

SMART tips to set your financial goals - Nikhil Walavalkar April 26, 2019

The primary question that almost every investor has in mind is what instrument will get me the maximum rate of returns? But, is it the right question to ask?

The basic tenets of personal finance advise individuals to start with introspection. One should start with one's financial goals rather than looking for high paying investments. The financial goals clearly define what you intend to achieve and you can accordingly plan your journey—where to invest, how much to invest and set your expectations right. Clearly defined financial goals or smart financial goals help you make a sound financial plan and ensure better execution of the same to achieve your goals. Here is how you can frame a SMART financial goal:

1. Specific

The financial goal must be clear in the minds of the individual. Buying a house is a very vague goal, for example. However, if one says arranging down payment for a one bedroom hall kitchen (1BHK) home in a gated community in Mumbai Suburbs, then it makes more sense. Specific goals ensure that there is an emotional connection with the financial goals and such goals are more likely to be achieved.

2. Measurable

The goal should have a money value ascribed to it, among other factors. It helps the individual to understand where he wants to go clearly. Going by the example mentioned above, one would say that he would end up buying a home priced at Rs 70 lakh. The down payment at 20 percent works out to Rs 14 lakh.

The money value lets you adjust your goals depending on the extent of money you saved and the changes in the price of the financial goals. For example, you may have a target of raising Rs 14 lakh but the prices go above your expectations, then the same needs to be factored into your financial plan.

3. Achievable

The financial goal must be achievable. Sometimes the goals are not achievable in the near future. However one may want to use time on his side to make goals achievable. Goals that look not achievable for individuals with a very low-risk profile, may become achievable if some allocation is made to risky assets offering high returns.

For example, in the above example, for an individual with a monthly salary of Rs 1 lakh and monthly saving of Rs 30,000, the goal appears to be impossible if one wants to raise the desired amount of money by the end of the financial year. However, if the person takes a bit longer term, then his goal becomes achievable.

If you have to accumulate a corpus of Rs 14 lakh at the end of five years from now and the expected rate of return is 12 percent per annum, then you should be investing approximately Rs 17,150 per month. These numbers make it achievable in the given context mentioned above.

4. Realistic

The financial goal must be realistic. If an individual with a monthly salary of Rs 1 lakh decides to build a multi-storied mansion in the plush localities in South Mumbai, then it would look impossible in the given context of high property prices and inadequate income. Only some miracle can help in such circumstances.

Even if you stick to your goal of buying 1BHK, but try to achieve it in a short span of time along with other goals such as going on a foreign vacation and arranging down payment for a luxury sports utility vehicle, then it will become unrealistic.

5. Time-bound

The financial goal must be expressed in the context of the time. Each financial goal comes with a price tag. But inflation ensures that the price tag changes with the time involved. For example, in the above example if we assume inflation at 5 percent, then the same house will be available at Rs 89.34 lakh five years from now and at Rs 98.5 lakh at the end of the seventh year.

If we have to write the abovementioned goal in SMART words then it would read: Arranging down payment of Rs 19.7 lakh for a 1BHK home in a gated community in Mumbai Suburbs priced at Rs 98.5 lakh seven years from now.

Clearly defining a financial goal makes it easy to draw a financial plan. A saving and investment action can be prescribed with more clarity if the individual knows what he wants.