2021-2022 Financial Plan

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# 

# **Foreword**

This document is a culmination of many different aspects of financial literacy and planning and serves to provide a flexible and adaptive financial outline. Please note that due to its scope and broad time horizon, many numbers and assessments are merely assumptions and are always subject to change. It is the goal that this document will serve as a kind of “living document”; one that can mold and grow with the author’s changing goals and situations. By no means is this document to serve as strict doctrine, but rather an adaptive guide to one’s personal financial success.

# **Financial Goals and Objectives:**

## **Short Term (0-2 years):**

My goals in the short term are as follows:

* Do not take on any debt
* Proceed to build up my credit score – aiming for ~760
* Finish college above a 3.5 GPA
* Maintain a budget surplus
* Take excess budget surplus and invest it to continue my wealth creation process

Current Situation:

* Currently I have no debt, and nothing on the horizon that would change my current situation
* I just attained my first credit card and am putting a balance on it, always spending within my means, building history by continually using it, and making sure to always keep a proper credit utilization ratio
* So far, I am doing excellent in all my classes with a current GPA of 3.9
* I currently have a job and am maintaining a budget surplus whereby my income is greater than my expenses. Too, I am taking that surplus and continually investing it.

Attainment process:

* Maintain good grades to keep my school scholarship, live with my parents for as long as I can, and hold off on buying a car until I am in a healthy work/financial position
* Start using my credit card to purchase more items, making sure to maintain a less than 30% credit utilization ratio, and making payments bi-monthly; making sure to always leave a remaining balance of $25.
* I will keep studying and working hard, paying attention to lectures, and completing my homework on time
* I will keep working my job and earning money
* I will research more into investing, and invest extra budget surplus I have, always leaving a comfortable minimum amount (in this case, any money greater than $2000 in my savings account)

## **Intermediate Term (2-10 years):**

My goals in the intermediate term are as follows:

* I want to graduate school in the top 50% of my class and get a good paying job (~$60000) to establish a steady income
* Continually maintain a budget surplus
* Continue building credit – aiming for > 780 credit score
* Continue to invest in wealth creation, and form a real financial asset base in planning for retirement
* Start preparing for the inclusion of a family
* Save for a down payment ($15,000) and purchase a home
* Start retirement savings plans (IRA, 401k, etc.)
* Purchase my own car

Current Situation:

* So far, I am doing excellent in all my classes, however I haven’t really looked at any specific jobs or companies I would want to work for.
* I have a job which means I am making more than I currently spend
* I am in the process of building credit by putting balances on my credit card and maintaining good habits which would build my credit
* With the extra budget surplus from my job, I am utilizing that to invest and earn a rate of return greater than the loss of purchasing power due to inflation
* I have no family, nor the income required to do so
* With my current investment base, I have already reached my goal of $15000, however I think it would be best to earn a rate of return that could partly go towards a down payment on a house rather than jeopardize my long-term wealth creation. I also do not own my own house.
* I currently have not opened any retirement savings plans
* I currently do not own my own car

Attainment process:

* Achieve excellence in my classes and maintain a good GPA above a 3.5, and start looking for jobs and/or applying for internships that might lead to jobs that offer a good salary ($60,000 and up) along with benefits (ex. healthcare, 401k, dental, etc.)
* Keep putting balances on my credit cards, making sure to keep paying them off bi-monthly in a consistent manner, and maintaining a proper credit utilization ratio of less than 30%
* Keep taking excess budget surplus and investing it for an appropriate rate of return
* Start earmarking excess budget surplus to go towards different accounts dedicated to college tuition plans, childcare, and general child expenses (ex. Extra groceries, goods, etc.)
* Start earmarking a portion of excess budget surplus and saving it for a down payment. For this, it may take taking a second look at my expenses and running numbers to see which expenses I can cut to save more.
* Open traditional and ROTH IRAs and start maxing them out every year. Too, making sure to contribute the largest amount to my 401k.
* Once I get a steady income I will shop around the best deals for a reliable and affordable used car

## **Long Term (10+ years):**

My goals in the long term are as follows:

