

REVISED EDITION

PERSONAL FINANCIAL FITNESS

**A Practical Guide to Improve
The Health of Your Wealth**

Allen Klosowski, CFP



A step-by-step plan to help you reduce taxes,
increase investment income, build wealth, and plan
for a more secure retirement

PERSONAL FINANCIAL FITNESS: SECOND EDITION

How To Improve The Health Of Your Wealth

Allen Klosowski, CFP

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TO THE READER

Regular exercise, good nutrition and a positive mental outlook can greatly improve the quality of your life. So can financial planning. The benefits derived will vary with the amount of time and effort you invest. It is never too early to initiate financial planning—nor is it ever too late. The most important thing is to **get started**. This program has been designed to help you do just that.

Financial planning should be at the heart of your life's planning. Only with a sound financial basis will you be free to enjoy and appreciate all of the other aspects of life—social, educational, recreational, family, and retirement.

This book will help you become financially fit and will provide a practical hands on approach to not only determine where you are now, but also provide specific information about how to achieve the level of financial security you desire. How you apply the advice in this book depends on how important money and the things it provides are to you.

To receive the most benefit from this book, all activities and exercises should be completed. It is then recommended you review any material that you desire more information on with a person who has financial expertise. This will insure you have understood the information and concepts presented and are applying them correctly. Good luck!



Allen Klosowski, CFP

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PREFACE TO THE FIRST EDITION

The purpose of this book is twofold. It will:

1. Add to your knowledge and understanding of money management so you can invest your funds more effectively.
2. Expand your thinking so that any financial advice or recommendation you receive will be more understandable. In essence, this book should help you gain a new perspective on personal financial planning.

A fitness program will be prescribed. However, instead of calisthenics, you'll be "working out" with a pencil. With practice, the financial fitness program will eventually become a part of your day-to-day living, much like a regular exercise program or proper eating habits.

If diligently followed, the financial fitness program should enable you to *reduce* taxes, *increase* investment income, *build* wealth faster, and lay a solid foundation for major events such as the education of your children or your retirement.

PREFACE TO THE SECOND EDITION

During the two years since the first edition appeared, several changes (some more subtle than others), have encouraged an updated revision to *Personal Financial Fitness*. Thanks to the input from readers and reviewers, we have taken a successful, highly regarded book and have done our best to make it better.

Particular attention has been paid to the insurance section and the investment section, where much new information has been added. Other, more modest changes have been made throughout to insure the book reflects the most current information on sound financial planning.

We will make every effort to maintain the quality and up-to-date information in subsequent editions.

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SECTION I

FINANCIAL PLANNING

An Overview



WHAT IS PERSONAL FINANCIAL PLANNING?

Personal financial planning is nothing more than the development and implementation of a *comprehensive* plan to help a person achieve some specific financial goals. The idea is to focus on these goals as the starting point in a financial planning process rather than simply use one or more financial instruments (investments) to solve financial problems.

In the planning process, an individual's financial affairs (i.e., investments, savings programs, insurance, retirement plans, estate plan, and so forth) should be considered as a coordinated whole, rather than on a piecemeal basis. This means that financial considerations such as stocks, bonds, life insurance, real estate holdings, and estate planning techniques should be considered in terms of a person's overall financial goals rather than in isolation. Most financially secure people use a variety of financial instruments to achieve their goals and objectives.

Lawyers, accountants, bankers, trust officers, investment advisors, insurance agents, stock brokers, tax specialists, and financial planners can all help an individual to meet his or her specific financial objectives. In fact, most people need to deal with several professionals (practitioners) to receive the quality of expert advice that is needed for the most effective financial planning. This makes coordinating the advice among these experts very important.

Coordination of financial advice might be termed a "systems approach" toward meeting financial goals. Financial planning integrates the basic principles of each specialist into a cohesive approach for each individual. This kind of systems approach is increasingly evident in personal financial planning. In effect, a financial planner, in concert with other professionals, acts as the lead doctor to diagnose and treat those with financial ailments.

Financial planning can help answer many “what if’s” in life such as:

- What if I want to purchase a more expensive home?
- What if I decide to go into business for myself?
- What if my children go to college?
- What if my spouse stops working?
- What if I decide to retire at age 55 instead of age 65?

Financial planning is dynamic. It involves taking action and includes decision-making such as whether to move, buy a car, find a new job, etc. These decisions will initiate various actions, each with its own consequences. Both the financial decisions and consequences must be evaluated in an objective manner. Your personal commitment is essential. The time you invest in planning now will pay dividends later.

