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Insights
Book Summary

The One-Page Financial Plan: A Simple Way to Be Smart About Your Money

Author: Carl Richards

It is said that a goal without a plan is simply a dream, one that you might or might not achieve. In life, it is important to have a plan – something that guides you through the peaks and troughs of life and inculcates discipline. A great financial plan not only tells you how to save and invest but digs deeper into "why you need to save and invest". Carl Richard's "The One-Page Financial Plan" does just that. It will help you identify what you truly want and then guide you to make a financial plan to achieve the same.

Key Takeaways

- Look broader and expand your perspective – do not just think about your immediate income and expenses. In order to have a robust long-term plan, it is important to have a larger vision
- In order to achieve your goals, it is important to have a plan that aligns with your values
- Understand why money is important to you – knowing the "why" is integral to creating an optimal financial plan
- Don't deceive yourself with unrealistic predictions – honestly assess your current situation and be true to yourself when you are not able to adhere to your financial plan
- Identify your short-term and long-term goals and list them in order of priority – some goals are more important than others – your financial plan should reflect this
- Identify the mini goals – things you need to achieve in order to meet the big goals
- Evaluate your financial position by creating your own balance sheet – divide your finances into liabilities (things that you owe) and assets (things that you own)
- Budgeting is an important exercise – track what you spend and try to cut down on unnecessary or discretionary expenses
- Instead of saving only a certain percentage of your income, try saving as much as you can
- Pay off your debts – there is no point in paying interest
- Adopt a scientific approach to investing – do your research and be informed about your investment
- Diversify – it is important to create a diversified portfolio that is spread across stocks
- Be Flexible – understand that nothing is etched in stone. Make sure your financial plan is agile enough to adapt to changing personal circumstances and diverse investment environments

Discover Why Money is Important for you

It is often said that money cannot buy you happiness. This indeed might be true. However, money is essential for survival. It also plays an integral role in helping you reach your goals and aspirations. Thus, even before you can embark on your financial journey or chalk out a financial plan, you must ask yourself the question, *"Why is money really important for me?"* Write your answer down on a piece of paper. Asking why money is important to you helps you identify your key values which in turn will determine your idiosyncratic needs and subsequently form the very basis of your financial plan. Every financial plan is unique and should ideally reflect an individual's unique goals and requirements. Many planners make the folly of immediately starting with goals and then just jumping to budgeting and investments. However, one can find a good solution only when one goes to the root cause of the problem. In this case, one can draw up an optimal financial plan only when one understands the basic and important values of an individual. For example: think about the last time you visited your doctor. Before prescribing you medication he discussed your current situation, the symptoms that were ailing you and your unique medical needs. It is only after this discussion did he prescribe a treatment. The bottom line is that a doctor does not give every patient the same medication and instead prescribes a custom treatment for each patient.

The fundamental principle behind a good financial plan is the same. Knowing why you value money will aid in the examination of your financial situation. Only then can you develop a "treatment" that will work for you. There might be a person who wants to save money to travel the world. On the other hand, there might be a person who wants to create a good retirement corpus. Due to the difference in values and key goals, the financial plan of these two individuals would look markedly different. Knowing your values and the attached goals will also help you assess whether the way you spend your time reflects your values.

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Imagine that you value money because it gives you the financial freedom to spend more time with your family. Now imagine that you run an independent business and spend all weekend on Twitter trying to increase your followers to grow your personal brand. You spend so much time on Twitter that you interrupt dinnertime conversations with your family to reply to tweets and check your followers. Are you really living according to your values?

Once you have identified your values, the next step is for you to formulate goals to guide your financial future.

Clearly identify and write down each of your goals

Before you set out to writing down your goals, understand that life can be unpredictable and only those who are agile enough to adapt can survive. Rewind twenty years when phone bills were one of our biggest monthly expenses. At that time, no one could have predicted the advent of free apps like Skype or WhatsApp or even the drastic drop in call prices which would cause your phone bills to plummet. The bottom line is that the future is unpredictable. Thus the financial plan that you create and the goals that you chalk out should be flexible and agile enough to cope with this unpredictability.

The first step in developing your goals is accepting that it's not always possible to predict the future. Financial planning is like planning your vacation. You set some goals, decided the place you want to visit and then chalk out an itinerary that would make your vacation an enjoyable one. However, you also make room for unpredictability. For example, if the weather is stormy you might not be able to enjoy a bike ride or a picnic you planned. Instead, you can go to a museum and still have a great time.

It is the same with financial planning. Your goals aren't set in stone, so be willing to alter them if circumstance change. Let us assume that one of your short-term goals is to pay off your student loan in the next three years. However, suddenly there is a financial crisis because of which you lose your job and no longer have a steady flow of income. In such a scenario it would be impossible to stick to your original goal. So the next best thing that you could do is to alter your original goal and instead readjust and settle on paying off only a portion of your student loan. This way you are still able to keep your commitment, just not in the shape that you had initially envisaged.

Once you have accepted that the future is unpredictable, it is time for you to start writing down some goals. But what should your goals be? Again the answer to this is tethered to the original question, *"Why is money important to you?"*

Assume that your answer to the above question was, *"Money is important to me because it will help me give my kids the best opportunities and keep them safe."*
Then some of your goals could be along the following lines:

- My son is going to college in three years and I need to save enough money to finance the same
- My daughter is planning to go on a foreign exchange trip next year for which I need to save money
- I want to set up some emergency funds in case my kids don't find a job right out of college

No matter what your goals are, remember: you can always adapt them as your situation changes.

You don't need to be an accountant to make a simple balance sheet: Assess your current financial situation by making a simple balance sheet

Your values and goals are the bedrock of your financial plan and will guide you in all financial situations. However, once you have determined these you need to assess your current financial situation in order to determine what actions need to be taken and how they need to be taken.