* Start pivoting from wage-based income to investment income
* Retire and live off my savings and investments
  + I am setting the goal of achieving the goal of making 1 million dollars by the time I am 60. This number reflects the amount I am comfortable with retiring off on after accounting for expenses – in addition to my investments – for the next 22 years until I am 82 – the mean lifespan of the average adult male.
* Pay off my house
* I want to maintain a healthy amount of debt – one that is appropriate to my income and not in any way financial stressful or taxing on what I want to do nor in my life or my potential future family’s life.
* I want to be able to provide for my future family in every way possible, without h having any issues with being able to afford certain things. In short, I want to be able to have enough financial resources for my family, whether it be my future kid’s college, family’s medical care, etc.
* Continually build towards and/or maintain a FICO credit score above an 800
* Have enough resources to be able to spend on simple luxury goods/services (ex. Dinners out, vacations, etc.)

Current Situation:

* I am in the early stages of my life where I am primarily in the process of selling my labor for wages
* I am starting to grow the building blocks of my investment portfolio to attain my goal of 1 million dollars by the time I retire at 60
* I do not currently own a house
* I do not currently have any debt
* I do not currently have a family of my own
* I am working towards just starting to build credit via a credit card
* Through my investments, I am creating the building blocks to grow my asset base to be able in the future to afford all the luxury items I would want

Attainment process:

* Continue to invest and earn a rate of return that would meet my retirement goals and allow me the financial floor to pivot away from wage-based income
* Calculate a rate of return needed that would allow me to meet my goal of 1 million dollars by 60, and create an appropriate investing strategy, factoring in all other considerations such as time delays, inflation, etc.
* Start budgeting for house payments and use time-value calculations to earn a rate of return from investments to offset the costs of the payment; Then continually keep consistent payments until it is paid off.
* Budget appropriately for debts, and only go into debt for what my budget/income allows for - i.e., live within my means
* Budget appropriately for the family and generate enough wealth from investments and from my job working.
* Continually borrow within my means, pay off all my debts on time, and maintain a healthy credit utilization ratio
* Budget appropriately and invest accordingly

# **Current Financial Assessment:**

## **Assets and Allocation:**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Stocks** | | | | | **Bonds** | **Cash** | | **Precious Metals** | **Misc.** | |
| # of Shares | Share $ | Share Price | | Total Value | **$ 3,308.32** | Account Type | Nominal Value | Spot Value | Type | Liquid Value |
| 169 | United States Oil Fund (ARCX:USO) | $ 53.78 | | $ 9,088.82 |  | Savings | $ 2,414.00 | **$ 1,655.85** | Computer | $ 900.00 |
| 79.183 | EXXON MOBIL CORPORATION (XNYS:XOM) | $ 60.67 | | $ 4,804.03 |  | Checking | $ 211.00 |  | Coins | $ 1,200.00 |
| 17.956 | AT&T INC. (XNYS:T) | $ 24.13 | | $ 433.28 |  |  | **$ 2,625.00** |  | Desktop | $ 500.00 |
| 8.421 | CHEVRON CORPORATION (XNYS:CVX) | $ 111.91 | | $ 942.39 |  |  |  |  | PC Peripheral | $ 100.00 |
| 8 | ADVANCED MICRO DEVICES, INC. (XNAS:AMD) | $ 155.41 | | $ 1,243.28 |  |  |  |  | Tools | $ 150.00 |
| 36.428 | BP P.L.C. (XNYS:BP) | $ 26.23 | | $ 955.51 |  |  |  |  |  | **$ 2,850.00** |
|  |  |  | | **$ 17,467.31** |  |  |  |  |  |  |
| **TOTAL ASSETS** | | |
| **S 27,906.49** | | |

*\*Values are current as of 11/21/2021*

## **Liabilities, Expenses, and Income**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Recurring Income Sources*** | | ***Debt*** | |
| Part-Time Job | $ **120.00** | TOTAL: | $ - |
| ***Recurring Expenses*** | | ***Net Income*** | |
| Gas | $ 45.00 | Income | $ 120.00 |
| Food | $ 20.00 | Less: Expenses | $ 65.00 |
| TOTAL: | $ **65.00** | **$ 55.00** | |

*\*Values are expressed on a per week basis*

## **Cash Flows**

Cash flows currently present is an inflow of cash per week from a part time job at $120, and an outflow of cash in the form of recurring weekly gas and food expenses at $45 and $20 respectively.

