
# 3 Financial Planning Steps

Organization, efficiency and discipline are the three primary steps of financial planning. Organization is knowing where your money comes and goes. An efficient portfolio means a better chance of profits, and discipline keeps you on the right track.

Statistics tell us that the average credit card debt per person - including all people who pay off their cards each month - is over $5,500. Folks don't have a handle on the big picture of their personal financial world.

If you are one of these folks, you should know what the steps of financial planning are and get started today, either on your own, using resources on the Internet, or by hiring a financial planner.

The first and most important step of financial planning is organization. You can be a lot closer to your financial goals in life by organizing your finances and understanding money flows, both inflows (like your paycheck) and outflows (bills).

If your financial life isn't terribly complicated, an Excel spreadsheet may suit your needs perfectly. However, using something a little more sophisticated, such as Mint, Quicken or other online budgeting tools may become necessary, as you and your financial life continue to evolve.

There are a million ways to approach organization, but the "how?" is nowhere near as important as "when?" Of course, the answer to when to start organizing is now.

Whatever method you choose, once you set up the system you should enter historic information as far back as 12 months (if you have it). This requires digging out the old bank, investment and credit card statements. It's not as intimidating as it sounds. In today's connected world, you can simply download the transaction history from your bank, investment or credit card companies, and import it directly into your Mint or Quicken file. You still need to go through things, but much of the data entry is done for you.

If you don't have the time, the facility or the patience to enter this historic information, don't give up. Tracking your information from today forward is valuable as well. Think about it: In a year, you'll have 12 months' worth of history in your system.

As you generate this history (or review the old history), patterns of your spending habits emerge. Perhaps you spend much more on golfing than you realized, or maybe your home decorating expenses were greater than your mortgage payments over the last year. Each of these patterns helps you to understand where your money goes. Once you know that, you can begin to control it.

Quicken or Mint.com also organizes your investments, which takes us to the next step: efficiency.

If you have a couple of old 401(k)s from former employers, you can look at all investment accounts from a top-down perspective, using these tools. For many folks, it may be the first time you see all your investments in one place.

This is when you adjust your allocation for a more efficient portfolio. You might think your investments were diverse enough but find that you bought the same investments in multiple accounts. An efficient allocation is about spreading your money across many different broad asset classes.

Now we’re into the place where the rubber meets the road. After you organize everything in an efficient manner, you need to maintain this organization over time. This requires discipline.

You need to balance your checkbook at the end of the month and keep your information up-to-date when you receive the credit card and investment statements. The automated tools help a lot, but you can’t just let it go on autopilot. You need to sort through the information to understand what’s going on with your cash flow and investments. You might need to change your spending habits or rebalance your investments if they get out of line.

But what takes the most discipline is maintaining your investment allocation as planned when the market is very volatile. You might be tempted to pull out of the market after a big loss or start buying in when the market has a huge run-up. Keeping you disciplined is quite often the major benefit of having a financial advisor, who can help you maintain the proper long-term perspective of your investment allocation and not let emotions rule the actions.