

SELF INVESTED

Financial Planning
PRINCIPLES
part 2

YOU DON'T NEED TO BECOME A FINANCIAL EXPERT.
YOU NEED A FRAMEWORK FOR MAKING BETTER
DECISIONS OVER TIME.

THE 7-STEP FINANCIAL PLANNING PROCESS (SELF-DIRECTED)

01

Understand your personal and financial reality

Get clear on where you are right now (income, expenses, assets, obligations, and life context) without judgment.

02

Identify and choose what matters most

Decide what you want your money to support: today, in the next few years, and long term.

03

Evaluate your current path

Look honestly at what you're doing now (what's helping, what's holding you back, and where small changes could make a big difference.)

04

Design your financial direction

Based on your priorities and reality, outline a path forward (savings focus, risk management, and trade-offs) you're comfortable with.

05

Sense-check your plan

Make sure your plan feels realistic, understandable, and aligned with your values; not just "what you're supposed to do."

06

Take intentional action

Put the plan into motion one step at a time, automating where possible and keeping it manageable.

07

Review, adjust, and continue

Revisit your plan as life changes: career shifts, family needs, market changes, or new goals.

*Last
Class*

Today

Download the
CASE STUDY
and
FINANCIAL
STATEMENTS

HERE

STEP THREE:

EVALUATE YOUR CURRENT PATH





By the time you reach Step 3, you already know:

- where you are financially
- what matters most to you

NOW WE ASK A DIFFERENT QUESTION: **“GIVEN MY GOALS, IS WHAT I’M DOING TODAY ACTUALLY MOVING ME CLOSER OR PULLING ME OFF COURSE?”**



WHAT STEP 3 IS REALLY ABOUT

This step has two parts:

1. UNDERSTANDING YOUR CURRENT COURSE OF ACTION

This means looking honestly at:

- how you earn
- how you spend
- how you save (or don't)
- how you protect yourself
- what habits are on autopilot

Not to judge, but to understand cause and effect. Your current situation didn't appear by accident. It's the result of **many small decisions repeated over time.**

2. EXPLORING ALTERNATIVE COURSES OF ACTION

Once you see what's happening, you can ask:

- What could I adjust?
- What would happen if I changed one thing?
- What's the lowest-effort, highest-impact move?



Why This Step Is Hard
(Behavioral Finance)

Most people don't regularly evaluate their financial decisions because of:

- **Status quo bias:** we stick with what's familiar, even if it's not ideal
- **Present bias:** today's comfort feels more important than future benefits
- **Mental accounting:** "this money doesn't count" thinking
- **Optimism bias:** "I'll fix it later"

*Instead of “good” and “bad”
decisions, we look at:*



STRENGTHS

Things you're **already doing**
that support your goals:

- contributing to retirement
- paying bills on time
- maintaining stable income
- avoiding high-interest debt
- prioritizing your children or future self



VULNERABILITIES

Places where habits may be
quietly working against you:

- saving less than you intend
- lifestyle creep
- lack of insurance or emergency reserves
- unclear priorities competing for the same dollars

These are all opportunity for leverage!!

Sara's Context

- Single mother
- Stable income
- Wants: security for her child, to stop feeling financially anxious, long-term independence
- Says her priorities are: saving, “being responsible” future stability

Sara's Current Course of Action:

Strengths

- Pays all bills on time
- Has some savings
- Avoids risky investments
- Is thoughtful and cautious
- Prioritizes about long-term outcomes

Vulnerabilities

- Keeps too much cash idle due to fear of loss
- Under-invests for long-term growth
- Doesn't automate savings → relies on willpower
- Feels guilt spending on herself, leading to occasional splurges
- Has no clear system, just “trying to do the right thing”

Potential Alternative Courses of Action for Sara

Instead of “doing everything differently,” we explore small shifts:

- Automate savings so decisions don't require constant energy
- Separate:
 - safety money
 - growth money
 - spending money
- Invest gradually to reduce emotional risk
- Align saving amounts with her values, not arbitrary rules
- Create clarity so fear doesn't drive every choice
- The goal isn't to take more risk. It's to take more intentional risk.

What's one thing you're doing now that helps your goals and one thing that gets in the way?