## **Net Worth**

**Net Worth = Assets – Liabilities**

## **Breakdown and Analysis**

My current analysis of the situation is that I am in an extremely good position financially and poised for great future financial success in terms of budget management and wealth creation. I attribute this fact due to two factors:

1. I am continually earning a budget surplus, whereby my income is greater than my expenses, and,

2. I have no debt, which continually allows my equity to grow with every paycheck I continually earn.

Overall, I feel very confident about where I am, and feel very secure in my current ability to meet my future goals and expectations.

# **Wealth Creation and Retention:**

## **Investment Policy Statement**

My current investment policy is that by the time I reach 60 I want to be able to retire and have 1 million dollars to live off of for the next 27 years until I pass away (assuming I die at 82 but giving myself 5 additional years to adjust for lifespan longevity). Moving forward with this investment strategy I believe would allow me to meet all my above stated goals and provide the most comfort to me.

Given this, I also understand the risks associated in moving towards my goal that I must consider:

* **First**, the most obvious risk would be inflation. In my investing I must consider the hidden costs of the loss of purchasing power in order to be able to meet my goals. Failure to do so would of course jeopardize or at the very minimum provide only a thin margin for success. In my investments I must make sure to not only achieve a commensurate rate of return, but also leave enough cushion to account for inflation and for unexpected changes in my situation as time progresses.
* **Secondly**, I must also take into account not only just my position of strength relative to my asset base, time horizon, and liquidity needs, but also my risk willingness, affected by my own personality, experience, and investing knowledge. In terms of risk willingness, I feel I am someone who has an above average grasp on investing with a few years of experience, and a stout mind that can ward away any reckless fear or anxiety of investing. This last factor I feel confidently too as it is reinforced by the fact that I have such a long-time horizon to make up for any lost gains.

Based on my analysis of my current situation I feel for where I am currently, I have a superior advantage in that I have no debt, with lots of assets relative to my age, a budget surplus, minimal liquidity needs, and a large time horizon that spans almost 40 years into the future. In this regard I feel very secure in my footing. On one additional note, I must also understand that taxes will certainly play a major role later down the line, but given my situation I have no substantial income, and thereby no substantial potential tax obligations from capital gains; and combined with what I have stated previously this reaffirms that I am in an advantageous position where I essentially have free reign (of course to a certain degree) to take as much risk as I feel comfortable with, and make as much profit I would like without having to worry about any negative wealth creation consequences in the long term.

Knowing this, as I attempt to move towards my retirement goal, I understand my short term process of wealth creation will be a balancing act of taking more chances on investments that some might consider to be on the more speculative or on the risky side, but on the other hand holding to the standard of making informed decisions that I feel secure and safe about. On my part, this requires prudence and sound judgement performed only with thorough research of the investing world, the factors that affect it, and knowledge of what I am investing in. Commensurate to this my investment allocation will be very heavily geared toward equity investments, which gradually will start to pull back as I transition from a wealth accumulation phase to a wealth retention one.

In the end I feel this play could reap massive rewards as the upside presents me with a greater asset base to work with in the future and given the relationship of time-value of money, I feel it could provide me with a greater head start and a greater cushion for error in the future.

## **Lifestyle Factors:**

In order to stay true to my goals my lifestyle will play a very important role. In short, my lifestyle will have to conform strictly to my future budgets - meaning I will inevitably have to sacrifice some pleasures in the short-term future in exchange for long term prosperity, such many common wants like clothes, jewelry, expensive food, etc. This is something I have accepted and will adopt into my plan, with little expenses that can pile up unexpectedly being something I will have to be cognizant of and do my best to avoid.

I understand that this mentally and emotionally can influence me so as time moves on so this will continually be revaluated and adjusted as needed.

