STRATEGIC FINANCIAL MANAGEMENT

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STRATEGIC FINANCIAL PLANNING

DEFINITION

- A strategic financial plan is defined as an in-depth evaluation of an individual or family's financial circumstances, based on where they are currently and the financial objectives they want to meet in the future.

PURPOSE OF THE PLAN

- Financial planning is important to maintaining a stable financial household. Good financial planning and achieving financial stability will also help to prevent financial crisis.
- You can prevent financial crisis by being organized and prepared with your finances. The best way to achieve financial stability is to create a budget and develop a spending plan to get rid of debt and save money.
- Financial stability is achieved when you are able to meet day-to-day financial obligations, which include establishing a savings plan, reducing debt to a controllable level, and establishing an emergency fund equal .
- The keys to successful financial planning are good record keeping and the consistent implementation of your plans.

BENEFITS OF FINANCIAL PLANNING

- It provides direction and meaning to your financial decisions
- It allows you to understand how each financial decision you make affect other areas of your finances
- By viewing each financial decision as part of a whole you can consider its short and long-term effects on your life goals.
- You can also adapt more easily to life changes and feel more secure that your goals are on track.

BENEFITS OF A BUDGET

- A Budget gives you a clear picture of where you are financially, which is a way of for you to start moving yourself/your family to where you want to be.
- A Budget helps you to avoid expensive late fees, overdraft fees etc.
- A Budget allows you to spend some money, (even though it may be small initially) guilt free. If you earmark an amount each month for pleasure, you can spend it without worry spoiling the experience.

TYPES OF PLANS

- SHORT –TERM

  A Short-term financial plan is prepared for maximum one year. This plan looks at the current financial situation and seeks to adjust expenses within the income level. Identified goals are set to be achieved within a year.

- MID-TERM

  A Medium-term financial plan is prepared for a period of one to five years. This plan looks at replacement and maintenance of vehicle, furniture and equipment, etc.

- LONG-TERM

  A Long-term financial plan is prepared for a period of more than five years. It looks after the long-term financial objectives – education, increasing assets, increased savings/investment/net worth, retirement, etc

“A JOURNEY of a thousand miles begins with a single step” – Lao Tzu

THE FINANCIAL PLANNING PROCESS

1. Determining your current financial situation
2. Developing financial goals
3. Identifying alternative courses of action
4. Evaluating alternatives
5. Creating and implementing an action plan
6. Monitoring The Plan
7. Reevaluating and revising the plan.

THE FINANCIAL PLANNING PROCESS

1. Determining your current financial situation
    1. We need to examine income versus expenditure
    2. List all incomes received in a month.
    3. List all monthly expenses.
    4. Compare actual expenses with income to determine present spending.

PS. If you do not keep track of your spending you may have to keep a diary of expenses for a month or so to determine your actual expenditures.

INCOME

- Examples of Regular Income categories
  - Paycheck
  - Government assistance
  - Allowances – non-taxable e.g. Rent subsidy, travelling etc
  - Child support
  - Commissions
  - Bonuses
  - Interest earned

EXPENSES

- Rent/mortgage payments
- Car payment
- Insurance (car, home, etc)
- Home and car maintenance
- Credit card payments
- Property taxes
- Utilities (water, electric, phone, cable, internet)
- Day care/children's expenses
- Clothing, personal hygiene (hair cuts, toiletries, etc)
- Medical/dental expenses
- Entertainment (movies, restaurant eating)
- Vacations/birthdays/holidays
- Groceries including convenience food (meals, snacks, and beverages)
- Membership Fees e.g. gym, organizations etc.
- Loan repayments

INCOME VS. EXPENSES

1. Subtract total expenses from the total income
   1. If income is greater than expenses you only need to control spending and maximize the surplus possible using high interest investments.
   2. If expenses are greater than income a detailed analysis will be necessary to correct the situation to achieve a proper balance.

THE FINANCIAL PLANNING PROCESS

2. Developing financial goals
   - Creating an emergency fund.
   - If you have debts you need to examine the interest rates, late fees, payment period etc. to help determine how you will pay off your debts.
   - Increase your savings and investments
   - Develop a retirement income fund
   - Etc.

Setting Debt Reduction Goals

- Reducing the debt you carry is a critical step to financial stability.
- A good rule of thumb is not to carry debt that exceeds 20% of your take home pay.
- You can manage and reduce your debt by setting smart, specific goals that are attainable.

"The wicked borrows and does not pay back, but the righteous is gracious and gives." Psalm 37:21

WHAT IS DEBT?

- The dictionary defines debt as “money or property which one person is obligated to pay another.
- Debt includes money owed to credit-card companies, banks loans, mortgage, past due bills, money borrowed from relatives and friends.

“. . . Free from the dominion of vice; by the practice of industry and frugality, free from debt, which exposes a man to confinement, and slavery to his creditors.” Benjamin Franklin.

