

FINANCIAL INSIGHTS BLOG

BUDGETING | SAVING & INVESTING | THE ECONOMY

Don't invest just yet.

Before you start investing be sure that you have these things covered.

April is Financial Literacy Month. Over the next few weeks, we will provide you with tips on ways to improve your financial fitness. Here's a list of some things to do before you start investing.

1. Build an emergency fund.

Hint: A wedding or vacation experience is not an emergency.

Establishing an emergency or rainy-day fund should be a priority when you are investing. Be sure you define what an emergency is. Funds set aside for investing, are usually held over a longer period or can be attached to a goal – say three to five years minimum.

You should always have some savings, separate from investing, that is easily accessible for unemployment, an emergency flight for a funeral or to visit a sick relative, medical emergencies, major car repairs or replacing major appliances. Outside of that, if you can't afford it – just say no.

The size of the emergency fund can be 3-6 months of rent and living expenses, although it is all dependent on your living situation, but the focus here is that you should have one. Once you have built up your emergency fund, you can be confident that there will not be a call on the money you have set aside for investments.

2. Know your cash flow.

If you don't know how much is coming in and out, it would be difficult to adjust your budget. Take a look at your income (salary, a side business, grants, rental income or any financial support you may be receiving) and when you receive it (weekly, monthly, annually etc.). Then, assess your spending. Identify essential and non-essential expenses.



Hint: For utilities like electricity and water that are not fixed, look at the last 12 months and divide it by 12 for a monthly average that you can pay each month.

Review both your income and expenses for ideas on where you can reduce expenses or increase income. Explore options with your service provider for example, reduce your internet or telephone packages. Some of the savings could be used to apply to your investments.

3. Make a plan for debt.

Hint: The less you have to borrow, the less you have to repay.

Consider how you feel about current debt and how you plan to approach future debt. Then make a plan to pay off any debts in a reasonable, realistic time frame.

Make a list of everything you owe, including when you pay, the interest rate and the total amount owed.

Debt can be productive or disastrous for your investment plan. It can prevent you from starting out as an investor. If you are new to investing, borrowing to invest can be risky.

Be sure to add up any accumulated debt and put a plan in place to pay it off. Also assess how you feel about future debt. Will you borrow for a car or house? What are your thinking processes on debt? It always seems impossible until it is done.

4. Know and track your net worth

Hint: Your net worth is everything you own less everything you owe.

The most difficult part of calculating your net worth is figuring out what you own and owe. Getting a handle on your net worth is like giving yourself a financial report card. Start with a list of all your assets and liabilities so you can understand what's working in your financial life and what is not. What are your assets and liabilities? Is your new worth positive or negative?

There are several net worth calculators online that can give you a snapshot of where you are financially.

Once you know your net worth, you will have a clearer picture of your current financial situation and will be better prepared to make informed decisions about your financial future.

Knowing your net worth can also provide valuable insight into your past spending habits, overall debt profile, ultimate earning potential and retirement dreams. As such, figuring out your net worth should never be seen as a one-time exercise.



5. Understand the basics

Make sure you know the investment terms like what is meant by stocks, bonds, funds, diversification, volatility, risk, and other basic concepts. Also become familiar with updates and financial information for companies in the industry that may interest you and what they have to offer.

Sound professional advice or speaking with a trusted relative or friend can be just the right input you need to steer you towards an action plan. They may be able to point out what might be missing for your plan, clarify your financial goals and identify how you can use your investments to achieve your short-term and long-term goals.

CFAL is here to help.

If you need additional help, feel free to reach out to us for a Financial Planning Session. Our Certified Financial Planners are here to assist you with your budgeting, saving and investing needs.

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