## **Retirement Rate of Return Calculations:**

Minimum Retirement Goal (FV) = **$1,000,000**

Time Span (t) = **40** years

Current Asset Base (PV) = **$21,500**

Rate of Return (r) = **?**

.10 = **10%**

## **Rate of Return Table**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ***Year*** | ***Balance*** | ***Interest Earned*** | ***Year*** | ***Balance*** | ***Interest Earned*** |
| **2022** | ***$ 23,666.14*** | *$ 2,166.14* | **2043** | ***$ 164,707.84*** | *$ 15,202.94* |
| **2023** | ***$ 26,050.53*** | *$ 2,384.38* | **2044** | ***$ 181,302.30*** | *$ 16,594.46* |
| **2024** | ***$ 28,434.91*** | *$ 2,624.61* | **2045** | ***$ 197,896.76*** | *$ 18,266.36* |
| **2025** | ***$ 31,299.76*** | *$ 2,864.84* | **2046** | ***$ 216,163.12*** | *$ 19,938.27* |
| **2026** | ***$ 34,164.60*** | *$ 3,153.48* | **2047** | ***$ 237,941.74*** | *$ 21,778.62* |
| **2027** | ***$ 37,606.71*** | *$ 3,442.11* | **2048** | ***$ 259,720.37*** | *$ 23,972.84* |
| **2028** | ***$ 41,048.82*** | *$ 3,788.91* | **2049** | ***$ 283,693.21*** | *$ 26,167.05* |
| **2029** | ***$ 45,184.53*** | *$ 4,135.70* | **2050** | ***$ 312,275.54*** | *$ 28,582.34* |
| **2030** | ***$ 49,320.23*** | *$ 4,552.38* | **2051** | ***$ 340,857.88*** | *$ 31,462.03* |
| **2031** | ***$ 54,289.29*** | *$ 4,969.06* | **2052** | ***$ 372,319.91*** | *$ 34,341.73* |
| **2032** | ***$ 59,758.98*** | *$ 5,469.69* | **2053** | ***$ 409,831.47*** | *$ 37,511.56* |
| **2033** | ***$ 65,228.68*** | *$ 6,020.77* | **2054** | ***$ 447,343.03*** | *$ 41,290.88* |
| **2034** | ***$ 71,800.52*** | *$ 6,571.85* | **2055** | ***$ 488,633.91*** | *$ 45,070.20* |
| **2035** | ***$ 78,372.37*** | *$ 7,233.97* | **2056** | ***$ 537,864.20*** | *$ 49,230.29* |
| **2036** | ***$ 86,268.45*** | *$ 7,896.08* | **2057** | ***$ 587,094.49*** | *$ 54,190.29* |
| **2037** | ***$ 94,960.08*** | *$ 8,691.62* | **2058** | ***$ 641,284.78*** | *$ 59,150.28* |
| **2038** | ***$ 103,651.70*** | *$ 9,567.31* | **2059** | ***$ 705,894.78*** | *$ 64,610.00* |
| **2039** | ***$ 114,094.70*** | *$ 10,443.00* | **2060** | ***$ 770,504.78*** | *$ 71,119.52* |
| **2040** | ***$ 124,537.70*** | *$ 11,495.14* | **2061** | ***$ 848,133.81*** | *$ 77,629.03* |
| **2041** | ***$ 137,084.98*** | *$ 12,547.28* | **2062** | ***$ 925,762.84*** | *$ 85,450.22* |
| **2042** | ***$ 150,896.41*** | *$ 13,811.43* | **2063** | ***$ 1,019,034.25*** | *$ 93,271.41* |

## ***Retirement Calculation Analysis:***

According to the calculations, if only given my current investment asset base of $21500 to work with, it would take a consistent return of 10% each year for 40 years in order to reach my 1 million target. However, this model this fails to consider:

1. The loss of purchasing power due to inflation,

2. Only my starting amount of $21500 will be used for 40 years.

Therefore, some adjustments and assumptions will have to be made.

Given the current inflationary situation as of Nov. 2021 with inflation being at 30-year highs it is clear that relying on the standard of 2% inflation each year over the long run of 40 years will be tested at the very least. Therefore, I believe the best course of action would be to attach a 2.5% buffer to account for inflation, while simultaneously leaving some margin of error in case my goals or an unforeseen event occurs. So, in actuality it wouldn’t be a 10% rate of return I would need, it would actually need to be a 12.5% return. At the present moment I believe that target to unattainable and unpractical especially given that I plan to transition to safer investments (lower return) as I get closer to retirement.

But when tying into the second consideration, this problem will inevitably be alleviated as I plan to keep investing more money over the long run to further build my wealth creation base, which would thus raise my present value, and therefore lower the rate of return need to a more achievable one. This is also compounded by the fact that my income – and thereby my budget surplus - will change considerably over time when I graduate school and build experience in the workforce.

