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## The Importance of Establishing Your Goals

Financial planning is an on-going process of determining your goals, analyzing your current financial situation, creating a plan to meet your goals and then monitoring your progress. The first step in the financial planning process can sometimes be the most challenging but it can also be the most rewarding. Setting your goals takes time and requires you to think about what you want to do with your life. This is where you get to dream and be creative.

In order to determine your goals, the first thing I would recommend is that you write them down because writing them down makes them real and helps you focus on the big picture. Most people have both short-term goals and long-term goals. Typical long-term goals can be retirement, buying a second home, college tuition for the kids, changing careers and taking six months off for travel. Typical short term goals are things such as buying a new car, going on a special vacation, paying off credit card debt and building an emergency cash reserve. Of course, everyone is different so you will have your own unique goals. While you are thinking about your goals, don't dismiss something important to you just because you think it would be impossible to achieve. If it is really important you will figure out a way to make it happen. Make your goals as specific as possible. For example, rather than having a goal of purchasing a new car someday, your goal could be to buy a new car in five years at a cost of \$15,000 in today's dollars and pay cash for the car.

Now that you have some idea of the specifics of each of your goals, it is time to prioritize them. Of all your goals, if you could only choose one, which one is the most important? Which one is the second most important? Continue to rank each of your goals in order of priority. Then, if you are married or share finances with another person, now is the time to compare your goals and hopefully merge each of your goals into one common list of goals that both of you agree on.

The next step of the financial planning process is to analyze where you are now and what it is going to take to reach your goals. You will want to figure out how much money you will need in future dollars for each of your goals. Essentially this means figuring out how much you need today and then factoring in an inflation rate and an investment rate of return. Once you have this figure, you will need to determine how much you need to save each month or each year to meet the goal. Going back to the new automobile goal, you want \$15,000 in today's dollars to buy a car in five years. Using an assumed inflation rate of 3%, the

car is going to cost you around \$17,400 in five years. At a 2% rate of return on your investment, you need to save \$276 a month in order to meet your goal.

Now that you know what it is going to take to reach your goal, your next decision is to think about how important the goal is to you. If it is really important, you are going to figure out a way to save \$276 a month. If you are unwilling to put aside the \$276 a month, maybe you are willing to save \$175 a month, which would mean you could purchase the auto in about seven and a half years. Or, maybe you would rather buy a less expensive car in five years. If you save \$175 per month for five years, you could then purchase a car worth around \$11,000. You will want to go through this exercise for each of your goals.

In addition to thinking about and planning to reach your dreams, you will also want to make sure you have sufficient protection against unexpected catastrophes – this means having sufficient cash on hand for emergencies and having adequate insurance – because the last thing you probably want is to have your plans destroyed by something unexpected.

Reaching your goals is all about understanding what is important to you, developing a plan to achieve them and then not losing focus on the big picture. Every so often you will want to repeat this goal analysis and financial planning process to ensure that you are on track to meet your goals.