Defining Your Financial Direction: Clarifying Values and Setting Goals

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This publication is designed to help you begin a sound, step-by-step journey to financial fitness. Decisions about money require:

- clarifying what is important to you and those in your household
- knowing how to talk about financial issues
- being aware of your current financial situation
- deciding what you want to accomplish with your financial resources.

The articles that follow will help you understand these basic concepts.

Take time to think about what's important to you

If 10 people were given a $100 bill, they would most likely spend it in entirely different ways. Why? Because people are different and value different things. Our values—those deep-rooted beliefs about what we think is important—are impacted by our family, life experiences, the media, our cultural heritage, and our expectations for the future.

Each day our values influence our financial actions: the goods and services we buy and use, the goals we set, how we use our time, how we choose to live, etc. It's important to take time to get in touch with your values and to understand those of the people you live with. Do you agree or disagree on your spending and saving values? What are the areas in which you hold common beliefs? What are the potential trouble zones? How will you deal with conflicting ideas?

Value	Possible Financial Action
A worry-free retirement	Contribute the maximum to tax-advantaged savings and retirement plans.
Education	Invest money for kids' education; participate in continuing education opportunities.
Physical fitness	Join an exercise group; purchase a treadmill.

Understand the difference between your needs and your wants

It is also important for you and your family to be aware of your needs vs. your wants.

Needs = things required to live, e.g. food, air, water, shelter. Needs change with the season and vary with age.

Wants = extras that make life enjoyable and comfortable. Things you like to have, but that are not necessary to survive.

It is possible for one person's need to be another's want and vice versa. For example, if you have not eaten for three days, food is a need. For a person who is snacking for the fourth time in a day, food is a want. If you live 10 miles from your work, transportation is a need. If a couple desires a second car to ease the daily schedule, it is probably a want.

Follow these guidelines when you talk about money

Disagreements often arise over the use of money. Decision making can be by one person—shared—or divided. Patterns in families vary with their culture, tradition, knowledge, interest, experience, personality needs, etc. Two-earner households often have more income, but also additional challenges in making decisions. Divorce and remarriage can add complications and emotions to decisions regarding money.

Communicating about money requires both talking AND listening. Here are several important factors that will promote or block effective communication.

Listening

Thinking about what someone is saying, listening for key ideas and facts, and asking questions for clarity all promote communication. If you're thinking more about how you'll defend your position or only pretending to listen, communication is blocked.

Body language

Being relaxed and meeting your partner's gaze helps. Crossed arms, continuous shifting, staring or totally avoiding eye contact hinder communication.

Time, place, and people

Setting a specific time to talk in a place free from distractions—and involving the people who will be affected by a decision all boost communication. In contrast, a noisy, public place poses many distractions.

Your words

Clearly identifying the issue, showing willingness to compromise, and encouraging people to state their ideas all support positive communication. Words that accuse, judge, criticize, blame, or direct—all establish roadblocks.

Assess your current financial situation before setting goals

By preparing a net worth statement (a personal financial balance sheet) you will have a snapshot of your financial situation at a given point in time. It will list your assets (the things you own), your liabilities (the things you owe), and the difference between them. Such a statement can help you identify areas of concern and suggest possibilities for action. Over time, net worth statements make it possible to measure your financial progress and to determine if you are moving backward or forward. Keep in mind that it's not unusual to have a low—or even a negative—net worth in your younger years.

Use the SMART approach for developing your financial goals

It's fun to fantasize about winning the lottery! However, for most of us, it's a dream that simply won't come true! What can come true (with some work, of course) is financial stability for you and your family. One critical component of a sound personal financial plan is a set of goals. They will help you focus on what you want to accomplish with your resources.

List and prioritize your dreams

Goal setting requires knowing what dreams and values are most important to you and your family and how to use them as the basis for your goals. Be sure to involve all family members with a stake in financial decisions in your discussion. As a group, talk about the things that are important to you, your needs, and your current financial situation, and then proceed to list and prioritize your dreams.

