

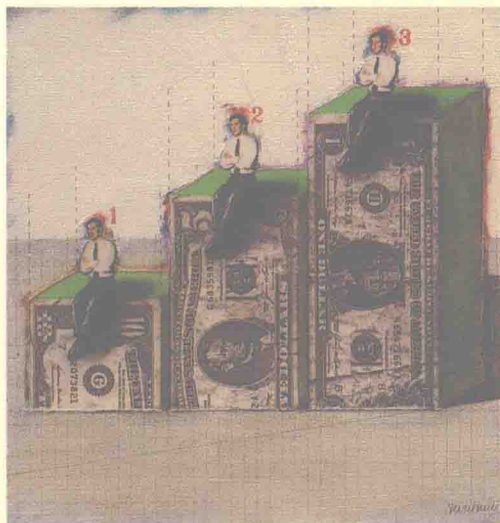


THE
ONE
HOUR
GUIDE



60

HOW TO SET AND ACHIEVE YOUR FINANCIAL GOALS



BAILARD, BIEHL
& KAISER, INC.

HOW TO SET AND ACHIEVE YOUR FINANCIAL GOALS

Bailard, Biehl & Kaiser, Inc.

Dow Jones-Irwin
Homewood, Illinois 60430

© Bailard, Biehl & Kaiser, Inc., 1989
Dow Jones-Irwin is a trademark of Dow Jones & Company, Inc.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the copyright holder.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that neither the author nor the publisher is engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers.

Project editor: Margaret Haywood
Production manager: Ann Cassidy
Cover design: Image House
Cover illustration: David Lesh
Compositor: Eastern Graphics
Typeface: 11/13 Souvenir
Printer: Arcata Graphics/Kingsport

Library of Congress Cataloging-in-Publication Data

How to set and achieve your financial goals.

Includes index.

1. Finance, Personal. I. Bailard, Biehl & Kaiser.
HG179.H67 1989 332.024 88-33535
ISBN 1-55623-147-4

Printed in the United States of America

3 4 5 6 7 8 9 0 K 6 5 4 3 2 1 0 9

HOW TO SET AND ACHIEVE YOUR FINANCIAL GOALS

OTHER ONE HOUR GUIDES

- Bailard, Biehl & Kaiser:* How to Buy the Right Insurance at the
 Right Price
 How to Be a Successful Investor
- Tauber:* How to Retire Young
- Thomsett:* How to Sell Your Home for Top Dollar

PREFACE

Our current times have been called the "Information Age." Never before in history has so much information been available to the average person. The widespread use of personal computers makes it possible for millions of people to access massive databases offering comprehensive facts about the financial world.

Unfortunately, this unprecedented maze of information does not guarantee better financial decision making. Professionals and amateurs alike can be overwhelmed with details if they do not have a logical framework for dealing with it all. In most cases all it guarantees is further confusion.

Our goal with this book, and others in the *One Hour Guide* series, is to provide you with an understandable, easy-to-use method for organizing and managing your financial affairs. We show you what information you really need and how to interpret it in light of your individual situation.

Advertisements for financial services tend to give the impression that the solution to all your financial concerns is finding the "right" investment. Typically that "right" investment is whatever the advertiser happens to be selling, whether it is insurance, stocks, bonds, real estate, or some other investment vehicle. But we have found over the years that what is right for one person is not necessarily correct for another. It is that "personalized" touch that differentiates the financial plan you will put together in this book from the canned, off-the-shelf variety that is widely hawked.

This book will help you achieve the kind of personal satisfaction that comes only from mastering an important aspect of your life: your financial affairs. You will learn a number of different ways to increase your personal wealth. You will learn about risk and how to control it to suit your personality.

The information in this book and others in the series has been developed during our years of experience as financial advisors. We have helped hundreds of clients achieve their goals using the methods we describe in these pages. These goals have been as varied as the people themselves. They range from achieving financial independence to traveling the world to paying for higher education to providing for a family's financial security in retirement years to name only a few.

Our popular seminars on personal money management have helped thousands of people from small business owners to corporate managers to

recent college graduates to retirees become true *money managers*. They learned the importance of moving beyond being mere money makers and money spenders in order to achieve their life's goals.

