



CH. 1

UNDERSTANDING THE FINANCIAL PLANNING PROCESS

1

WHAT IS MONEY?

- Origin of Money
- Barter System
 - ✓ Bilateral barter system requires “double coincidence of wants.”
- Money = Medium of Exchange
- Monetary System
 - ✓ Basic service of money: “Convenience”
 - ✓ Secondary service of money: “Investment”



2

PROPERTIES OF MONEY

- Portability
- Indestructibility
- Homogeneity
- Divisibility
- Cognizability



3

TYPES OF MONEY

- Multiple monetary system
Considerable number of different media of exchange (coins, checks, credit cards, foreign currencies, venmo, bitcoin, etc.)
- Fiat money: Intrinsically useless.

4

THE FINANCIAL PLANNING PROCESS

- Managing your money
 - ✓ The heart of financial planning is making sure your values line up with how you spend and save.
 - ✓ An informed financial plan should reflect uncertainties and more.

5

PERSONAL FINANCIAL PLANNING

- A systematic process that considers important elements of an individual's financial affairs in order to fulfill financial goals
 - ✓ Flexibility
 - ✓ Improved standard of living
 - ✓ Spend money more wisely
 - ✓ Accumulate wealth

6

SIX-STEPS OF FINANCIAL PLANNING PROCESS



7

ORGANIZATIONAL PLANNING MODEL



8

THE AVERAGE NORMAL AMERICAN, FINANCIALLY SPEAKING

Income and Assets	
What Do We Earn? (<i>median</i>)	
All families	\$ 46,700
What Are We Worth? (<i>median</i>)	
All families	81,200
Home Ownership (<i>median</i>)	
Value of primary residence	170,000
Mortgage on primary residence	115,000
How Much Savings Do We Have? (<i>median</i>)	80,000
Pooled investment funds (excluding money market)	27,000
Individual stocks	94,500
Bonds	20,100
Bank accounts/CDs	
Retirement accounts	59,000

9

FINANCIAL GOALS

- Results that an individual wants to attain, such as buying a home, building a college fund, or achieving financial independence
- Examples:
 - ✓ Controlling living expenses
 - ✓ Retirement planning
 - ✓ College education for kids

10

FINANCIAL GOALS MYTHS

- Emergency fund that lasts three months should be adequate.
- I will be able to retire at 65 and should have plenty to live on in retirement.
- Saving a few thousand dollars a year should provide enough to fund my child's education.
- I am relying on the rule of thumb that I will need only 70 Percent of my pre-retirement income to manage nicely in retirement.

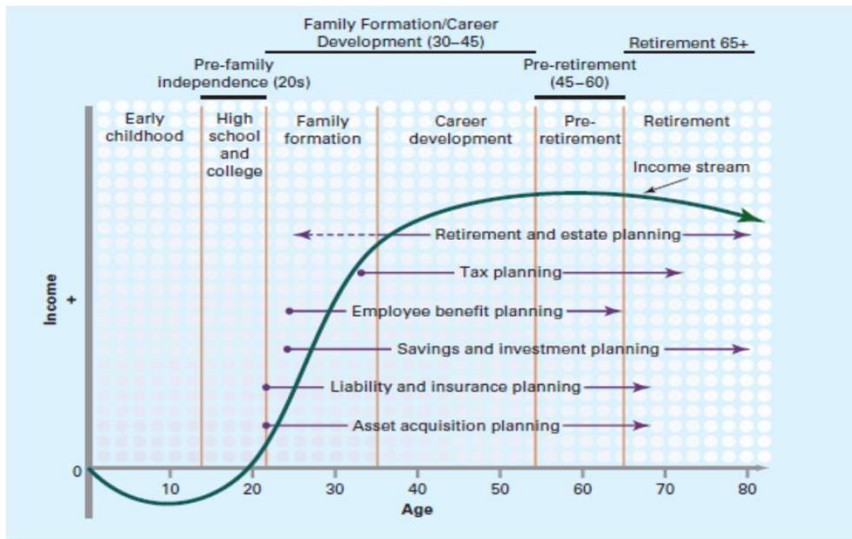
11

PUTTING TARGET DATES ON FINANCIAL GOALS

- Short-term: Next year
- Intermediate-term: Next 2-5 years
- Long-term: 6 years or more

