have started. Sometimes, in spite of having the knowledge to prepare their own plan, the sheer amount of time required to put everything into order puts off many people. This might be a major stumbling block in the do-it-yourself strategy. You might start, but might give it up in between without achieving any clarity. Besides, financial planning is not a one-time activity or a transaction. The plan needs to be reviewed at a regular basis to see to it that at all times it is aligned to the goals. Many a time, the investment fad in the market may distract you to cause an unwarranted change in the strategy of the plan. This should be avoided.

WORKING OUT A PLAN

When you have a health problem, you will feel the need of seeing a doctor. You will not self-medicate when there seems to be a problem you don't understand. Unfortunately, in the world of finance, the symptoms of the malaise are not obvious. But by the time you get to know something is wrong, you would probably have lost on crucial wealth creation time. Not to say that mistakes are not rectifiable, but they may often prove to be expensive.

Many a time, people feel we are doing well with finances, so why bother? However, you can look at the financial planning exercise akin to having an annual health check-up. As the health check helps you recognise any problem areas at the outset, the same goes with a financial plan. On the surface though things may seem okay, there may be things which might cause problems which you may not be aware of. Getting a plan done would bring out those problems and address these in the best possible manner.

TAKING INTO ACCOUNT

There is a plethora of information on the internet, in various books and magazines on how to do your own financial plans. There are also training sessions which teach you the basics of this. So, it is not difficult. But you need to be clear on the following points. Will you have the time to make a complete plan? Will you be able to do justice to all aspects of it? Are you confident of your knowledge of the financial markets and products? Do you know the tax

laws? Will you be in a position to do the necessary paperwork to implement your plan? And, will you be able to stick to your plan or make necessary changes without getting distracted by the prevailing hype?

These requirements need to be compared to what a professional will provide for a fee. Normally financial planning firms provide the following services:

- Comprehensive financial planning with implementation of advice
- Comprehensive financial planning without implementation of advice
- Goal-based planning
- Financial health check-ups

Financial planning is both a science and an art that leads to achievement of your financial goals, giving you peace of mind. But before you embark on the journey of creating your own financial plan, you should also weigh the cost-benefit analysis of taking professional help on these matters.

The writer is a certified financial planner