

FINANCIAL PLANNING 101

Understanding the process, knowing where to start
and how to stay on course.

*"A financial plan serves as a roadmap guiding you to your financial
destination."*

1. Introduction to Financial Planning

Everyone needs a financial plan. Simply put, every financial goal of yours—be it to own a house or buy a car—needs a financial plan to help you actualize it. A financial plan is a document showing you how to achieve your financial goals. It is the end-product of the financial planning process. Just like a captain navigates a ship with the help of a compass, your financial plan serves as a compass that guides you towards your financial goals, keeping your financial health in check. Always try to keep your financial plan simple and flexible.

The Certified Financial Planner Board of Standards defines it as: *"Financial planning denotes the process of determining whether and how an individual can meet life goals through the proper management of financial resources."*

The reason financial planning is important is because we have unlimited financial goals but limited financial resources. Faced with resource constraints, we need to optimize, and financial planning helps us achieve this optimization.

The Role of Financial Planners

There are professionals trained to help you come up with financial plans, commonly referred to as financial planners, financial advisors, or wealth managers. These individuals engage you with a series of open and closed-ended questions to gather the relevant qualitative and quantitative information required (such as your goals, current circumstances, and existing strategies) to curate a tailored, comprehensive plan. Because both financial goals and circumstances are unique to each person, there is rarely a one-size-fits-all approach.

Financial planners provide core services across key areas, often collaborating with other experts like lawyers, accountants, insurance brokers, actuaries, and tax experts:

Core Planning Domains

- Financial Management
- Investment Planning
- Insurance and Risk Management

Advanced Domains

- Retirement Planning
- Tax Planning
- Estate Planning & Legal Aspects

2. The Financial Planning Process Blueprint

This is the standard 7-step blueprint most financial planners use, simplified here to be easily usable by anyone crafting their own plan.

Step 1: Understand the client's personal and financial circumstances.

Step 2: Identify and select the financial goals.

Step 3: Analyse the client's current course of action and potential alternative course of action(s).

Step 4: Develop the financial plan.

Step 5: Present the financial plan recommendation.*

Step 6: Implement the financial plan recommendation.

Step 7: Monitor progress and update.

*NB for Self-Planners (Step 5):

Since you are preparing your own plan, this step involves presenting it to someone you know who possesses financial planning knowledge to peruse, evaluate, and advise.

3. Step 1: Understanding Your Circumstances

First and foremost, you need to deeply understand your current financial situation. It is imperative to be brutally honest here—no overestimations or underestimations. To bring your financial circumstances to bear, evaluate your details across these categories:

- **Demographics & Commitments:** Your age, number of dependents, and any competing priorities.
- **Inflows & Outflows:** Current incomes (salary, business, investments) vs. expenses (rent, utilities, groceries, data, fuel, loan interests).
- **Earning Potential:** Future projected salary or business growth tracks.
- **Risk Profile:** Risk tolerance levels (whether you are risk-averse or a risk-taker).

- **Existing Protections:** Current estate plans, retirement/pension benefits (Tier 1, Tier 2, Provident Fund), or government benefits.

Asset & Liability Categorization

Assets are items (tangible or intangible) that generate economic benefits over their useful life. Liabilities represent your outstanding debts.

Asset Classes

Non-Current: Benefits extend beyond 1 year (e.g., house, vehicle, business).

Current: Easily converted to cash within a year (e.g., cash, prepaid rent, treasury bills).

Investment: Held to generate future income streams (e.g., rental property, corporate shares).

Household: Held for enjoyment/recreation (e.g., jewelry, television, personal car).

Liability Classes

Non-Current Liabilities: Debts whose settlement timeline extends beyond a single year (e.g., mortgages, student loans, car loans).

Current Liabilities: Short-term debts that are expected to be fully settled within twelve months.

Net Worth Formula

Your Net Worth is the ultimate baseline health metric:

$$\text{Net Worth} = \text{Total Assets} - \text{Total Liabilities}$$

To increase your net worth, you must continuously widen the gap between what you own and what you owe.

4. Key Health Diagnostics: The 5 Ratios

These financial ratios act as regular check-points to gauge your health against industry-standard benchmarks. Calculated metrics point directly to areas needing urgent attention (e.g., inadequate savings, excessive debt, or absence of emergency reserves).