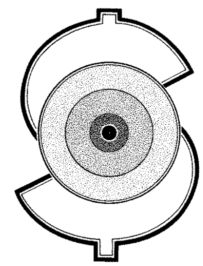
Develop one to three SMART goals

Use your top-priority dreams as the basis for developing specific financial goals. Short-term goals are ones you hope to accomplish within the next year. Other goals may take longer and need to be planned over several years. Be selective. Financial planners tell us that it is almost impossible to work successfully on more than two or three goals at one time. The most effective financial goals are SMART:

- S Specific — They tell what will be done.
- M Measurable — They describe a dollar amount or action to be accomplished.
- A Agreeable — Members of your household know and have agreed upon the action.
- R Realistic — Resources are available to accomplish the goal.
- T Timed — A completion date is established.

SMART financial goals provide a framework for making decisions about what to do. Once accomplished, they can be a powerful source of satisfaction and pride. In a nutshell, SMART goals can help you turn your dreams into reality.

Above all, keep in mind that the route to achieving your financial goals will be just like any other journey — it will have bumps and curves and detours. It will have supporters and nay-sayers. Know that it's okay to seek help when you need it. Mid-trip adjustments are often necessary too. As Stephen Covey so appropriately states in the 'Seven Habits of Highly Effective People,' "Begin with the end in mind." SMART goals will help you define the end financial results that you want to achieve.



Reasons people fail to achieve their financial goals

There are several frequently cited reasons. Some are because the goals were not SMART! Others are the result of changes that occurred in a family's needs or situation.

Failure Reason	Example
Goal too general:	I will finish school (no timeline, school, payment method, etc.).
Too many goals at once:	Trying to save for a vacation, reduce your credit balance, buy a new car and save for a new house all at one time. (Best to divide goals into three groups: highest, medium, and lower priority and tackle the most important first.)
Goal is unrealistic:	Our family income is $50,000 a year. We want to be a millionaire family in 25 years. (The goal is probably unrealistic for the time allotted. It would require investing $1,650 a month (or $19,800 a year) and earning an 8% return before taxes on earnings. Often goals cost more than people can afford.)
Goal no longer important:	Goal to save $40,000 to help educate a child in 10 years is no longer necessary because child has just received an inheritance that, if wisely invested, should grow to $40,000 in 10 years.
Another goal took priority:	Goal to take a long-desired trip to England was replaced with goal to cover medical expenses (and reestablish good health) for wife.

"Rules of the road" to reach your goals

Take mini-steps: Break a long-term goal into several shorter-term goals.

Goal: Purchase first home in three years.

Mini-goals: Establish a Roth IRA and contribute $2,000 annually from current income for the down payment.

Build an adequate credit rating to secure a mortgage.

Use several strategies to accomplish a single goal.

Goal: Reduce outstanding credit balance $1,000 by the end of the year.

Possible strategies: Cut up and destroy current credit cards, i.e., eliminate use of credit cards.

Obtain a PowerPay analysis from your MSU county Extension office to determine the debts to pay down first.

Pay an extra $50 a month above required minimum payment by diverting money previously spent on lottery tickets.

Take your "progress pulse" frequently.

Check to see how you are progressing toward your goal. For example: Compare monthly credit card balances. Are they going down?

For further information please contact your Michigan State University county Extension office. Consult the local government listings in your telephone book or the Internet at: http://www.msue.msu.edu.

Stay alert to hazardous detours.

Being "taken in" by "once-in-a-lifetime" credit card offers.

Succumbing to teenage nagging and requests.

Letting an unexpected incident throw you off track.

Allowing instant gratification to get in the way of achieving your goals and having your dreams come true.

Spending money on "wants" before covering "needs."

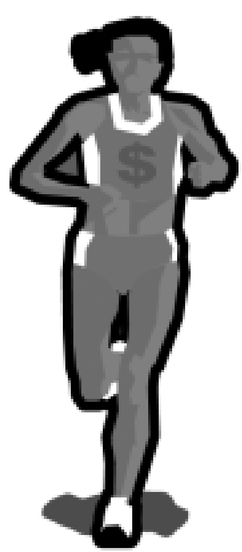
Enlist support.

Talk with a good friend who weathered a similar challenge.

Attend workplace lunch groups. Join organized support groups.

Arrange payroll deductions to your creditors, investments, etc.

Involve your family in the project.



Quotes:

If you don't know where you're going, how will you know when you get there?

Alice to the cat in
Alice in Wonderland

Specific goals motivate you to balance your spending and saving in order to maximize your happiness from your income.

Source unknown

None of us can have everything we want, but good money management can help us get the things we want most.

Source unknown