“Just as the rich rule the poor, so the borrower is servant to the lender.” Proverbs 22:7 (LB)

METHODS OF DEBT REDUCTION

- There are two main methods of debt reduction

1. The Snowball Method
   - Lowest Balance First
2. The Avalanche Method
   - Highest Interest First

THE SNOWBALL METHOD

i. First you list all your debts from the smallest to the largest balance regardless of the interest rate.
ii. Begin by paying the minimum amounts on all debts and send any extra money to the debt with the smallest balance
iii. Once your smallest balance is paid off, you take that payment, along with any extra money you have, and apply it to the debt with the next smallest balance.

THE SNOWBALL METHOD

iv. Then you continue this process until all of your debts are paid off.

The benefit you get from using this method comes from seeing one of your debts paid off sooner. This, in turn, can provide an emotional boost.

With the Snowball Method, you get a quick win that'll provide the motivation you need to continue the process of getting out of debt.

THE AVALANCHE METHOD

- With this method you list your debts from the highest interest rate to the lowest interest rate — regardless of the dollar amount of the debt.
- You begin by paying the minimum amounts on all debts, and send any extra money to the debt with the highest interest rate.

THE AVALANCHE METHOD

- Once your debt with the highest interest rate is paid off, you take that payment, along with any extra money you have, and apply it to the debt with the next highest interest rate.
- Then you continue this process until all of your debts are paid off.
- With this method you save the most amount of money in terms of interest paid, and it gets you completely debt-free sooner.

SETTING SAVINGS GOALS

- Saving money is another positive step on the road to financial security. Even if you have large amounts of debt to pay off, it is important just to get in the habit of saving.

“Every likkle mickkle mek a muckle”

“One one coco full basket”

- You may want to have a portion of your paycheck directly deposited into your savings account. That way, you will never miss the money or have access to it.
- Remember to set specific goals that are attainable. To attain financial security, first focus on short term goals, such as setting up an emergency fund, or saving a percentage of income per year.

THE PRIORITY
PYRAMID
OPTIMIZING RETURNS
Are there other strategies that you could employ to maximize your goals?
INVESTMENT PERFORMANCE
Are there investments matching the performance of their benchmark index over time?
TAXES
Are you taking advantage of tax saving vehicles?
SAVING
Are you regularly contributing to your savings?
DEBT
Have you eliminated credit card debt?
CASH FLOW
Are you earning more than your spending?

THE PRIORITY PYRAMID

- This pyramid illustrates what you should tackle first (at the bottom of the pyramid) before moving up to the next level.
- Making sure you're earning more than you're spending is priority number one, naturally. If you don't have a positive cash flow, you can't use your money to meet your financial goals. At the top of the pyramid the focus is on investment performance and optimizing your returns.
- It's a basic illustration, but still useful for creating a plan of attack to get your finances in order.

THE FINANCIAL PLANNING PROCESS

3. Identifying alternative courses of action
   – Developing alternatives is important in making good decisions.
   – Creativity in decision making is vital to effective choices.
   – Considering all the possible alternatives will help you make more effective and satisfying decisions

THE FINANCIAL PLANNING PROCESS

4. Evaluating alternatives
   - Consequences of choices
   - Opportunity cost
   - Evaluating risks

THE FINANCIAL PLANNING PROCESS

5. Creating and implementing an action plan
   – Developing an action plan requires you to choose ways to achieve your goals.
   – As you achieve your short-term goals, the goals next in the priority should become your focus.

THE FINANCIAL PLANNING PROCESS

6. Reevaluating and revising the plan.
   - Financial planning is a dynamic process which does not end when you take a particular action.
   - You will need to assess your financial decisions regularly.
   - Changes in your personal, social, and economic situations may require more frequent assessments.
   - When life events affect your financial needs this process will provide a vehicle for adapting to those changes.
   - Regular review will help to bring your financial goals in line with your current life situation.

PERCENTAGE GUIDELINE

CATEGORY	PERCENT OF INCOME
HOUSING	25 – 38%
FOOD	10 – 15 %
TRANSPORTATION	10 – 15%
INSURANCE	3 – 7%
DEBTS	0 – 10%
ENTERTAINMENT/RECREATION	4 – 7%
CLOTHING	4 – 6%
SAVINGS	5 – 10%
MEDICAL/DENTAL	4 – 8%
MISCELLANEOUS	4 – 8%
SCHOOL/CHILD CARE	5 – 10%
INVESTMENTS	0 -15%

TERTIARY EDUCATION GRANTS

- A $45 million fund for tertiary education grants is to be established for children of public sector workers, under the newly negotiated wage agreement for the 2015 to 2017 contract period.
- This provision is among a number of benefits that will accrue to Government employees under the new contract

Other Available Benefits

- Refund of Tuition
- Grants to children of public sector workers
- Skills Training

LOW INTERETS RATE LOANS

There are seven types of personal loans:

- Motor Vehicle Loan
- Motor Vehicle Insurance Loan
- Motor Vehicle Repair Loan
- Salary Advance Loan
- Tertiary Assistance Loan
- Facility to Purchase Computer Loan
- Miscellaneous Loan

