



A Quick Refresher May Help to Clear Any Confusion

# Financial Planning: the Basics

by Alexandra Armstrong, CFP

**I've written this column called "Financial Planner" for many years. Usually I write about different financial planning topics but it's been quite some time since I've discussed what a financial planner is, why you might want to use a financial planner and how to select one. I thought it was time for a refresher! This article focuses on the financial planning process. Next month I'll review how to find a financial planner.**

**W**hen I started in the investment business more than 35 years ago, I started as a stockbroker working for a regional New York Stock Exchange firm. At that time, the term financial planner didn't exist. There was no regulation, no certification, no ethics standards. Today we have all of these, but I find that often people are still confused about what's involved in the financial planning process.

## Who Is a Financial Planner?

I often see the term "financial planner" confused with the term "financial adviser" or "investment manager." The primary function of a financial adviser/investment manager is to manage your investments. Instead, financial planners take a more comprehensive look at your situation, looking at your total financial picture.

They help you define your financial goals, prioritize them and then work out a written plan to help achieve your goals on an ongoing basis. After they've prepared a written financial plan, they may also help you manage your investments.

## Why Would You Hire a Financial Planner?

Often the motivation for seeking the services of a financial planner is a life event. The most common one is preparing for retirement. You might want to retire at a certain age, but don't know whether you can afford to do so. Other motivating events include: the death of a spouse, an inheritance, a job change, the birth of a child, a marriage or a divorce.

## What's Involved in the Financial Planning Process?

Working with a financial planner requires time and effort on your part as well as that of the planner's. First you complete a financial questionnaire that includes listing your assets and liabilities, your income and expenses, your insurance coverage and your tax and legal documents.

The next step is for you — and your partner if you have one — to sit down with the planner and define and prioritize your short- and long-term financial goals. Sometimes a couple may find out they have different pri-

orities that come out in that meeting. The planner tries to determine your risk tolerance, which also may differ between two people.

After this initial meeting, the planner prepares a written financial plan that would include a balance sheet, a taxable income and cash-flow statement, typically for this year and the next two. Also included would be a review of your current investments, estate-planning documents and insurance coverage.

If you plan to pay for college education for children/grandchildren, cost estimates would be included. If you're not yet retired, there will be retirement projections. Finally, there will be recommendations for actions you should take to achieve your stated financial goals.

Once the plan is put together, the planner would meet with you to review it, answer your questions and make sure the plan meets your needs. Next, the planner would help you implement the plan recommendations. For instance, perhaps a referral to an estate-planning lawyer and/or accountant.

What's important to understand is the financial plan is a living document. After the initial financial plan is created, it should be reviewed regularly to make sure it's adjusted for changes in the economy, tax laws and your own situation.

## What Does a Financial Plan Cost?

It depends on how complex your situation is. You might have a very complicated situation or one that's relatively simple. Most planners will give you an initial free consultation and based on that initial meeting can estimate what the plan will cost prior to starting the client engagement. If your situation is basic, periodic hourly consultations may be more appropriate.

## Why Can't I Do This Myself?

You can do some of it yourself. There are computer programs that can be helpful to you, particularly for retirement and college planning. Certainly doing this is better than not doing anything. But a computerized plan can only take you so far. For instance, the program might tell you that you can't retire at 55, as you wanted to do. This is where the planner can help you make changes to your lifestyle and investments that will enable you to achieve your goals — if not at age 55 — perhaps at age 60!

In addition, the planner can provide you with objective advice based on experience working with other clients over the years.

For example, spouses may disagree about financial matters. One may think leaving money to their children

is more important than traveling, while the other may disagree.

In these instances, the planner can try to help the couple find a compromise — something a machine can't do.

### Conclusion

Since I'm a financial planner and have seen successful long-term results, I think everyone can benefit from receiving financial planning advice at all stages of their adult life. When you're young, you could start meeting with a planner annually.

Typically, you would discuss how to budget, what insurance coverage you needed and how to invest your retirement assets.

As you get older, you need advice about what size house you can afford, the type of mortgage you should take out and how to plan for the education of your children.

Once you've accumulated some assets, you can start focusing on retirement planning.

“The planner prepares a written financial plan that would include a balance sheet and taxable income.”

After you retire you might focus more on your estate planning.

Financial planning is a lifelong process. The independent advice a financial planner can provide you should help you achieve your financial goals.

Your planner should guide you through market turbulence as well as tax law changes. Having a professional financial planner partner as you move through life should make it easier to do so successfully. ■

*Alexandra Armstrong is a certified financial planner practitioner and chairman of Armstrong, Fleming &*

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*Consult your personal financial adviser before making any decisions.*

*Ms. Armstrong can't answer individual inquiries, but welcomes suggestions for future article topics.*

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