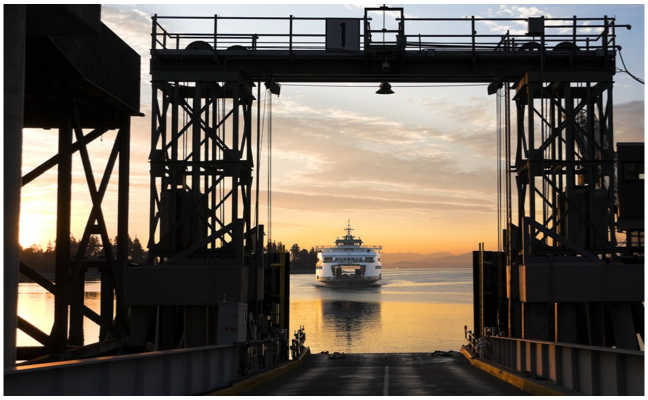

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5 Essential Steps to Financial Control

Financial planning success doesn't happen overnight. It's a process that takes time, effort and learning from your mistakes. Here's a quick primer on how to take control of your financial future.

Step 1: Develop a budget

First, we need to know how much we're spending and how much we're saving. Let's start with incoming cash flow: This includes wages and performance bonuses. You may be receiving Social Security income or a pension. Only list the items that function like a paycheck. Don't list withdrawals from savings or investments.

Next, list your outgoing cash flow. There are two types of expenses. Essential (what you have to spend) and discretionary (what you'd like to spend).

Start with the essentials:

- Housing costs like a mortgage or rent
- Utility bills such as electricity, heat, phone or internet
- Other debt payments (car loans, credit cards, student loans)

After you finish with the essentials, list the fun stuff like traveling, eating at restaurants or joining clubs. Be conscious of items that might fluctuate (fast food vs. fine dining) just in case we need to trim that number.

Now, add the value of your income sources and subtract your expenses. Hopefully, you end up with a positive number.

If your calculation reveals a negative number, then you're living beyond your means and probably pulling money from savings or ringing up credit-card debt. Take a look at those discretionary numbers and see where you can make cuts. If you get a positive number, then see how that matches up with any contributions to savings or investment accounts. If you see consistency in growth, then great job! If the numbers don't match, then maybe you need to go back and recheck your budget and see if you're actually spending more money than you think.

Step 2: Set goals

Now comes the fun part of the exercise. What are we doing this for? The answer to this question is open-ended based on where you are at this stage of life. You could be saving for that down payment on your first home? Maybe you just welcomed your first child and you want to start saving for your child's future. Or perhaps the mortgage is almost paid up, the kids are out of the house and you can see retirement coming at you full speed.

Not all savings and investment accounts are created equal. Here's a quick checklist to follow once you've established your goals:

1. Retirement

- Check with your employer to see what your options are. 401(k) and 403(b) plans are the best resources to start with because they offer the largest ceiling for contributions and maybe even an employer match.
- If you're self-employed, then speak to a financial advisor or tax advisor to see if accounts like SEP IRAs or Simple IRAs make sense.
- After you've maxed out workplace plans, see if you qualify to contribute to an IRA or a Roth IRA.

2. College

- 529 plans allow you to make contributions and grow the assets tax-deferred for future college costs such as tuition and room and board. If it is a qualified withdrawal, then the assets grow tax-free.

3. Health Care

- Health savings accounts can provide triple tax advantaged savings. Your contributions are pre-tax, they can grow tax-deferred and withdrawals for qualified medical expenses are tax-free.

Not sure? That's OK! The first rule of thumb is to make sure you have at least three to six months' worth of living expenses in cash in case of an emergency. Once you feel that you have enough coverage, check to see if you're taking advantage of all of the available tax-friendly saving options.

Step 3: Build a portfolio

This step is decided by two factors. The first step is to establish a time horizon—when you expect to need the proceeds of your investments. The second step is determining your appetite for risk and how much volatility you can withstand. The conventional wisdom is the longer your time horizon, the greater the risk you should take.

Once you understand your time frames and the level of risk you're comfortable with, then you must decide how to invest, for example, stocks, bonds or mutual funds. This is when you'll need to develop a sound investment philosophy of your own or work with a financial advisor.

Step 4: Create a contingency plan

This is perhaps the most challenging of the five steps. Regardless of what stage of life you're in, there may come a time when you're unable to make decisions about your finances. And there will be a day when we have to pass this legacy to your family or maybe a favorite charity.

The complexity of your finances and greatest needs will determine how much planning you need to do at this stage. But here are a few items almost everyone needs.

1. A will

2. Power of attorney

3. Living will or health-care proxy

4. Estate executor

5. Designated guardian (children, sick or elderly)

6. Sufficient insurance

Step 5: Name a CFO

We are all the CEOs of our own financial plan and well-being. But do we also want to be the chief financial officer? Some of the responsibilities may be best delegated to a financial advisor. Together, you and your advisor can develop goals and a savings strategy, build a risk-diversified portfolio and discuss contingency and survivorship planning options.

The Bottom Line

When it comes to financial control, remember that the "appearance" of these five steps will evolve over time. But these steps will follow us through every stage of life. And while this process might feel a bit wobbly at first, like that first bike ride, it gets easier over time. The more we work at it and the more coaching we get, the more control we have.

To begin your five steps to financial control, speak to an Oppenheimer financial advisor today!