



FINANCIAL PLANNING

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Financial planning is the process of planning your **spending, financing, and investing activities** while considering uncontrollable events, in order to optimize your financial situation over time

A personal financial plan specifies your **financial goals** and describes the spending, financing, and investing activities that are intended to achieve those goals and the risk management strategies that are required to protect against **uncontrollable events** like death or disability

Basically, a financial plan provides **steps towards achieving a given goal while also protecting your best interests**

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Many people do not manage their finances well

More and more often people are relying **too heavily on credit** and end up with **excessive debt**

Carrying too much debt can **prevent** you from achieving your financial goals



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Some things to consider...

In 1982, for each dollar earned, Canadians saved **17 cents**

In 2008, Canadians saved **4.7 cents** per dollar

On the other hand, the average Canadian **owes \$1.79** for each dollar earned



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Per capita debt represents the amount of debt of each individual would have if the total debt was spread equally over the population

Currently, the per capita debt in Canada is **approximately \$63,625**

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The National



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Understanding personal finance can help you make **informed decisions** about your finances

It is important to consider the **opportunity cost** for each of your spending decisions



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Simply put, opportunity cost is **what you give up as a result of a decision**

Each **spending decision** that you make has a related **opportunity cost**

For example, if you spend **\$100 per month on coffee** this means that you have lost the opportunity to put \$100 per month towards your financial goals

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Financial goals are usually broken into three main categories – **short, medium- and long-term goals**

As a general rule, a short-term goal, like an **emergency fund**, will earn less interest than a long-term goal, like **a retirement investment**

Both are important goals; however, it is important to **balance the opportunity cost** between short, medium- and long-term goals

Investing too heavily in one goal or another can **limit the opportunity for growth** in other areas

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A complete financial plan includes six key components

Budgeting and tax planning

Managing liquidity

Financing large purchases

Insurance

Investing

Retirement planning



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