Point-to-Path Coaching Bi-weekly Ezine!

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This week's topic: The 7 Steps to Financial Organization (Vol 4-101303)

While we could discuss at length ways to create wealth or to achieve financial independence, I'd like to start with a basic awareness plan to get you started. The first step in making a major change is to become aware. Consider these 7 steps to create your awareness of your finances.

1. Understand basic financial terms

Define each of these terms and be able to explain them to a friend or family member (as a good test) - assets, liabilities, cash flow, revenue, income, expenses, net worth, credit rating, debt/income ratio.

2. Know your net worth

Net worth = Assets – Liabilities. Income is important, as well as managing expenses. More importantly, your net worth statement shows what you Own minus what you Owe and that leaves what you Have. You put a value on your assets and liabilities. If you had to sell all your assets within 90 days and pay all your liabilities with the money, what would be left? Your net worth! I hope yours is a positive number!

3. Define your long-range financial goals in 5-year increments

You've heard, "how do you know the way if you don't know where you're going?" Understanding your financial wants and needs 5, 10, 15 years and on from now is key to heading off financial worries. If you have a 2-year old child, will you be surprised in 16 years to learn that college tuition is a need?

4. Define your more immediate 1-3 year goals

In today's economy, a lot of people have money worries. If you don't, good for you! If you do, consider making some major "payoffs" in the next 1-3 years. The amount that Americans owe on loans for houses, cars, credit cards, and other purchases adds up to nearly 100% of their annual income after taxes. The typical U.S. household carries an average credit-card balance of $8,500. Make a commitment to take a big money step in the next year.

5. Know your spending pattern

Is the word "budget" a 4-letter word to you? Well, how about using a "spending plan". Let's face it, you have to spend money on real things like rent/mortgage, utilities, insurance, food, gasoline, etc. Take the time to examine your last 6 months of spending and look at your spending habits. You'll have more success in changing your spending habits if you know your current habits.

6. Change your spending pattern

Of course, that's the next step! Create a new spending plan that allows you to cover normal expenses, as well as live and have fun. The following targets are published by The Vanguard Group and may not fit your exact situation. They do, however, provide a reasonable range of spending in the various categories. Savings 10-15%; Housing 25-30%; Household 25-30%; Discretionary/Personal 5-10%; Transportation 10-15%; Food 15%; Health Care 5%; Insurance 5%, Other fixed expenses 5%. Notice "Savings" is listed first!

7. Protect and monitor your assets

Consult with a financial advisor, attorney and/or accountant to ensure you have the right amount of insurance coverage, will and other "instructional" documents. Make sure you're paying the right amount of taxes. Check your credit report each year to make sure there is no fraudulent activity. Shred credit card offers and other documents with your identity information. Keep insurance policies, lists of assets and other valuables in a safe at home or safe-deposit box at a bank.