

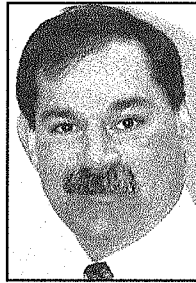
FINANCIAL PLANNING

Finding the 'balance sheet' of your financial life

By Andy Hudick

Have you ever prepared a financial statement for yourself? When was the last time you did so? This "statement of financial position" is often referred to as a balance sheet. A balance sheet is a one-page listing that shows your assets on one side and your liabilities on the other side. The difference between the two is your net worth.

When prepared correctly, your statement of financial position (or balance sheet) is a valuable planning tool. This "snapshot" in time of your finances is the perfect beginning point in preparing your personal



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need to consider each financial decision as an integrated part of your entire financial

financial review and allows you to view your finances in a holistic manner.

Many financial mistakes are made by individuals who do not look at the big picture. Many people view their investments, their mortgage and their retirement plan as separate entities. In order to become more successful in your financial dealings, you

situation.

Some people have accumulated a nice savings account and have followed a good savings policy of placing these monies in an interest-bearing money market fund that pays around four percent.

This is a positive number on the asset side of the balance sheet. However, this same family will carry a credit card balance and pay interest rates of 18-21 percent on this debt shown on the liability side of the balance sheet. Why finance consumer purchases? When viewed as a "snapshot" in time of your entire financial picture, the

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logical decision to use some of your savings to reduce the debt is an easy one.

Other people nearing retirement age or who have recently retired will shop local banking institutions for the best rates on certificates of deposit to help supplement their pension during retirement. Today, the rate paid on fixed-income investments is below 5 percent.

These same retirees will have home mortgages and be paying interest on a loan that is above 6 percent. While they may think they are “getting a tax deduction” for the interest paid, they are losing money on the arbitrage. Borrowing at a higher rate than you are earning is not a path to financial success.

Your balance sheet can also show the details of your investment program. Your IRA, your company-sponsored retirement plan, your college education fund, and your non-deferred investments are interrelated parts of your investment picture. Viewing them as one investment

account is often a good idea.

Having this money shown on your balance sheet allows you to make a more informed decision about the correct allocation of the monies. In order to have a balanced investment program you cannot make decisions for each account independent of the others. In many cases, one or more of the investment programs will offer you an opportunity to purchase either debt or equity investments at a discount or with low costs of ownership. These options should be incorporated into your financial review.

Constructing a financial statement is a good way to start viewing your financial plan in a more integrated fashion. By coordinating your decisions you can maximize your tax and investment returns while minimizing your carrying costs. If you are you having a problem deciding upon the financial item to place on your 2008 goals list, creating a balance sheet seems to be a fitting resolution.

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