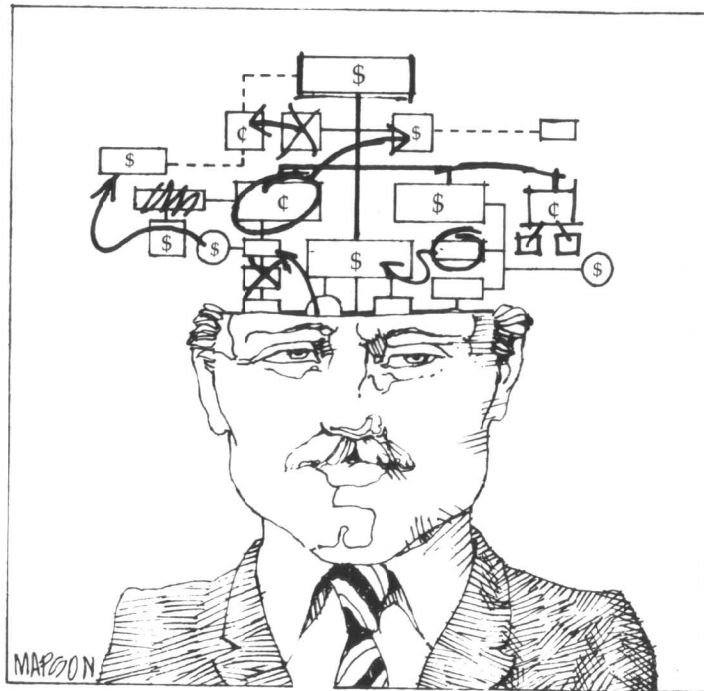


A GREATER NEED FOR FINANCIAL PLANNING

In today's increasingly complex world, everyone needs some financial planning. A bewildering array of investment opportunities, economic swings, and constantly changing tax laws, leads to confusion and frustration. Also, many people have some financial goals they wish to attain, but often these goals are vaguely defined.

Economic ups and downs in the United States, combined with changes in the tax laws, has increased the need for (and complexity of) financial planning. Our affluent society has increased the number of people who need tax, investment, insurance, retirement, and estate planning. These services are readily available, but the extent of services needed vary for each individual.

Central to the planning process is the development of personal financial goal setting. Unfortunately, most people (even those with goals) do not follow consistent policies when making financial decisions. Instead, they react to day-to-day problems or advertising claims. Those with a financial plan are in a position to make more rational financial decisions.



A CRITICAL DECISION: DO I NEED THE SERVICES OF A FINANCIAL PLANNER?

COMPLETE THIS BRIEF SELF ANALYSIS

	YES	NO
• Can I be objective in assessing my personal circumstances?	_____	_____
• Do I have time to keep track of my investments?	_____	_____
• Do I possess the knowledge of investments, taxation and changes in the law to make intelligent decisions?	_____	_____
• Can I avoid procrastinating when decisive action must be taken?	_____	_____

If you *cannot* answer yes to the questions listed above, you should consider the services of a financial planner. Please complete all of the exercises in this book before making a decision. More information on services offered by financial planners and whether you should use one will be provided later in this book beginning on page 113.

THE FINANCIAL PLANNING PROCESS

Like a holistic approach to personal health, the process of providing financial fitness involves four basic steps. If you have the time, objectivity and expertise in investments, taxation, insurance, and estate planning, you can complete this four step process on your own. However, most people find it helpful to seek the aid of various professionals to derive the most benefit from this comprehensive process.

Let's review the four step action process:



1. **Examine:** It is important to first develop a profile of your financial health. This is accomplished by gathering and organizing your financial and personal data.

Your financial data should include a current tax return; a listing of your assets and liabilities; a breakdown of your monthly living expenses; information about your personal and company retirement plans; life, health, and casualty insurance policies you own plus any estate plan documents (wills or trusts) that you have.

Your personal data should include information on all family members; a clarification of your goals and objectives and an accurate assessment about your tolerance for risk.



2. **Diagnose:** This step should analyze the data that has been gathered to determine your strengths and weaknesses. Proven concepts and principles may then be applied to reach decisions regarding aspects of your financial situation.

For example, your cash reserves should be reviewed. Are they sufficient? Are they equal to at least three months fixed living expenses? Are you hindered by too much debt? Are your current (liquid) assets sufficient to meet all current obligations (those due within the next twelve month period)?

Also, do your investments match your stated goals and objectives? If income is your goal, would you consider a certificate of deposit or a money market account more appropriate than a portfolio of speculative stock issues?



- 3. Prescribe:** This step is where specific courses of financial action are selected.

For example, if one of your objectives is to generate tax free income, you (or your financial planner) might select an investment in a municipal bond fund. If you desired greater growth potential for a portion of your cash reserves, mutual funds or stocks might be more appropriate.

A desire to provide for your survivors in the event of your death would call for the drafting of an estate plan to meet your specific requests.



- 4. Monitor:** You and/or your planner need to review your plan on a regular basis (at least annually) to make appropriate adjustments based upon changes in economic, financial and/or your personal circumstances.

This regular “follow-up” will also provide an opportunity to compare results with your goals and objectives.

Most of your time and effort will be spent in Step 1 and Step 2 of the financial planning process. Gathering personal and financial data and then evaluating your strengths, weaknesses, and needs is the foundation of solid financial planning.

SECTION II

EXAMINE AND DIAGNOSE

How To Determine Your Current Financial Condition