Ratio Name	Formula	Benchmark Target
Current Ratio	$\text{Current Assets} \div \text{Current Liabilities}$	2 : 1 Ensures you have twice the short-term coverage for liabilities.
Debt-to-Asset Ratio	$(\text{Total Liabilities} \div \text{Total Assets}) \times 100$	≤ 40% Keeps you from carrying dangerously high debt.
Personal Debt Service Ratio	$\text{Total Debt Payments} \div \text{Total Income}$	< 36% Measures monthly income consumed by debt. Lower is superior.
Retirement Savings Ratio	$(\text{Individual} + \text{Employer Contrib.}) \div \text{Total Income}$	≥ 12% Measures adequacy of your current long-term savings pace.
Emergency Fund Ratio	$\text{Current Assets} \div \text{Non-Discretionary Monthly Living Expenses}$	≥ 6 Months One of the most vital ratios. Must cover at least 6 months of essential living expenses.

5. Step 2: Identifying & Selecting SMART Goals

Your goals are heavily dictated by your present situation and current stage in life. They should focus on what truly matters to you across short-term, mid-term, and long-term horizons. Common goals include achieving specific savings rates, setting investment targets (stocks, bonds, T-bills), funding large asset purchases (homes, cars), or aggressively paying down outstanding loans.

The goal-setting process requires you to: (1) Select specific milestones, (2) Estimate the total financial resources required, and (3) Plan precise target timelines.

To ensure actualization, every goal must be strictly **S.M.A.R.T.**:

S Specific Well-defined, clear, and completely unambiguous.	M Measurable Defines explicit criteria to track your execution progress.	A Achievable Attainable milestones that are not impossible to reach.	R Realistic Relevant to your core purpose and within logical reach.	T Time-bound Clear timelines with defined start and completion dates.
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6. Steps 3 & 4: Analysis & Development

Step 3: Analyse Current & Alternative Courses of Action

Evaluating your choices allows you to see the exact decisions that brought you to your present situation. Ask yourself: *What steps have I taken so far, and where have they gotten me?* Be brutally honest. Analyzing your actions and inactions highlights core strengths while surfacing vulnerable shortcomings that block progress.

Common Strengths

Active insurance policies, structured pension plans, diverse investments (shares, bonds), rental properties, land ownership, or designated educational funds.

Common Weaknesses

Low savings rates, lack of fundamental financial knowledge, chronic overspending, and lifestyle inflation (living beyond your means).

Step 4: Developing the Financial Plan

The core formulation relies heavily on all information collected, stated projections, and goals. Development incorporates critical estimates and assumptions including: exchange rates, interest rates, inflation, tax metrics, salary growth trajectories, general economic growth, personal expenses, pension payouts, and investment returns (dividends, capital gains, interest income).

Scenario & "What-If" Analysis: Always model multiple scenarios by tweaking key variables (e.g., a drop in investment returns or a spike in expenses) to observe the impact on your target success rate. The optimal plan to select is the one that delivers the greatest net benefit at a minimum, acceptable level of risk.

7. Steps 6 & 7: Execution & Continuous Evolution

Step 6: Implementing the Financial Plan

Implementation is one of the most critical steps, yet it is where most individuals fail woefully. You can build the most sophisticated, beautifully structured plans, but failure to walk the talk yields absolutely no fruit. Commit completely to the chosen course of action and stick to it resolutely, while maintaining flexibility in your daily tactical approach.

Step 7: Monitoring Progress & Updating

Life circumstances change constantly, rendering static elements of a plan unfit for purpose. Continuous monitoring ensures early detection of external shocks or internal alignment shifts, allowing your plan to be amended seamlessly. The 7-step cycle is iterative and must be repeated over your lifetime as your financial situation transforms.

Uncontrollable Changes (External Shocks)

Legal changes, updated tax codes, macro-economic shifts, and market volatility. Require a robust and flexible plan to withstand shocks.

Controllable Changes (Internal Shifts)

Career transitions, family changes (marriage, newborns), or purchasing a new home. Require direct evolutionary adjustments to the document.