



financial fitness
By Erik Ford

STARTING THE YEAR OFF *Right*

The new year is underway, and we are all adhering to our New Year's resolutions (right?). One annual resolution we recommend is to take the time to review your financial condition and plan. If you have not created a plan, it is a good time to get organized and create a plan so as to put structure into your financial life. The starting point is to organize what you have and what you owe and create a realistic statement of your financial condition. This process may also encourage you to consolidate some accounts in order to simplify and perhaps do something about that old 401(k) from the job you left five years ago.

The next step is to think about your goals. While centering on retirement assumptions, other events may enter the picture, such as college, weddings, a second home, etc. The last two years have been challenging and unique. We have all faced obstacles that were not on our radar two years ago. Employment, career, and school disruptions have affected all of us. These disruptions may have prompted many to alter their plans in small or major ways.

Realigning your financial plan with life changes is a critical step toward achieving success.

Once you know what you have and where you want it to take you, then it is time to determine the plan to get you there. Are your savings targets sufficient to meet the goals you have set out? Are your return assumptions consistent with the risk you are willing to take? The components and answers for this process may be difficult to pull together, and the assistance of a professional may be very helpful. Pulling together a comprehensive plan may seem daunting at first and, for that reason, may lead to procrastination, but it is a task worth doing, reviewing regularly, and updating when needed. Having a roadmap to your destination can bring peace of mind and reduce some of the stress that life throws at us.

As you work on organizing for the above, there are other topics that come along with that. It presents an opportunity to review your budget and spending. Perhaps not the best time to do that is right after the holidays, but financial fitness, like physical fitness, sometimes requires a hard look in the mirror. Identifying holes in your budget that can be patched up may lead to satisfying increases in your savings. Common advice is to have a reserve fund for emergencies such as a job loss. How much to have in reserve is a personal decision that may depend on personal risk aversion, job security, and field of employment, among other factors. The rule of thumb is usually given as three to six months of living expenses, but again it is a personal comfort decision. Access to a home equity line of credit may also serve the role of an emergency fund, allowing a higher proportion of financial assets to be invested.

Another related task is to review your credit scores with the three primary credit rating services. Knowing where you stand regarding your credit score can be helpful as you approach certain financial decisions, and it gives you the opportunity to check for errors in your credit reports. Errors in your credit reports can take time to correct. If you discover errors while applying for credit for a major purchase, you may not be able to have your score corrected in time. It is also a good idea to investigate credit and personal ID protection services. As more and more personal information floats across the internet and hackers abound, you cannot be careful enough. We also think it is advisable to consider locking your credit reports at the three credit rating agencies. We make this recommendation frequently, but it does provide a strong level of protection.

Maintaining financial fitness is an ongoing process, much like maintaining physical fitness and eating right. However, it is a habit that can be very satisfying over time.

Erik Ford is the owner of Ford Wealth Management LLC in Glen Ellyn, IL. He is a CFP® certificate holder as well as an Accredited Investment Fiduciary®. Registered Representative. Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC.
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Erik G. Ford, CFP®, AIF™
Financial Advisor
800 Roosevelt Road | Building B, Suite 413
Glen Ellyn, IL 60137
fordwealthmanagement.com
Office 630.545.2800 | Mobile 312.804.9464
erik@fordwealthmanagement.com

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