

HOW TO GET STARTED TO SET YOUR FINANCIAL GOALS

The importance of savings is well-known, but just merely hoarding cash in a cabinet is of no use unless you have specific goals. Setting up financial goals can help you shape your future. Without a set of targets, you would find yourself spending on unnecessary items and falling short of funds in case of an emergency. The absence of a goal can also get you stuck in the vicious cycle of debt.

In order to take control of your financial life, setting up goals is an imperative step.

There are three important things to consider:



Examine your money

You cannot set financial goals unless you have money to accomplish them. You should start by figuring out how much money you own. This would include all your savings, investments like an Individual Retirement Account (IRA), a 401(k), or a Certificate of Deposit (CD), as well as your monthly income.



Assess all your debt

Subtract the debt that you owe from your income to arrive at your net worth. Without proper examination of your financial situation, making future goals can be a futile exercise.



Divide your financial goals into categories

Short, medium and long-term goals are the three major types of goals in your financial journey. Short-term goals are important, as these quick wins give you the motivation to stay on the right path. Whereas, long-term goals help in the grand scheme of events.

How to differentiate between different types of goals

Based on the time you will need to accomplish them, you can divide your goals into three categories:



Short-term financial goals

These goals are usually meant to be accomplished within 1-3 years or in a limited time horizon. Short-term goals include-

Emergency fund: The fund can help you deal with your finances in the event of an untoward incident, such as losing your job or an unexpected medical expense. Financial advisors suggest maintaining an emergency fund that could cover your daily expenses for at least three months.

Debts: It is important to be well-equipped to meet the deadlines for your monthly debts like credit card bills, personal loans, and car loans. Your goal should be to be debt-free as soon as possible.



Medium-term financial goals

These are targets for the next 3-5 years. For example:

Student loan: Education loans have been growing rapidly and reached \$1.6 trillion in 2019. If you are burdened by student loans, consider refinancing them into a new loan.

Life insurance: It is important to get a life insurance for yourself and for your family members. Term life insurance and disability insurance can be of great help in unfortunate times.

Miscellaneous needs: Medium-term goals may also include treating yourself and your family to a vacation or buying a new car. It is good to reward yourself from time to time, for being on track with your objectives.

- 1 Short-term financial goals
- 2 Medium-term financial goals
- 3 Long-term financial goals



Long-term financial goals

Financial goals that require long-term investments and may reap benefits after 7 or 10 years are considered long-term goals.

Retirement: The biggest goal in this category is saving for your retirement needs. Being financially dependent on others for your medical and personal expenses can be a nightmare. You should start saving as early as possible so that the compounding interest can realize its full potential. Assets like a 401(k), or a Roth IRA are common investment options that you can consider.

How to stay on track

The concept of SMART in setting up financial goals is a popular time-tested method. SMART is an acronym for Specific, Measurable, Attainable, Relevant, and Time-bound. Here's what it entails:

Specific: Being specific and avoiding vagueness makes the job a lot easier. If the target is to save money without specifying the amount or the purpose, you may lose interest in the process.

Measurable: Setting measurable goals can help you track your progress and keep you motivated for accomplishing the task.

Attainable: It is important to be realistic in your goals. Rather than setting impossible targets, set goals that can be attained with proper planning and hard work. Failing to achieve unrealistic targets can make the process seem gloomy.

Relevant: Targets which directly affect your life and make you happy are much easier to accomplish than goals that you don't care about so much. Make sure the goals you set are your own and not influenced by peer pressure or family expectations.

Time-bound: Setting a deadline for each of your goals will keep you from procrastinating and ensure that you accomplish them in time.

Summary

The idea of setting up financial goals is not to live a frugal life, but to balance out opulence. It is not always possible to meet your goals in a time-bound manner, but try to make a linear progress towards it, wherever possible. It is common to deviate from the right path. But what matters more is to pick yourself up again and move towards your objectives with the same grit as before. There could also be times when you have to do away with your targets and make new ad-hoc plans, such as in the event of loss of employment, or in case of a huge medical expense. But as long as you are well prepared, these events will not impact you significantly in the long run.

Research shows that when you share your goals with others, it helps you to keep track of them. Consider enlisting a friend or loved one while setting up your financial goals. You could also take the help of a [financial advisor](#) who can help you in setting the right financial goals and stick to them.

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