

10 Golden Rules of Financial Planning

“A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life,”

-Susan Orman, Financial Advisor

Planning is significant as it provides certainty and improves the quality of the decision-making process. It involves setting goals. It is the first and foremost step to achieve desired goals. While you need a plan for finances, accordingly they can satisfy your needs and help you to achieve desired goals.

Financial Planning is a process of evaluating income and expenses to gain long-run survival of financial stability. It helps you to determine where to spend, when to spend, and what to spend. Financial planning is how to do and what to do. It is one of the basic step to achieve desired goals. It is closely connected with innovations and practical views.

Here are 10 golden rules one should consider while financial planning.

- Manage your money

Deciding to save is a first step/goal in financial management. Saving money can help you to stay out of the debt trap. You will become wealthy by systematically saving on a daily basis. You should be able to meet the financial objectives on schedule. It's cheaper to put the money in a bank account than to waste it all. This, however, is not the best way to invest your money. Alternatives such as mutual funds, on the other hand, can provide higher annual yields. As a result, you will predict positive results if you recognize your family's needs and put your resources to work effectively to meet them.

- Comprehend the current financial situation

Determine your present financial situation, including your income, spending, loans, deposits, and investments. This is the first move in financial preparation and it gives you a clear idea of how your finances

are doing and what you can do to boost them. It makes the objectives more attainable and realistic.

- Set financial goal

Setting short-term, midterm, and long-term financial targets is a crucial step toward financial stability. You're more likely to invest more than you need if you're not striving for a definite goal. When you need funds for unforeseen payments, not to mention when you want to retire, you'll be short of resources. However, make your goals specific.

- Explore alternative Investment options

Various investing options assist investors in achieving various objectives. The goal of investment is to fetch higher returns. Saving bank account does not fetch high returns. Instead, you must consider investing in a liquid fund/mutual fund. Mutual fund's assets are invested in fixed-income securities such as FDs, commercial paper, and certificates of deposit. Many financial analysts have emphasized the value of mutual funds when it comes to investments. Consistently investing in these funds over time will help you accomplish your hopes and aspirations. You must choose the best investment opportunity based on your objectives, age, risk tolerance, and investment size.

- Manage your debt wisely

Debt management issues could eat up a significant portion of your income. It's possible that you'll have to take out new loans to pay off existing ones. If it spirals out of sight, you can find yourself trapped in a debt trap. Your most important life aspirations may be put on hold, and your retirement may be postponed. Avoiding these problems can be as simple as strategizing your debt repayment. You can use a credit card in case of emergencies. Start paying off the expensive one. Personal loans, which are tax-inefficient, should be avoided as much as possible.

- Prefiguring Retirement

Systematic saving for retirement can liberate you from tenseness about

the future. Planning early for retirement is a way out of foreseen issues like health. You can retire early and lead a hassle-free life. To enjoy your retirement life to the fullest, you'll need a sufficient sum of income. This is only if you have a tax arrangement in place that guarantees you a steady income when you retire.

- Calculating Risk

A good financial plan is effective when it opens the door to calculated risks. Risk refers to ambiguity regarding the effects of actions on something that humans esteem with an emphasis on unfavorable, adverse outcomes. The dangers here aren't as severe as those associated with gambling, such as total failure or income. You cannot play for the future, and that is not the point of financial planning. Equity shares are notorious for their uncertainty, but they also have the best return on investment over time. You should allocate a portion of your savings to equity and secure long-term growth with the help of expert financial advisors and planners.

- Allocating income

The basic rule is to allocate your income wisely. As soon as you receive your paycheck, begin categorizing it under various headings. Expenses, EMI, deposits, and savings are examples of these headings. Saving is a greater financial tool to achieve financial independence. Savings can liberate you from unforeseen debts.

To find a way out of struggling with paycheck to paycheck. You should make a need hierarchy and choose which ones to solve first. Start by categorizing your expenses into necessities and luxury. The sooner you implement, the better you can control your avoidable expenditure. It will stop inessential spendings and overlapping of wasteful activities.

- Setting Contingency Reserve

The future is unpredictable, and something can happen at any moment. A sudden work loss or a medical emergency will completely destabilize your finances. To cope with these problems, you should have an emergency fund. Financial analysts recommend investors to set up a

contingency fund equivalent to six months' income. This should be put into a liquid fund so that you can get the funds fast in an emergency.

- Lowering tax pay

You will find the right ways to spend your money and reduce your taxable income by preparing your taxes ahead of time. Mutual funds are a tax-advantaged way to save toward your long-term interests. Financial planning acts like an instrument to achieve financial independence. Tax preparation entails analyzing the accounts from a tax efficiency standpoint in order to manage them in the most efficient way possible.

Conclusion

Financial Planning creates a roadmap to achieve desired goals. Spending more will lead you to nothing but instability in both short-term and long-run survival. The only living nightmare occurs in people's life who fail in managing finances, savings, or investing sensibly. Financial instability is not a temporary money shortage. This translates as no investments, no savings, and no sources to acquire money. It makes it uneasy to survive in long run. Having a personal financial strategy will help you maintain consistency to stay on track and achieve your objectives. You'll be in a great position to understand the finances with a financial plan and you'll be able to set measurable financial targets and see the consequences of your decisions.