(One thing of note to account for is also the ~$3000 of bonds I have in my possession I have yet to cash. For the above calculation I have included the bonds into the present value along with my equity portfolio to derive the present value.)

Because this calculation is extremely fluid and too difficult to pinpoint or accurately estimate given the current situation, this makes this something I will have to continually revise over and over as my situation progresses but when applying a buffer for inflation at +2.5%. In the end I hope to lower this rate and aim for a target rate of 8% for a 5.5% unadjusted rate. Doing so will allow me to counter inflation, hold onto my gains, and leave me with a margin of error buffer for the future.

*\*Calculations were made under the assumption that inflation averages out to ~2% over the long run, and the stock market returns an average of 11% over the long run*

## ***Accounting for Retirement Expenses***:

### ***Time Horizon and Cost of Expenses:***

Assuming I reach my target of making $1000000 by the time I’m 60, that still leaves me with an assumed 22 years left until I reach the average lifespan of a male (82). However, considering medicine has been advancing at a rapid pace – and thereby the lifespans of males and females – to account for this I will add an additional five years to that estimate, increasing my expected life. Given that the average person 65 or older spends about $47756 a year, I believe that with my 1 million I can earn a consistent rate of return of 6% to live off, leaving me with 60000 to live off of, not including Social Security (SS). And even when accounting for SS – going off the average SS payout of 17,953 for 2020 – that leaves me with 77953 a year to live off of until I die at 87; of which I believe is more than adequate for my future lifestyle and retirement.

Overall, I think that the minimum of $60000 a year to a maximum of $77953 with SS provides with more than enough to not only satisfy my needs, but also my wants. Too, I believe that the 6% rate of return is very attainable and provides a very solid foundation for retirement income.

*\*The state of the Social Security program is unclear in the distant future and especially by the time I retire, therefore, the minimum calculations were made with the assumption that Social Security would not be around. Too, it is assumed that my house will be paid off, I will have no existing dependents, and no outstanding debt\**

## **Implementation:**

### ***Factors to Consider:***

#### **Risks:**

##### **Information:**

Informationally I feel that I am very competent and confident with investing fundamentals, but still acknowledge that there is still much for me to learn. I am someone who has had experience investing for a few years and have been actively educating myself on investing. Regarding my portfolio allocation, I feel that this information will serve me well in creating a portfolio that best performs based on my lifestyle and needs.

##### **Market:**

This market at the current moment presents a very interesting situation for investing. Given the pandemic all markets – particularly the stock market – have been at all-time highs and at record growth, making virtually any stock market index and large cap companies very profitable in the last 18 months. However, I have my doubts about the sustainability of the very exponential growth that it has been going through.

##### **Economic:**

To continue with what was mentioned previously, I feel that given the current market situation the economy is in a very unpredictable period and has a lot more downside than up. As of today, the U.S. unemployment rate is 4.6% as of Oct. 2021 figures, 1% over its pre-pandemic normal of 3.6%. While it has been coming down precipitously over the last 18 months, so too has the labor force participation rate, dropping from 63.3% in Feb. 2020, to the current Oct. 2021 figure of 61.6%. Given that, and factoring in government funded economic stimulus programs, and the future potential thereof, I have my reserves about the economy in the near short term.

While supposedly there is record market growth, according to all the other fundamental metrics and weighing in other factors, if anything signs point that the economy is stagnating. This of course can be combined with other markets such as the housing market, where seemingly out of nowhere values of homes have skyrocketed within the past 18 months. Nevertheless, this is something that will have to be closely monitored in the near term for any more signs of instability. In terms of my portfolio allocation, this all cements the idea that my portfolio must be fluid and liquid enough to adapt with the current changing markets and economy.

##### **Currency:**

Currency wise the U.S. as of 2021 has been moving through a very inflationary period. The reasons for this can be pointed to supply chain issues and government funded stimulus programs. As such, because the purchasing power of the dollar has been weakening considerably over the past year of 2021 (with the CPI – including food and energy - as of Oct. 2021 at 6.2% not seasonally adjusted as compared to a normal trend of 2% each year) which presents a situation in which my portfolio must be allocated appropriately to earn a rate of return greater than the rate of inflation – at least in the short term.

