Have a Financial Strategy

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A financial strategy is simply a plan on how you are going to handle your finances. It does not have to be overly complicated, but it should cover the basics, help you avoid major financial mistakes and put you on your way to a secure financial future.

Your strategy and your financial situation will change over time. You will probably earn more money, your expenses will probably increase and your short-term and long-term goals will change as you experience various life events. Here are some ideas to start with to help you take control of your financial future.

Develop a financial reserve. Being prepared (with 3 to 6 month's living expenses) can help relieve some of the financial anxiety often felt. Consider an automatic savings plan with some amount being deposited into a savings account from each paycheck. The account will grow and you may end up not even missing what you save each month.

Get rid of high interest rate credit card debt. Interest rates on some credit cards are high. If you are carrying over balances and paying interest, cut down on your card use, pay more than the required monthly minimum and eliminate this expense. You may also want to consider a different credit card that offers a lower rate.

Develop a household budget. This is often one of the most dreaded parts to being financially responsible. To make the process less dreaded, call it a "household spending analysis". Determining how you spend your money will probably lead to identifying how to reduce some expenses. You may want to use some common financial management software (Quicken or Microsoft Money) to help. These relatively inexpensive programs will also help organize your finances and may save you time.

Save for retirement. Even as you are starting your financial life, it is important to begin considering retirement. Your financial lifestyle during retirement is largely dependent on the financial decisions you make now and financial habits you form before retiring. As Social Security and the traditional company defined benefit plans have become less important, the responsibility for preparing for a financially secure retirement has shifted to the individual.

Start with your employer's retirement plan. Many plans, especially 401(k) plans make it easy to save, offer investment flexibility and enable you to reduce your taxes. Many plans also have provisions for the employer to make contributions on your behalf. Review your plan details, contribute as much as you can and at least contribute enough to get the full employer "match."

If you have taken full advantage of company sponsored plans, and can still afford it, consider contributions to an IRA or Roth IRA. The tax deferred compounding aspects of these plans enable your funds to grow faster.

Be sensitive to taxes. No one likes to pay more income taxes than absolutely necessary. Be aware of the opportunity of deducting certain items like mortgage interest, state and local taxes, charitable contributions and certain medical expenses. Also, consider the preferential tax treatment from capital gains on your investments. However, you should be careful to put taxes into perspective – do not let tax considerations prevent you from making sound financial decisions.

Have a sensible investment strategy. Regardless of the size of your investment portfolio, having a logical strategy is important. Understanding the risks of investing, having a realistic expectation of potential returns and practicing diversification should be part of your thinking.

Start with an asset allocation goal that divides your investments into equity, fixed income and cash investment categories. Your initial asset allocation should be based on your time horizon (your age) and how you feel about taking risks. The younger you are and the more comfortable you feel with risk, allocating a larger portion of your funds to equities may help you earn the higher returns of stocks that have historically been available. However, remember that all investments involve risk and that past performance is no guarantee of future results.

Be adequately protected. Insurance provides protection against the unknown. Make sure your possessions, life and health are adequately insured. Examine the level of deductibles and the coverage amounts to get the protection you need at the lowest cost.

Take care of estate planning. Thinking about estate planning is important at any age and regardless of your wealth. A will can ensure that your assets are distributed as you desire on your death and can help reduce any estate taxes that may be due.

But estate planning is more than reducing taxes. Your estate plan should designate custodians for any children and include documents that designate someone to make financial decisions if you are incapable of making them (durable power of attorney for finances) and that designate someone to make medical decisions if you are incapacitated (durable power of attorney for health care).

Finally, organize your records. Having a system for handling monthly expenses can reduce the stress and time needed to handle your everyday finances. Using a system to keep track of investment and tax records will make every tax season less “taxing”. Keep other important information organized, too. Having to hunt for the name of your insurance agent, an account number, a frequent flyer number or any other bit of information can be a waste of time.

You may want to consult a financial advisor or tax consultant for any financial planning questions you have.