

Investing Survival Guide September 4, 2007

Setting—and Achieving—Financial Goals

New kitchen? Early retirement? Paying for kids' college? Here's some help in balancing the competing claims on your finances

by Ben Steverman

After age 45, many folks get serious about saving and investing as big-ticket items, such as retirement and tuition, loom ahead. But, as we live our busy lives, it can be tough to find time to ask ourselves a vital question: What do we really want to do with our hard-earned wealth?

Retire early? Renovate the kitchen? Put the kids through school? Buy that vacation home?

All of the above if you're lucky. But for most of us, the money is limited, so we must set priorities. We asked financial planners for wise advice on how to set goals, and, most important, how to stick with them.

Setting the Right Goals for You

The first step, advisers say, is to figure out just what you want from your money. This is more difficult than you might think. "Most people will say, 'I want to retire as soon as possible,'" says Steven Medland, a partner with TABR Capital Management in Orange County, Calif. But, "they haven't really thought about what that means." Depending on your goals, retirement can mean anything from the quiet, simple life to expensive world travels to a second or third career.

Michael Franks, a financial adviser at Hogan Financial Management in Milwaukee, sometimes asks his clients a lot of "why" questions, like "an inquisitive toddler." It's an exercise designed to find out what really is motivating them. Why do you want to retire early? Perhaps you want to retire not because you want to spend all day on the golf course, but because you hate your current job. "It's not that you want to retire early," Franks says. "You just want to do something different."

Setting the right goals is crucial. Medland has met clients who retired in their 50s only to decide they felt unfulfilled. "They have enough money, but they're not happy," he says.

Once you know your own goals, don't forget to discuss them with the people closest to you. Especially your spouse. A couple might "think they're on the same page, but until they verbalize it, they might not realize they have different priorities," Medland says. If both members of a couple aren't getting what they want, it can cause big problems for spending and saving. "Whoever opens the credit-card statement sees the things they didn't buy first," says Indianapolis-based financial planner Susan Elser.

Examining Your Spending Habits

Putting together a spending wish list can be fun, but it's also important to distinguish pie-in-the-sky daydreams from what's actually possible for you.

First, figure out how much you can reasonably save for your goals. It may be more than you think. Elser recommends calculating exactly where your money is going. "A lot of what fills people's budgets is unintentional," she says. People can make hundreds of thousands of dollars per year and spend it all without really noticing where it's going. They eat out, go on nice vacations, and buy gifts, housekeeping services, club memberships, new cars, and clothes.

"Clients are usually surprised at how much cash they waste each month on items that aren't accomplishing any of their top goals," she says. The key is deciding what you really want, vs. what you're merely used to having. Eliminating some or all of your unintentional purchases can free up money for real priorities.

Picking and Choosing

Second, make some calculations. Somehow—using a calculator, a software program, or a consultation with a financial planner—decide how much you can save and how much you'll need to accomplish your goals. You want to upgrade the kitchen, but are you willing to delay retirement to do that? "Make sure all the information is on the table," says Franks, of Hogan Financial Management.

A planner's job is to "tell [clients] their options and alternatives," says Mark Rylance, a financial planner at RS Crum in Newport, Calif. "If you really want this," he tells them, "this is what you have to do."

Sticking to the Plan

Once you spend some time thinking about what you want, how do you stay focused on your real priorities? Financial planners have several pieces of advice:

- **Write it down.** Simply putting your goals on paper is a first step. New Jersey-based planner Jeremy Portnoff recommends setting particular dates—month, day, and year—for each goal. "It makes a goal more tangible," he says. Other planners recommend setting financial policies, rules that you will follow if particular situations arise.
- **Make it automatic.** Rylance recommends setting up automatic payments that divert money from each paycheck toward particular goals. If saving for your goals comes off the top, you often learn to live on less. "They're tricking themselves to save," he says.
- **Check on yourself.** Regularly sit down and review, perhaps with a spouse or a planner, whether you're on track. Elser recommends a planning session like this four times a year.
- **Get started.** Sometimes people get discouraged by the immensity of their goals. So instead they do nothing. "At least start something," Rylance says. Even if it will only get you "halfway to the goal, start it."

• **Reward yourself, but also think long-term.** Frank Boucher, a financial planner in Reston, Va., recommends allocating funds to all your top goals, but aggressively funding the cheapest one first. Accomplishing your first goal will give you the psychological lift necessary to keep saving, he says. However, it's important not to sacrifice your long-term goals for short-term priorities. Just because a priority comes first chronologically doesn't mean it's more important to you. Don't neglect retirement planning because you want a new kitchen in a couple years. Boucher recommends focusing first on the fundamentals: Maintain an emergency fund and the right levels of insurance, stay out of credit-card debt, and save for retirement. After those goals are accomplished, feel free to dream.

"Within reason, we can attain all of our goals," Boucher says. "We just can't do them all at once."

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