For now, stocks appear to be the easiest way to approach investing and earning a rate of return that outpaces inflation, while bonds – subtracting so called “junk bonds” – end up earning a net negative making them something that I would not allocate money towards in my portfolio, provided I do not see any signs of deflation occurring or about to occur in the future.

##### **Political:**

The most obvious political risk at the current moment is possibility of another planned shutdown of the economy to fight COVID-19, and more government stimulus. Such risks can dramatically influence: changes in the investing system, inflation of currency and assets, portfolio allocation, and potential disposable income available for portfolio allocation.

#### **Personal Risks and Tolerances:**

Given my investing knowledge, and most importantly my time horizon, I am very inclined to engage in risky endeavors in search of very large profit. I find that given that I have effectively the course of 40 years to build wealth, on average I will be ahead of the curve even though I may face some potential losses in the short term, assuming that on average the market over time earns 11% each year and continually goes up over the long run.

Too, I am also in the unique situation where I am earning a budget surplus, and have virtually no obligations (such as debt) or any responsibilities or factors to consider (such as dependents/family consideration, or tax liabilities); therefore, I find myself in the position where I can feel emboldened to take my disposable income and dump it all towards wealth creation with hardly any repercussions than the opportunity cost of capital – of which I have no need for at the current moment anyway.

### ***Portfolio Allocation:***

#### **Assets and Security Allocation Choices:**

Equities for the short term will be my main mode of earning wealth building. I will not engage in any bonds for the short term, and I will only keep a consistent allocation of precious metals of 5%. At the current moment I have a 7% allocation but with continually reinvestment of budget surplus this will gradually reduce over time.

As far as specific equity and security allocation, index funds will be my main investments for the long term when prevailing economic conditions are ripe. At the moment I have chosen to hedge on some technology stocks and a lot in the energy sector for the short term. This selection makes me feel most comfortable and I believe that this will be more profitable in the short term. Too, these stocks also pay dividends, which I will continually be reinvesting.

#### **Potential Short Term Asset Allocation**

Total Rate of Return: **9.34%**\*Assumes 11% return on equites, -2% return on cash, and 2% return on precious metals

(I plan to get rid of bonds considering my risk willingness, inflation, and that I believe the money could earn a better return. Too, I want to keep 5% for precious metals.)

#### **Potential Intermediate and Long-Term Asset Allocation**

(These pie charts demonstrate how my portfolio may look like over the long run – shifting from a “more risk more reward” strategy to a wealth retention strategy. The charts only illustrate the general trend and not the exact allocation. As the time horizon to retirement shortens, my allocation will become more risk averse, and more emphasis on stability rather than growth. Again, because assumptions are being made, this will continually have to be revised as micro and macro factors allow.)

## **Investment and Retirement Summary**

Overall, my ultimate retirement plan is to reach 1 million by the time I reach 60, and live off of the rate of return generated from that for the next 27 years. To achieve this goal, I have implemented different buffers and safeguards to hopefully prevent/diminish the effects of unforeseen circumstances. To name them I have:

* Adjusted for inflation in my retirement rate of return
* Left a “margin of error” buffer in my rate of return
* Not included Social Security as the minimum factor in my retirement expenses
* Given myself an additional 5 years of retirement to account for an advance in medicine and thereby lifespan longevity

One thing of note is that I will be continually investing more thereby raising my present value and thereby lowering the rate of return. While the current rate is higher than my target of 8%, I believe that through continually investment of capital I can lower my rate of return enough to meet my target goal. However, given the fluid nature and the long-time horizon, this is subject to change and is something that must be continually revised.

Nevertheless, I believe that this plan provides me with a great general guide to anchor to in preparation for my financial success and retirement.

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# **Comprehensive Budget:**

## **Short-Term Analysis:**

### **Financial History:**

My financial history remains negligible and therefore will not play any role in the budgeting process

### **Micro Factors:**

#### **Family Structure:**

I am a dependent living with my parents with no dependents of my own.

#### **Age:**

I will be 19-21 with a long-time horizon of 40 years to look forward to before retirement.

#### **Health:**

I am in good health with no chronic conditions or illnesses.

#### **Career Choice:**

I am currently in college majoring in the field of Finance.