Our college textbook, *Personal Money Management* (published by Science Research Associates and now in its fifth edition) is the leading text in its field. Hundreds of thousands of university and continuing education students have learned the fundamentals of personal finance through the book. Our own entrepreneurial experience, from our days together at Stanford Graduate School of Business to the top management of our own diversified corporation, has convinced us *personally* of the wisdom of these techniques. *We offer no advice nor suggest any course of action that we have not applied successfully ourselves.*

For many years this hard-won expertise was available only to wealthy investors and institutional accounts who can afford our specialized services and who appreciate the value of objective financial advice. Clients like these demand not only successful track records but also a deeper understanding of the role of money in achieving career and life goals. It was from our desire to make such counsel available to more people that this book and series were born.

Of course any publication owes its success to many people behind the scenes. In addition to the generous cooperation of our clients, without whose feedback and support this series would not have been possible, we especially wish to thank Jerrold D. Dickson for his ideas and presentation of the BB&K approach to setting and getting your financial goals; Jeri Hayes for her personal high standards in editing this work; and Brenda Locke for her organizational abilities in seeing this project through to completion.

To these and many others who helped us create, prepare, and deliver this book, we express our sincerest gratitude. With them, we take great pride and pleasure in welcoming you to our growing family of clients.

Thomas E. Bailard

David L. Biehl

Ronald W. Kaiser

CONTENTS

1. INTRODUCTION: DEMYSTIFYING MONEY	1
Attaining Financial Fitness:	
Who Will Benefit from This Book? The Importance of Setting Financial Goals. The BB&K Way to Financial Fitness. What a Financial Plan Is All About. How Personal Profit Planning Fits into Your Life. The Skills of Money Management. Discovering Your Financial Physique. Strategies for Financial Well-Being. How This Book Is Organized.	
2. ASSESSING YOUR CAREER AND LIFE RESOURCES	15
Setting Personal and Financial Goals:	
Life Cycle and Age-Stage Issues. Determining What You Want. Uncovering Your Goals. Wrapping Up.	
3. ANALYZING YOUR FINANCIAL STARTING POINT	31
The Necessity for Accurate Record Keeping:	
The Requirements for Good Financial Record Keeping. Organizing Your Financial Data. Completing Your Personal Balance Sheet. Creating Your Personal Income Statement. Interpreting Your Financial Statements. Setting Your Financial Goals. Preparing Your Goals Priority Worksheet. Wrapping Up.	
4. UNDERSTANDING AND WORKING WITH PARTNERS	47
Financial Planning—Family Style:	
Spender Profiles. Understanding the Role of Spending Motivations in Your Household.	
Understanding Your Household Spending Type:	
Assessing Your Personal Spending Style. The Household Dynamics of Money Management.	
Communicating with Others: Resolving Differences:	
Barriers to Family Financial Communication. Overcoming Communication Barriers. Techniques to Overcome Common Barriers. Wrapping Up.	
5. UNDERSTANDING THE WORLD OF FINANCE	79
Understanding the Essential Financial Concepts:	
The Time Value of Money. Understanding Spending. Borrowing:	

	Uses and Abuses of Credit. Risk versus Reward: Finding the Right Balance. Wrapping Up.	
6.	TARGETING YOUR FINANCIAL GOALS	101
	Implementing Your Goal-Getting Plan:	
	Beginning Your Goals Achievement Schedule. Analyzing Your Investment Objectives. Matching Your Objectives with Specific Investments.	
	Implementing Your Personal Profit Plan:	
	Resourcing Your Financial Choices. Coping with Change. Wrapping Up.	
7.	WORKING WITH FINANCIAL PROFESSIONALS	126
	Creating Your Personal Profit Plan:	
	A Cooperative Effort. Self-Help for the Personal Profit Planner. Using Professional Advice: When to Seek Help. What Makes a Good Money Manager? Wrapping Up.	
	APPENDIX A: End Papers	139
	APPENDIX B: Action Papers	191
	INDEX	225

CHAPTER 1

INTRODUCTION: DEMYSTIFYING MONEY

ATTAINING FINANCIAL FITNESS

To their chagrin, many people have learned that achieving professional success does not guarantee equal success in managing their financial affairs. Many of us take for granted the notion that merely earning additional money will mean an easier, more fulfilling life. Unfortunately, it is not that easy.

The financial matters of many otherwise successful people seem to be governed by a kind of Parkinson's Law: "Living expenses expand even faster than the income meant to cover them!" But it doesn't have to be that way. The purpose of this book is to show you how to organize your financial affairs to achieve the "good life."

