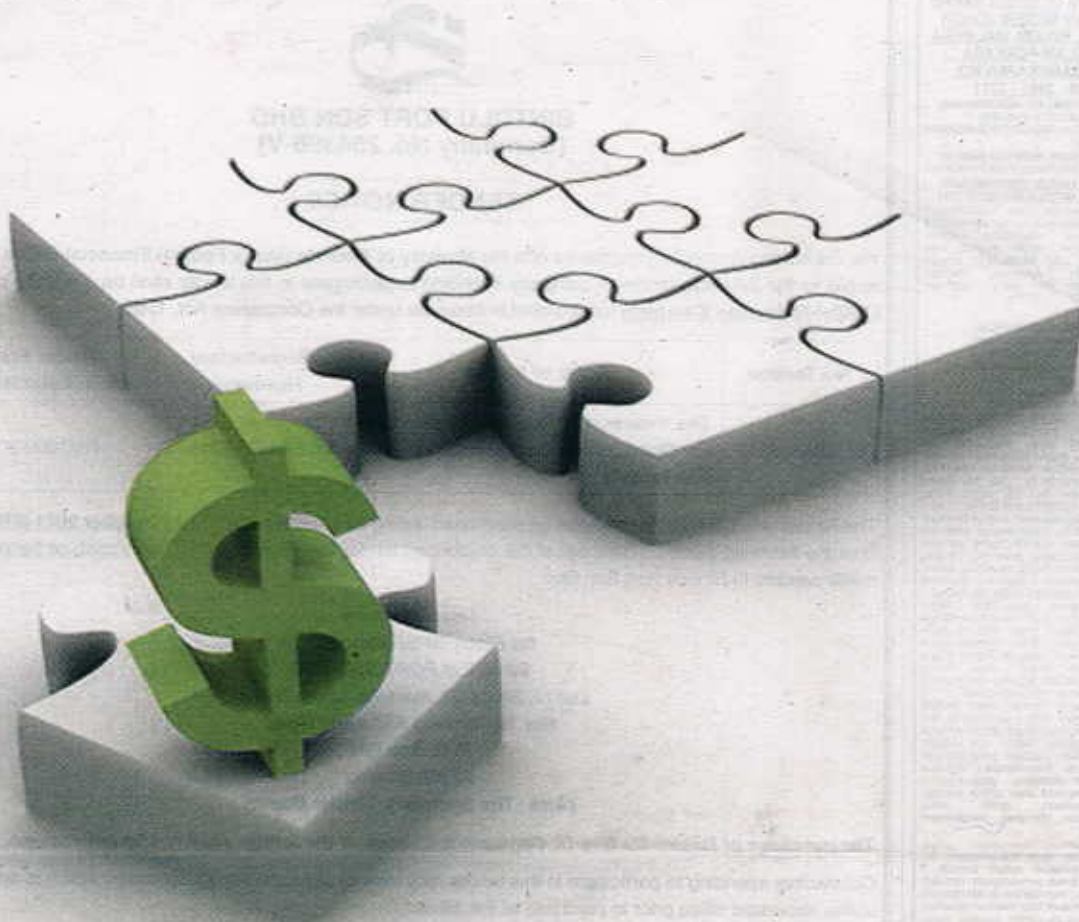


# SETTING YOUR FINANCIAL GOALS



**I**n a football game, the objective of the players is to get the ball into the opposing team's net. They make move after move, adopt one strategy after another, all to bring the ball forward and into the goal.

Now can you imagine playing football with no objective? All your favorite players will simply run around this huge green field with a ball, not going anywhere, not achieving anything, but worst of all - not scoring any GOALS! There is no football game without an objective.

Just like football players, you also need to have objectives or goals in life. Goals give you direction, as they guide you towards achieving the life that you want. Without goals you may wake up one day just to realising that the best of your years has gone by and you have yet to achieve anything!

Aside from being an essential aspect of daily life, it is important to note that money is a vital tool to help you work towards your goals in life.

## How to Set Your Goals

Your financial goals will help you determine where your money will come from and where it will go towards.

When setting your financial goals, pay attention to what you value and believe in life. Without knowing what is important to you personally, it will be difficult to set satisfying financial goals. When you understand what your values and beliefs are, you will find it easier to set financial goals you can achieve.