### **Macro Factors:**

#### **Business Cycles:**

Currently the economy is coming out of a recession spurred on by the government in response to COVID-19 with a current labor shortage of low skilled workers.

#### **Employment:**

Unemployment numbers as of Oct. 2021 are 4.6% and are projected to continue to fall as the economy reopens and vaccinations rates increase.

#### **Economic Indicators:**

The CPI is at a record 6.2% for Oct. 2021 and has been consistently above 5% for the past 3 months, which points to greater than average inflation in the near term. In addition, U.S. GDP has been increasing steadily although starting to simmer down at 23,200 billion dollars, along with crude oil which has risen considerably in the past few months, remaining steady at ~$80 a barrel.

#### **Currency Stability:**

The Nominal Broad Dollar Index has been trending at 113±2 points over the course of the last year, indicating a relatively stable dollar, however, inflation has been on the rise which has consequences of an ultimate loss of purchasing power.

### **Current Budget Analysis and Goal Setting**

My current operating budget indicates that I have a budget surplus that must be addressed, and in keeping in line with my short-term goals, I believe this extra surplus can be better redirected towards long term wealth building.

### **Short-Term Budget Expectations, Projections, and Assumptions**

I will assume that my income will remain the same, and my expenses will increase by 6% due to inflation. Too, I will be allocating a minimum of $1000 in my savings account for general operating use, and then taking the rest of my budget surplus and investing it. In addition, I do not foresee buying my own car, nor taking out a loan on it.

My budget ratio will consist of **57%** towards expenses, **25%** towards investment, and **18%** towards savings.

### **Capital Budget:**

#### **Short-Term Budget Expectations, Projections, and Assumptions:**

In the short term I will not be allotting anything towards a capital budget as:

1. I am not in the position where I would incur large capital expenses
2. The money would be better directed towards wealth creation

#### **Time Value Adjustments:**

There is no need for any time value adjustments in this case.

### **Tax Budget:**

Due to my income threshold, I am exempt from income taxes federal and state-wise; and in terms of my investments, I do not currently plan to sell them in the near future; Therefore, a tax budget is not necessary.

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## **Intermediate-Term Analysis:**

### **Financial History:**

My financial history remains negligible and therefore will not play any role in the budgeting process.

### **Micro Factors:**

#### **Family Structure:**

I will have to start preparing for having a family and a spouse to take care of.

#### **Age:**

I will be in my late twenties to late thirties, leaving me with still a long-time horizon until retirement

#### **Health:**

Given my age and medical history I predict I will be in excellent health

#### **Career Choice:**

I predict my career in Finance will give me a solid income platform and budget surplus to build off.

### **Macro Factors:**

#### **Business Cycles:**

There will be at least one business cycle in this span of time that may affect my investments and savings.

#### **Employment:**

Over the next 10 years employment will settle to its natural rate.

#### **Economic Indicators:**

Most likely indicators will point to stability and economic strength.

#### **Currency Stability:**

Over time as the economy settles from the pandemic inflation will average out at around ~2% and the currency will remain stable.

#### **Intermediate-Term Budget Expectations Projections, and Assumptions:**

For sake of conservatism, I will assume that my income will be $60,145.

I will buy my home and take out a 30 yr. fixed mortgage at 3.426% on a $175,000 home with a 15% down payment in Connecticut

I will take out a loan to buy a $12000 5 yr. fixed loan on a car at 3.16% interest.

My goals will shift slightly from investing and towards stability and savings for my future family.

I will be planning my budget based on my sole income.

I will have employer sponsored health care

I will prioritize maximum contributions to my retirement accounts

My budget will consist of **13%** towards my mortgage, **30%** towards my expenses (including car loan payment), **11%** towards savings, **29%** towards taxes, **2%** towards my capital budget, and **15%** towards investment.

### **Capital Budget:**

#### **Intermediate-Term Budget Expectations, Projections, and Assumptions:**

It will be assumed that a house will be purchased, and therefore need to be maintained.

The house is a starter home, and not will be lived in for a long period of time (i.e. 5> years).

Only a general-purpose fund will be needed for miscellaneous expenses, and potentially an appliance replacement, however it will be assumed that the house will already consider this into its price and the budget.

