



What is a Financial Plan?

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What (or who) is a financial planner? And do I need one? These are prominent questions on the minds of consumers and regulators these days as the financial services industry continues to grapple with the monumental changes taking place. And while there is indeed a lot to debate in these questions, I think there is a better question. What is a financial plan?

That's a surprisingly difficult question to answer. Definitions may range from a 100-page report outlining cash flow, estate and retirement objectives, tax planning, etc. on one extreme, to some scribbles on the back of a napkin at the other extreme. And what's troubling is the fact that in truth, both could be right.

Perhaps an even better, more succinct question is this: *What should a financial plan do for you?* The beauty in this question is that in answering it we define what we want the exercise to accomplish, as opposed to how many pages it will take to get there. It is, after all, results we are looking for.

Here are the six key points in response to this question. Use them to help you determine whether or not your financial plan/planner is doing the job you deserve.

1 Any plan requires a goal or goals. Those probably include retiring at a specific time with a specific income, leaving a desired estate, perhaps making a major purchase, or countless other objectives that may be high on your list of priorities. Make sure the goals

used are *yours* and not some canned goal like "70% of current income at age 65". The key point is this. After your financial plan is completed, you had better have some clear, specific and measurable financial goals. You may be fuzzy on these right now. You shouldn't be at the end of the planning exercise.

2 No matter where you are heading, you need to assess where you are now, and what you already have in place for the journey. Your planner needs to know this, and your plan should reflect an *accurate* starting point. You may feel disorganized and uncertain with respect to your present financial situation, but you shouldn't when your plan is completed.

3 A financial plan should map out a strategy to *reach* your stated goals. Heading in a general direction doesn't cut it. Heading east over the Atlantic Ocean is the right general direction to get to England. But it's also the right general direction to get to Spain, Africa, Greenland and countless other destinations. Every step in every year of the plan should be outlined in detail. If you never changed your goals (which you will), and if all the assumptions held true (which they won't), this should be the only plan you will ever need.

4 Your financial plan should *convince* you that your goals are achievable. This is perhaps the most important aspect of a financial plan, and the least understood. A plan that leaves you doubtful that your goals are achievable is all but worthless. In fact

it's worse than worthless, because it's discouraging. Invariably a financial plan needs to be "reworked" after the initial attempt to make sure that while your goals remain inspiring, the strategy appears doable. Get it right and your financial plan is like a treasure map with a big X on it. From there all you need is a shovel.

5 It needs to be understandable. If you don't understand aspects of your financial plan, it's also of little value. When you are putting together the new barbecue, do you read the instructions in English, or do you enjoy the challenge of trying the instructions in the foreign language? If there's an investment strategy or tax planning strategy that you just don't understand, then change it. The one you understand will *always* be the better one for you.

6 Your plan should motivate and inspire you. You won't see this in any financial planner's handbook (in fact you may see the opposite), but if you aren't motivated and inspired, how long will you follow the plan? Success in *anything* consists in clearly identifying what you want, and then going after it with relentless confidence. When you are inspired to reach your goals and know what to do, there is *nothing* that can stop you. Whatever you desire shall be yours. Sounds inspiring doesn't it? It should be.

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