Over the last ten years there has been an increased awareness of the importance of good health and physical fitness in attaining the good life. At BB&K, we believe that *financial fitness* is an equally important ingredient.

Financial fitness is more than numbers in your bankbook or the profits and losses from your investments. It is a positive feeling about money and its role in your life. It means that you are at peace with your current situation and confident about the future.

You don't need a six-figure income or a massive Wall Street investment portfolio to achieve this goal. You do need to take the time and make the effort to carefully analyze where you are and what you want. How is it possible for you to secure financial fitness?

First, you must develop a money manager's mentality. As we alluded to above, there is a distinct difference between being a money maker and being a money manager. Money managers know that money is a tool for achieving goals and nothing more. For them, money is a positive force rather than a source of insecurity.

Second, you must learn the methods of effective financial planning. Financial planning and personal money management are skills that can move you beyond the harried paycheck-to-paycheck existence to a more productive, more satisfying lifestyle.

And finally, you must learn to be *yourself*. Whatever your career and life circumstances or personal values and beliefs, there is a state of financial well-being that is right for you. We all have different desires, goals, abilities, and values. What works for one person may not be appropriate for another.

Who Will Benefit from This Book?

This book is not meant for everyone. It will most benefit those people who:

1. have a strong sense of responsibility for themselves and the members of their household.
2. want to deal with life's realities in a positive, productive way.
3. want more control over their personal and financial destinies.
4. wish to know more about personal finances and the economic factors that influence them.
5. have a healthy distrust of financial salespeople and wish to rely on their own well-informed judgment in financial matters.

Although we have designed this book to act as your consultant on personal finance, the goals you choose to pursue, the specific details of how you pursue those goals, and, of course, the rewards you reap for attaining them will be your own.

The Importance of Setting Financial Goals

We all have certain goals we wish to attain, but many people do not make the effort to articulate these objectives. When it comes to financial goals, you probably have at least a vague idea what you want ("I want to be rich." "I want to own a large house on the beach." "I want to retire with enough money to travel around the world."). But a general idea doesn't provide you with the specific focus around which you can make plans. That is one of the primary purposes of this book: to show you how to distill your wants and needs into achievable targets.

One lesson we hope to impress upon you is that it is a mistake to assume that there is a clear distinction between your financial and nonfinancial goals. Our experience shows that managing the financial side of life usually produces benefits on the nonfinancial side. A household that avoids financial turmoil is more likely to achieve its goals—financial and nonfinancial—than one that does not. Studies show that 75 percent of all domestic disputes are over money matters. Resolving those matters will allow you to devote more time to pursuing other, more entertaining interests.

Financial planning is much more than learning how to save. Just as important, and all too often overlooked, is the other side of the equation: how to spend. Most people are money makers and money spenders rather than money managers. If you want to move beyond the "What can I buy with what I have?" (living from paycheck to paycheck) approach, you need to know what you want—your life's goals. Only then can you focus your energies on satisfying your wants and needs.

A money manager would ask instead, "How much do I need to buy what I really want?" As you learn how to design your own Personal Profit Plan, you will see that it is really a plan for personal fulfillment rather than just a dollars-and-cents accounting of your money. Every dollar spent today or invested for tomorrow in accordance with a carefully constructed plan will return many times over in a happier, more secure, and more rewarding life.

The BB&K Way to Financial Fitness

The ideas and techniques presented in this book have been developed during our years of experience as financial advisors—serving such people as entrepreneurs, corporate executives, and retirees—and through our seminars, newsletters, and college textbook (*Personal Money Management* published by Science Research Associates).

You will find that the ideas and methods outlined in this book represent a unique approach to financial planning. While most financial planning books are oriented toward reducing everything to mere numbers, with numerous rule-of-thumb equations for determining the answers to your financial questions, we take a different approach.

We focus on you—your attitudes, values, financial profile, and the techniques that will achieve your goals. We then look at how economic trends and the vast array of financial products fit your situation. Financial products should be used to meet your plan's requirements, rather than forcefitting your plan around the latest trendy investment vehicles.

What a Financial Plan Is All About

Money management, the BB&K way, is called *Personal Profit Planning*. It is a process, not a static product to be used without alteration by everyone. We've found that successful money management is very much a case of applying on a larger scale the same instincts you probably already use in other areas of your life.

Personal Profit Planning is skill learning, not information passing. You can learn and apply the self-counseling skills to your unique circumstances.