#### **Time Value Adjustments:**

The money from the capital fund will specifically be invested in a safe investment with the sole purpose of countering loss of purchasing power due to inflation, such as a TIPS bond. Then, when needed the money will be withdrawn for its intended purpose.

### Tax Budget:

Assumptions will be made using current CT and Federal tax laws.

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## **Long-Term Analysis:**

### **Financial History:**

My financial history remains negligible and therefore will not play any role in the budgeting process

### **Micro Factors:**

#### **Family Structure:**

I will be a full-time father with a wife and kids to support.

#### **Age:**

As I age, I will gradually start shifting my budget needs from wealth accumulation, to wealth stability, until I retire and begin to live off of my built up accumulation.

#### **Health:**

Most likely as I get older my health will diminish and begin to place more of an emphasis on my life

#### **Career Choice:**

Given my career choice and stage in my employment I will most likely see a dramatic increase in income as I gain experience and knowledge.

### **Macro Factors:**

#### **Business Cycles:**

I will see at least 6 business cycles in my life

#### **Employment:**

Employment will remain at its natural rate over time on average.

#### **Economic Indicators:**

Indicators will point to good economic growth and stability.

#### **Currency Stability:**

The currency will remain at a target 2% inflation rate over the long run and will remain strong.

#### **Long-Term Budget Expectations, Projections, and Assumptions**

My income will be at the median income for finance majors at $93664

I will have a spouse and two children to take care of.

I will attain an MBA in Finance, and as a result will have student loans ~$40000 (assuming 20 yr. 6% fixed interest rate)

I will be allotting a portion of my budget towards college savings plans for my children. In addition, childcare costs will be omitted assuming my spouse will provide care.

I will buy a larger home in an area with a good school district for $250,000, on a 3% 30 yr. fixed mortgage, 15% down.

There will be an additional car loan payment to support for my spouse

I will prioritize maximum contributions to my retirement accounts

My income will be the only income used for budgeting

I will have employer sponsored health care

My budget will consist of **11%** towards my mortgage, **39%** towards my expenses (including car loan payment), **32%** towards taxes, **8%** towards savings, **3%** towards college savings fund, **3%** towards my capital budget, and **4%** towards investment.

### **Capital Budget:**

#### **Long-Term Budget Expectations, Projections, and Assumptions:**

It will be assumed that a house will be purchased, and therefore need to be maintained.

The house purchased in the long term will likely be a permanent residence for the next 10+ years.

In this case, both a general-purpose fund and roof replacement fund will be needed for large expenses. The general-purpose fund too may need to increase in the future given that potentially more investments must be made into the house, however it will be assumed that the house purchase will have already priced in potentially expense issues and only the occasional expense will occur.

#### **Time Value Adjustments:**

The money from the capital fund will specifically be invested in a safe investment with the sole purpose of countering loss of purchasing power due to inflation, such as a TIPS bond. Then, when needed the money will be withdrawn for its intended purpose.

### Tax Budget:

Assumptions will be made using current CT and Federal tax laws.

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## **Final Thoughts and Expectations:**

### **Potential Budget Variances:**

While there is a plethora of potential budget variances, I believe the most likely budget variances will come from operating expenses. Namely small expenses that build up over time, and familial expenses – namely the cost of children. These are things that I foresee dramatically changing my budget. Additionally, capital expenses – while at times random – are easier to control, but because they tend to carry a larger price tag, not accounting for them/underestimating them could create budget variances.

### **Plans to Alleviate Budget Waste/Variance:**

The primary means I will undertake to avoid budget waste is by practicing conservatism and applying say a 10% buffer to expenses to help alleviate any unexpected price jumps. This number of course is arbitrary at the moment but nevertheless is going to be something I plan to do in the future. Too, another plan I have is to closely follow, budget out, research, and carefully plan my expenses more closely. By creating a budget that better mirrors actual costs rather than projections I feel I can better alleviate waste. Granted on some level a projection will always be an assumption, an educated informed assumption will always be more reliable than an uneducated one.

### **Expectations:**

As far as the budgets are concerned, I expect that I am going to have to change the numbers and change my expense allocation ratios – finding what works and what doesn’t. I also am assuming that there are some numbers that are way over estimated, and some underestimated. It goes without saying that I will have to continually “sharpen the pencil” with these budgets.