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Turn Goals into Numbers

Quantifying financial goals is a prerequisite for achieving them

A major financial firm runs a TV ad campaign based on the theme of “Find Your Number.” This number is the magical sum you need to have stashed away at the beginning of your retirement to fund your remaining years.

While the campaign is far too simplistic to provide a basis for any real financial decisions, it does convey two important ideas – 1) that retirement costs more than most people realize, and 2) that without an understanding of one’s long-term financial needs – in numbers – it’s impossible to put together a financial plan and investment strategy to meet them.

If you visit the company’s web site you can find your own number by providing just two pieces of data – the annual income needed in retirement and the number of years you expect to live after your last day of work. Hit Submit and the calculator spits out a total in big orange digits and declares: “Congratulations, you’re done!”

Of course you’ve not even really begun at that point. Still, the idea of quantifying financial goals is critical. Many investors’ goals, if they are expressed at all, are so vague as to be almost meaningless. For instance:

- Provide for my family
- Leave money for the next generation
- Help kids pay for college, weddings and first mortgage down payments
- Invest safely – do not lose lots of money in stocks

Without attaching numbers to these goals, it would be impossible to take specific steps toward meeting them. Ignorance can be bliss, but only for so long. Ultimately turning vague goals into numbers makes the aspirations real, and the path to attaining them discernable. Your wealth manager can help by asking questions that put parameters around goals.

Why numbers?

Consider a trip to visit a friend. Should you go by car, train, plane, or on foot? If you drive, should you take the more comfortable gas guzzler, or the cramped hybrid? Any basic decisions about how to get there hinge on one fundamental data point: How far are you going?

Until you quantify the ultimate goal, it is very difficult to make any decisions that support it. On the road, this means understanding distance, time constraints and budget. In investing, it means understanding the future cash flows needed to pay for retirement, fund college, or make a long-term philanthropic commitment. How much money will you need, and when will you need it?

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Once you know the length of your road trip you can choose your mode of transportation, route and speed. Likewise, once a financial goal has been quantified, you can determine the kind of income, investment portfolio, and spending habits needed to attain it.

Getting specific

If your goal is “to leave money for the next generation,” what kind of portfolio is appropriate? How much will you need to put away each year? How much risk will you need to accept to achieve this goal? What kind of asset allocation makes sense? There’s really no way to even start on an investment plan until the goal can be expressed more precisely. Do you intend to leave a few thousand dollars to each child, or hundreds of thousands?

Of course there will be nothing left for the next generation or for philanthropy if not enough has been saved for retirement. This is a weak spot in the Find Your Number concept – it treats retirement as separate from other financial goals. In truth, financial planning should be done on a holistic basis, incorporating goals throughout one’s life. When you can envision the general level of cash flows you will need throughout all phases of your lifetime, you can start making investment decisions that will get you there.

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