Chapter - IV

Planning and Process in Investment
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4.1 PLANNING

If we were making investments decisions today that will directly affect our future wealth, it would make sense that we utilize a plan to help guide our decisions. Surprisingly, the majority of people do not have in place any type of formalised investment plan. Taking some time to put together a financial plan can reap tremendous benefits. First, let’s define financial planning.

Financial planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a home, saving for your child’s education or planning for retirement.

Financial planning provides direction and meaning to your financial decisions. It allows you to understand how each financial decision you make affects other areas of your finances. For example, buying a particular investment product might help you pay off your mortgage faster or it might delay your retirement significantly. By viewing each financial decision as part of a whole, you can consider its short and long-term effects on your life goals. You can also adapt more easily to life changes and feel more secure that your goals are on track.
4.1.2 SELF-HELP OR PROFESSIONAL HELP?

Some personal finance software packages, magazines or self-help books can help you do your own financial planning. However, you may decide to seek help from a professional financial planner if:

- You need expertise you don’t possess in certain areas of your finances. For example, a planner can help you evaluate the level of risk in your investment portfolio or adjust your retirement plan due to changing family circumstances.
- You want to get a professional opinion about the financial plan you developed for yourself.
- You don’t feel you have the time to spare to do your own financial planning.
- You have an immediate need or unexpected life event such as a birth, inheritance or major illness.
- You feel that a professional adviser could help you improve on how you are currently managing your finances.
- You know that you need to improve your current financial situation but don’t know where to start.

4.1.3 COMMON MISTAKES

It may be helpful to be aware of some common mistakes people make when approaching financial planning:
Don’t set measurable financial goals.

Make a financial decision without understanding its effect on other financial issues.

Confuse financial planning with investing.

Neglect to re-evaluate their financial plan periodically.

Think that financial planning is only for the wealthy.

Think that financial planning is for when they get older.

Think that financial planning is the same as retirement planning.

Wait until a money crisis to begin financial planning.

Expect unrealistic returns on investments.

Think that using a financial planner means losing control.

4.2 PROCESS OR STEPS IN INVESTMENT

The financial planning process consists of six steps that help you take a “big picture” look at where you are financially. Using these six steps, you can work out where you are now, what you may need in the future and what you must do to reach your goals. These six steps are:

1. Establishing and defining the client-planner relationship

The financial planner should clearly explain or document the services to be provided to you and define both his and your responsibilities. The planner should explain fully how he will paid and
by whom. You and the planner should agree on how long the professional relationship should last and on how decisions will be made.

2. **Gathering client data, including goals**

   The financial planner should ask for information about your financial situation. You and the planner should mutually define your personal and financial goals, understand your time frame for results and discuss, if relevant, how you feel about risk. The financial planner should gather all the necessary documents before giving you the advice you need.

3. **Analysing and evaluating your financial status**

   The financial planner should analyze your information to assess your current situation and determine what you must do to meet your goals. Depending on what services you have asked for, this could include analysing your assets, liabilities and cash flow, current insurances coverage, investments or tax strategies.

4. **Developing and presenting financial planning recommendations and/or alternatives.**

   The financial planner should offer financial planning recommendations that address your goals, based on the information you provide. The planner should go over the recommendations with you to
help you understand them so that you can make informed decisions. The planner should also listen to your concerns and revise the recommendations as appropriate.

5. **Implementing the financial planning recommendations**

You and the planner should agree on how the recommendations will be carried out. The planner may carry out the recommendations or serve as your “coach,” coordinating the whole process with you and other professionals such as attorneys or stockbrokers.

6. **Monitoring the financial planning recommendations**

You and the planner should agree on who will monitor your progress towards your goals. If the planner is in charge of the process, she should report to you periodically to review your situation and adjust the recommendations, if needed, as your life changes.