



## TO FINANCIAL INDEPENDENCE

# 1

## HAVE A FINANCIAL GOAL AND PLAN

*"Most people don't plan to fail, they fail to plan." John L. Beckley*

One of the most important gifts you can give yourself as you enter this New Year is to develop or update your financial plan. Investors who have a financial plan that they adhere to are more likely to outperform investors who don't. Here are 3 steps to creating a financial plan that can help you achieve financial independence.

### Step 1: Set realistic goals

Before creating your investment plan, goals must first be established so you can use them to track and measure your performance. This is about what you want to achieve and when you want to achieve it. To set realistic goals, start by answering the following questions:

**1. What is your investment objective?** Is to buy a house, a car, start or grow your business, pay for your child's education, invest toward your retirement? It's important to know why you are investing as it will inform how much time you have to achieve your goals.

**2. What is your time horizon?** Is it short term (i.e., less than 1 year), medium term (i.e., 2-5 years) or longer term (5 or more years). Your time horizon is important in determining how much fluctuation you could/should be willing to accommodate in your investment. If your time horizon is short, then you should lean towards fixed income, which focuses more on capital preservation, particularly in the short term.

**3. What is the expected cost?** You need to know how much your anticipated goal(s) will cost. That will become the financial target around which you base your investment plan and determined the required monthly investment to get there.

**4. How much do you need to invest monthly to achieve your goal?** You can use an investment calculator to help determine this. You will need to enter your target amount, time frame, how much (if any) you already have invested and your expected average annual return. Your expected return should be based on your risk tolerance, which will inform whether your portfolio should be predominantly equities or fixed income, or a combination of both. You can visit Databank's website to access our free Investment Calculator.

### Step 2: Develop a budget

Now it is time to look at your income versus expenses. Note down all your monthly income sources. Then, list all your expenses (food, transport, school fees, utility bills, rent, entertainment, etc.). It is critical that you be truthful in this exercise so that you are very clear on how much money you have left over every month, as your investment will come from that excess. You will then need to determine whether your excess can meet your monthly required investment.

### Step 3: Fine tune your plan

If your disposable income exceeds your monthly required investment, that's great. If it doesn't, then you will need to go back to step 1 and adjust your investment goals to match your income. Perhaps instead of trying to buy a home for GHC 200,000, you may have to look for a home for GHC 100,000. Or, if you want to maintain your target amount, you may have to extend your time horizon (perhaps from 5 years to 10) so that you have more time to save. Ultimately, the achievement of your investment goals as you outline in your plan will require some level of sacrifice. The amount of sacrifice will depend on the gap between what you have and where you want to go. We will talk more about this in the next article.

A well-conceived investment plan will help you remain focused and less likely to follow the herd mentality of panicked buyers and sellers. Panic will cost you – both in terms of stress and potential for growth of your money. Let your plan be your guide, and ensure that it is not a piece of paper that gets pushed into a folder or drawer to gather dust. Update it regularly and you will be amazed at what you can accomplish!



### Want to retire a millionaire?

Use the **Databank Investment Calculator** to calculate your monthly required investment.

Visit [www.databankgroup.com](http://www.databankgroup.com) to get started.