Most of these loans have a 5% interest rate (Administrator General)

“You must take personal responsibility. You cannot change the circumstances, the seasons, or the wind, but you can change yourself. That is something you have charge of.” **Jim Rohn**

SAMPLE SPREADSHEETS

- These spreadsheet templates can be used with Microsoft Excel, OpenOffice Calc or Google docs.
- The templates are pre-formatted with formulas that have been entered, and all you need to do is download the template and open it.
- Just plug in a few numbers and the spreadsheet does the math for you.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- FOCUS ON THE POSITIVE
  - Although thinking positively won't pay your bills or stretch your budget it can help to calm your fears.
  - It can also help you recognize and appreciate your strengths in finding solutions to some of the problems
  - Get a piece of paper and list the positive aspects of your money management. Maybe you have been saving regularly and have an investment and a nice emergency fund saved up.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- RETOOL YOUR BUDGET
  - Review your budget and make sure you are not overspending in any category
  - Regular budget checks are necessary as life is never constant and expenses change.
  - Reduce expenditure. Going into debt is generally the greatest stress. Reduce some bills and shelve other desires until you are in the black.
  - Pay Off. Create a debt pay off plan and stick to it. Ensure you list all debts – students loan, car payment, credit card balances etc

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- BANISH FINANCIAL SHAME
  - Past financial mismanagement can lead to shame which unfortunately can lead to a cycle of anxiety and future mismanagement.
  - When you’re feeling embarrassed remember that taking the time to educate yourself and organize your finances. There is no shame in wanting to be better with money so don’t be afraid to ask for help.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- CONTRIBUTE TO AN EMERGENCY FUND
  - An Emergency fund is a nest egg of cash that remains untouched except for emergency purposes.
  - As you work on your emergency fund try to get up to at least six (6) months worth of living expenses.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- STOP COMPARING YOURSELF TO OTHERS
  - Many social media accounts are filled with friends' cars, trips and other indicators of wealth. It doesn't matter what their wealth is if you compare yourself to them
- it will definitely cause you stress.
- Constantly comparing yourself to others financially is not a healthy way to live.
  - Look at some truths – you don't know what in their bank account; you don't know what their debts are; you don't know what sacrifice or hard work went into getting that picture.
  - The only person you can change is yourself so instead of gauging your success by that of others create a measuring stick by which you can feel more in control of your money such as an accurate monthly budget and a healthy savings account.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- CONSIDER THE WORST
  - IT MIGHT seem counter-intuitive that one of the best coping techniques for financial anxiety is to consider the worst. Whatever the worst is to you take a few minutes to actually ponder what would happen if it did come to fruition.
  - After you realize and acknowledge your fears put a contingency plan in place so that you can diminish the power of that fear.
  - The truth is that bad things can happen, but if you know how you would react then you can remain in control in most situations.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- EDUCATE YOURSELF
  - If the fear of the unknown causes you to stress over your finances then turn those unknowns into knowns. For example if you fear retirement you can calm those fears by education yourself. You can research savings options in addition to your employer's pension plan. You can explore continuing education to acquire or enhance skills necessary for future employment.
  - By education yourself about finances you will be better able to control your money and reduce the stress of it.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- TALK WITH YOUR PARTNER
  - If you’re managing money with someone else ensure that you discuss it with them rather than shoulder the burden yourself.
  - A clear division of the financial responsibility will help to reduce the anxiety.
  - You can both be at peace with your financial situation if you sit together and come up with a spending and saving plan you both agree with.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- RETAIN SOME CONCERN
  - Constantly worrying about money is certainly detrimental to your wellbeing. However, having some concern over your finances might actually prevent you from making poor decisions in your savings and spending plans. Examples – being extra cautious with your budget may prevent you from overspending. Or being concerned about your future might inspire you to save more.
  - Fear can be helpful when it comes to investments. If your gut is telling you an opportunity is not all it seems, explore it thoroughly before investing your hard earned money.
  - Being anxious about the future is a passive way to deal with finances. You can respect money – treat it with proper care and plan for the future as you control your cash.

HOW TO MANAGE YOUR FINANCIAL ANXIETY AND STRESS

- CONCLUSION
  - Worrying about the money or lack of it will not change your situation. You can learn to calm your fears and feel confident in your financial choices by educating yourself and taking the necessary actions. As you find proactive ways to balance your finances your fears and anxieties will dissipate.

CONCLUSION

- By failing to prepare, you are preparing to fail" – Benjamin Franklin
- The Future belongs to those who prepare for it today" – Malcolm X
- We make a living by what we get, but we make a life by What We Give" – Winston Churchill.

CONCLUSION

- “It is not what happens that determines the major part of your future. What happens, happens to us all. It’s what you do about what happens that counts.” - Jim Rohn
- “Let your character(way of Life) be free from the love of money, being content with what you have; for He Himself has said, ‘I will never leave you,, nor forsake you” Hebrews 13:5

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