If you have the desire and the time to commit to building and improving your financial physique, you won't have to rely on high-priced advisors or fall for the "free advice" that comes with undisclosed conflicts of interest.

The Personal Profit Planning method is flexible. You can learn and apply it at your own pace. In fact, we strongly recommend that you proceed slowly, taking each step only when you feel comfortable. The strength of Personal Profit Planning is that it allows for a wide diversity of individual preferences: different people will take different approaches. Some will devote time every day or every week to their financial affairs. Others will take a more passive approach, reviewing matters quarterly or annually. There is no right or wrong approach as long as you faithfully follow your plan's details.

An important, though admittedly nonquantifiable, virtue in the BB&K Personal Profit Planning technique is that it makes your financial planning an adventure in self-discovery and self-fulfillment rather than a boring mathematical exercise in money counting and changing!

How Personal Profit Planning Fits into Your Life

Financial planning can't, or at least shouldn't, be sold like the latest swimsuit fashions or the latest "in" toy at the local shopping center. And despite the claims in cleverly phrased advertisements of many financial salespeople—from stockbrokers to insurance salespeople to rare coin dealers—it requires more than simply knowing about a wide variety of financial products. As we've stated above, Personal Profit Planning goes beyond computerized number crunching in accordance with arbitrary standards. You can prepare your taxes that way, but not a comprehensive, individualized financial plan.

You should view your Personal Profit Plan as a framework for achieving financial well-being based on your individual goals and resources. It is a device for facilitating rather than forcing career and life development. It is a means for keeping money in its proper place: the servant, not the master, of a more rewarding life.

The major problem with many financial planning approaches is that they are product- or trend-driven. Typically, a salesperson is knowledgeable about a particular product and uses "financial planning" as an entree to sell that product.

Another sales approach is to focus on a trend, such as inflation, that is already familiar to most people. For example, in the late 1970s many salespeople were busy hawking tangibles such as gold, silver, diamonds, or collectibles as hedges against inflation. True financial planning (setting goals and designing methods for attaining them) was lost in the race to protect against the current problem.

Emphasis on the current trend of inflation proved costly to many investors. Gold and silver prices dropped sharply in the early 1980s, while other investment vehicles such as stocks and bonds, which had been out-of-favor, rose dramatically.

Personal Profit Planning is goal-driven. You focus on your personal and financial resources and how they can be employed to meet your wants and needs. Your Personal Profit Plan is a means of unifying your life to attain the things you want.

Most people think of their personal and financial lives as separate entities. You've probably heard friends, or even yourself, make statements like this: "I wish both my personal and business life would get in sync. When things are going well for me personally, business always seems to be at a low point. When things are going well at work, personal problems crop up." But when you stop to think about it, that distinction is artificial.

People tend to describe themselves by the personal and financial assets they possess. Personal assets are the "things you are" such as a singer, a manager, a writer, an actor, an entrepreneur. Financial assets are the "things that you have" like bank accounts, investment portfolios, autos, houses, and other possessions.

You can see then that important goals are achieved through the interchange of these resources. Personal assets are important in obtaining financial assets. These financial assets can then be reinvested in personal resources, for example, professional training via seminars, books, or education. In turn, increased personal assets can lead to earning more financial assets. Of course, the cycle can stop at any stage, with the additional financial assets being used to acquire more "things"—a new car, a larger house, a sailboat, and so on.

In some cases, material goods may also result in financial gain. For example, the house you purchase may appreciate. In fact, this has been a major element in the growth of net worth for many people. This additional gain can, and has, fueled another round in the cycle of personal and financial growth.

The important thing to remember is that goals, like personal and financial resources, don't just materialize out of thin air. They must be discovered and cultivated.

The Skills of Money Management

Personal Profit Planning is an important first step to a more fulfilling and rewarding life. There is, of course, more to effective money management than discovering and setting financial goals. You may know clearly what you want to achieve in life. But until you move beyond the money-making-and-

spending stage to learn how to be a money manager, reaching those targets will prove a frustrating and elusive task. Effective money management can be broken down into three basic skills:

1. *Planning.* Find out about yourself and your resources. Design a Personal Profit Plan that will take you from where you are to where you want to be. The plan should act as a road map to your future.
2. *Influencing.* Find people who can implement your plan. Learn how to help them help you attain your goals.
3. *Controlling.* Know the techniques of effective money management that will keep your plan on track. Take control of your own financial destiny rather than sit back and leave your fate to the uncertainty of chance.