Write down your financial goals. Just having these goals in your thoughts are not enough. You are likely to forget the goals or you may even have unconsciously changed them in your mind. Writing down financial goals will increase your chances of achieving them.

When writing down your financial goals, be as specific as possible. What is the point of writing: "My goal is to have lots of money in the bank"? What do you mean by "lots of money"? Is it RM50,000 or RM500,000 or RM5,000,000? Be specific and write your goals in terms that can be measured. Break down your goals into short-term, medium-term and long-term.

## Examples:

- Short-term Goals (less than 1 year)
  - ▶ To save RM5,000 in six months.
  - ▶ To pay the deposit for a new car.

Medium-term Goal (1-3 years)
 

- ▶ To pay the deposit of RM 20,000 for my first house.

Long-Term Goal (more than 3 years)
 

- ▶ To save RM100,000 within five years for my retirement account.

## Saving for Emergencies

What would happen if you suddenly could not afford to pay for your education? Would you sacrifice your goal of attaining a degree or would you have a back-up emergency plan?

In life, there are many uncertainties you may face. From a minor breakdown of your vehicle to the death of the sole breadwinner in your family, unexpected events are well, unexpected.

Unexpected events, which may be disastrous and unfortunate in nature, can happen to you or members of your family. In most situations, money would be needed. It is extremely important that you are prepared with the right tools and knowledge for situations that require you to think on your feet and deal with problems you may not be used to otherwise. An emergency fund is one such tool you can use.

When you list your financial goals,

include saving for an emergency fund. As a general guideline, have an equivalent of at least 6 months' worth of your basic living expenses in your emergency fund. It is desirable to put aside about 12 months' worth.

**Example:** If you need about RM1,500 a month to pay for your living expenses, including fixed payments such as housing loan or rent and insurance premium, as well as electricity and water bills, you should have at least RM9,000 in your emergency fund (i.e. RM1,500 x 6 months). If possible, keep aside RM18,000 in the fund (RM1,500 x 12 months).

It may be hard at first when you start working to have that kind of money kept aside, but make sure you build it over time. Every little amount will help build your emergency fund. Remember to make a conscious effort to save.

## Assets and Liabilities

In financial planning, you need to assess where you are now in financial terms, i.e. what you own and what you owe, how much money you have and after making the various payments, how much money is left.

When doing this, two types of personal financial statements come in handy:

- ▶ Your personal balance sheet
- ▶ Your cash flow statement

These statements will help you to:

- ▶ provide information about your current financial position and a summary of your income and expenditure
- ▶ measure your progress in meeting your short-term, medium-term and long-term financial goals
- ▶ maintain information about



your financial activities, such as investments and spending patterns provide data you can use when preparing tax forms or applying for a bank loan.

Your personal balance sheet reports on what you own and what you owe:

- ▶ What you own (assets) – Include items such as cash, savings, real estate, unit trusts or shares in companies
- ▶ What you owe (liabilities) – Include all types of loans, whether to your bank, family or friends, as well as credit card debt and payments that are due, such as house rental and utility bills.

## Knowing Your Net Worth

Your net worth is your total assets minus your total liabilities. You will have a positive net worth if you own more than what you owe. When this happens, congratulations! This means that you are in a healthy financial position.

However, having a high net worth does not guarantee you will never face financial difficulties. You can have a high net worth and still be in for a rough time. So how is it possible for someone with a positive net worth to get into problems? Assets that are not liquid! When assets are not liquid (easily converted into cash) there can be potential problems looming ahead. Let us see how this is possible. Say you have a house as your asset (where you live in), but you do not have cash in your wallet or bank account, and you have already defaulted on your credit card payments. The most pressing thing now is, you need money for your daily expenses. Out of a job with no possible way of making RM1, you decide to sell your house to support your expenses. Here is the problem. You cannot sell your house immediately to get money because the house, being an illiquid, is not easily sold, and finding a buyer may take several months. It is also where you and maybe your family live. You really cannot sell your home unless you have somewhere else to go.

It is easy to conclude that being financially healthy means having a balanced portfolio of assets so you will not be short of cash at any time. That way, you can ensure that financial freedom will be in your grasp.

When you owe more than you own, you have a negative net worth. In this situation, you are unable to pay your debts when they are due because you do not have enough money or assets that can be easily converted into cash. You are actually in financial trouble and may be made a bankrupt.

– Credit Counselling and Debt Management Agency.