12

THE PERSONAL FINANCIAL PLANNING LIFE CYCLE



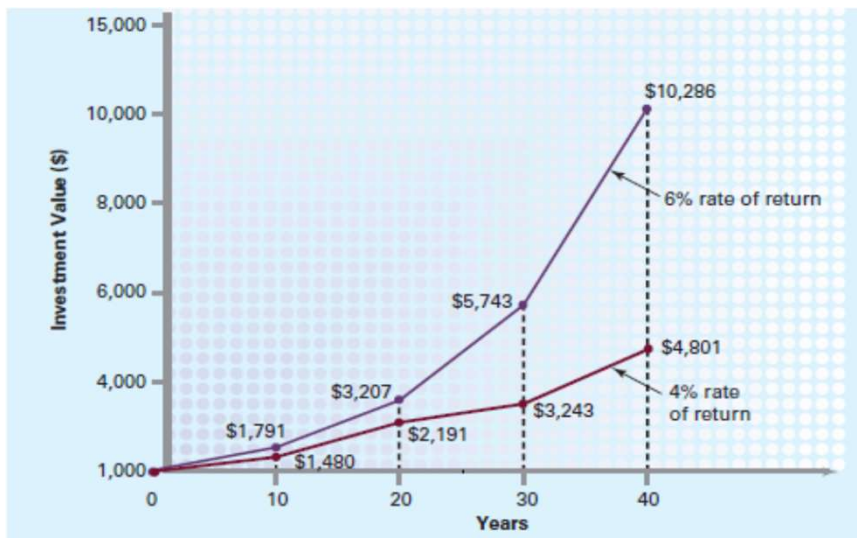
13

RETIREMENT PLANNING

- The sooner, the better!

14

HOW A \$1,000 INVESTMENT GROWS OVER TIME



15

PROFESSIONAL FINANCIAL PLANNER

- An individual or firm that helps clients establish financial goals and develop and implement financial plans to achieve those goals
 - ✓ Commission-based planners earn commission on selling financial products such as insurance or annuities.
 - ✓ Fee-only planners charge fees based on complexity of prepared plans and time.
 - ✓ Hybrid approach involves both charging fees and collecting commissions.

16

FINANCIAL PLANNERS DESIGNATIONS

Credential	Description	Internet Address
Chartered Financial Analyst (CFA)	Focuses primarily on securities analysis not financial planning	http://www.cfainstitute.org
Certified Financial Planner® (CFP®)	Requires a comprehensive education in financial planning	http://www.cfp.net
Chartered Financial Consultant (ChFC)	Financial planning designation for insurance agents	http://www.theamericancollege.edu/
Certified Trust & Financial Advisor (CTFA)	Estate planning and trusts expertise, found mostly in the banking industry	http://aba.com/ICB/CTFA.htm
Personal Financial Specialist (PFS)	Comprehensive planning credential only for CPAs	http://www.pfp.aicpa.org
Chartered Life Underwriter (CLU)	Insurance agent designation, often accompanied by the ChFC credential	http://www.theamericancollege.edu
Certified Investment Management Analyst	Consulting designation for professional investment managers	http://www.imca.org/
Registered Financial Associate (RFA)	Designation granted only to recent graduates of an approved academic curriculum in financial services	http://www.iaffc.org

17

THE PLANNING ENVIRONMENT

- Financial planning takes place in a dynamic economic environment created by the actions of
 - ✓ Government – through regulation, expenditures and tax policies
 - ✓ Business – provide consumers with goods and services
 - ✓ Consumers – their choices determines the kinds of goods and services that businesses will provide

18

BUSINESS CYCLE — FOUR STAGES: EXPANSION, PEAK, CONTRACTION, TROUGH