If your Personal Profit Plan is going to pay the dividends you expect, it is important to develop good money management habits. You must be consistent. For example, if you decide that you will review your investments quarterly, do it. Don't put it off.

It is vital to maintain certain financial records. This is critical not only to see how you are doing relative to your goals, but for legal reasons. The IRS requires that certain records be kept. In Chapter 6 we detail a record-keeping system that should serve most people's needs.

Discovering Your Financial Physique

Before you can know where you want to go, you must know where you are. Experience has shown us that everyone falls into one of four *financial physiques* (Figure 1-1). Your financial physique is the starting point from which you will pursue an individualized plan for financial fitness.

The Four Financial Physiques

The Type I, Light and Agile financial physique has few assets or possessions. This figure has a modest income. People in this category often are just starting a career. However, many people in this category simply do not place great value on money or the things that money can buy.

The Type II, Lean and Quick physique has plenty of current income but few assets. That dearth of assets hurts the potential for long-term financial fitness. The Lean and Quicksters often have great money-making talents but are usually enthusiastic money spenders as well.

The Type III, Strong and Sturdy people have numerous assets. However, they may run into problems with short-term cash flow. Because of previously inherited or acquired wealth, the Strong and Sturdy types have good long-term financial prospects. However, too often they run short of

FIGURE 1-1
The Four Financial Physiques

Assets	Higher	III Strong and Sturdy	IV Strong and Quick
	Lower	I Light and Agile	II Lean and Quick
		Lower	Higher
		Income	

ready cash because they've tied up too much of their wealth in illiquid assets such as real estate, collectibles, or low-return investments.

Type IV, Strong and Quick individuals seem to have it made financially. However, most of them seek more satisfying ways to use their wealth and income. Accustomed to the good life, they want to ensure that their resources don't wither away before or during retirement. Strong and Quicksters are usually as concerned about preserving their resources as adding to them.

Determining Your Financial Physique

How fit are you financially? Which financial physique best describes your current circumstances? Which one reflects the way you'd like to see yourself in the future?

No one Personal Profit Plan is right for every financial physique. Even within a given category there are many variations in asset type, income resources, and career and life goals. These can all affect financial well-being. Some people may wish to move from one category to another—building wealth, income, and personal accomplishments in the process. Others will want to stay where they are—developing the money management skills that best preserve and exploit their current potential.

We believe that only you can and should be the star of your financial game plan. This book will show you how to get from where you are to where you want to be.

We've designed the following questionnaire to help you identify your

Taking Stock

Identifying Your Financial Physique

For each of the incomplete sentences below, circle the letter of the answer that

best reflects your *current* financial attitudes and circumstances.

1. My salary is . . .
 - a. barely adequate for, or doesn't meet, my needs.
 - b. adequate for my needs.
 - c. adequate for my needs but less than I would like.
 - d. more than adequate for my current needs and desires.
2. Financially, I . . .
 - a. often struggle to make ends meet.
 - b. can meet my current expenses but have trouble saving for the future.
 - c. am sometimes short of cash, but I have my share of possessions.
 - d. can do almost anything I want to.
3. In terms of material possessions, I . . .
 - a. own very little.
 - b. have fewer possessions than most people with my income.
 - c. have a good deal of real and personal property.
 - d. have most of the material things I want.
4. When I think about *making* money, I . . .
 - a. first think about the things I'd have to give up to get it.
 - b. think about *spending* money too.
 - c. think about the tangible things it can buy.
 - d. feel a sense of accomplishment and satisfaction.
5. When I think about *losing* money, I . . .
 - a. am not too worried because I don't have that much to lose!
 - b. don't worry because I know I can make it back again.
 - c. am fearful because it threatens what I have already gained.
 - d. don't worry too much because there's more where that came from.
6. When I think of *spending* money, my thoughts turn to . . .
 - a. watching every nickel.
 - b. buying what I can right now.
 - c. buying something substantial or an investment that will grow.
 - d. attaining important goals.
7. If people envy me, it is probably because . . .
 - a. I'm not preoccupied with money.
 - b. I earn a good salary.
 - c. they would like to have the things I own.
 - d. they think I have everything I want.
8. If I had just a *little* more money, I would . . .
 - a. be a *lot* better off.
 - b. probably spend it as fast as I got it.
 - c. invest it in something substantial.
 - d. use it where it would do the most good.