STEP FOUR:

DESIGN YOUR FINANCIAL DIRECTION



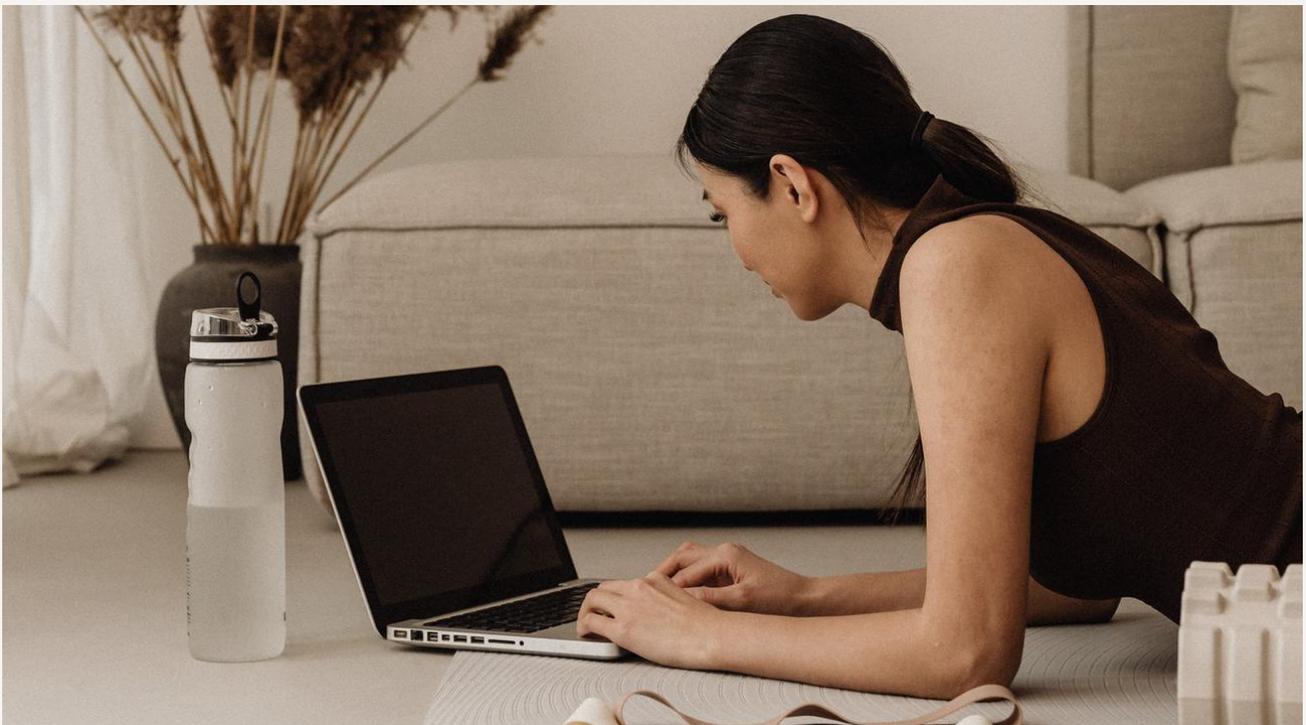
Up to now, you've:

- Gotten honest about where you are (Step 1)
- Clarified what matters most to you (Step 2)
- Looked at what you're doing now and what's helping or hurting (Step 3)

Step 4 is where everything comes together.

This is the bridge between thinking and doing.

*Given my real life, my real goals,
and my real habits—what's the smartest next
path forward?*



What Your Plan Must Be Built Around



Your goals, needs, and priorities (Not what you “should” want; what you actually want)



Your current situation: Income, expenses, savings, debt, responsibilities



The assumptions being made
Because the future is uncertain and pretending otherwise is dangerous



Life expectancy



Inflation rates



Tax rates



Investment returns

OTHER ASSUMPTIONS



Personal expenses



Economic growth rate



Currency exchange rates



Salary growth rate



Savings rate



Emergency fund requirements



Government benefits



Home value appreciation



Home equity



Retirement Income Example

“WHAT INCOME CAN I COUNT ON,
AND WHERE WILL IT COME FROM?”

THAT MIGHT INCLUDE:

- SOCIAL BENEFITS
- RETIREMENT ACCOUNTS
- PENSIONS
- INVESTMENT INCOME
- PART-TIME OR FLEXIBLE WORK

1. What is your annual contribution?



If you make \$150k, and your savings rate is 10%,
your annual contribution is \$15,000

2. How much will this become when I plan on retiring? (Use a compound interest calculator online, or the beloved annuity formula)

$$FV = P \times \frac{(1 + r)^n - 1}{r}$$

Where:

- P = annual contribution
- r = annual return (4% or 0.04)
- n = number of years (20)
- PV = current savings (\$14,000)

Given

- Monthly contribution (PMT): \$1,250
- Time period: 30 years
- Annual return: 8%
- Compounding: monthly

Step 1: Convert to Monthly Terms

- Monthly interest rate:

$$r = \frac{8\%}{12} = \frac{0.08}{12} = 0.0066667$$

- Total number of contributions:

$$n = 30 \times 12 = 360$$

Step 2: Annuity Future Value Formula

For regular monthly contributions (ordinary annuity):

$$FV = PMT \times \frac{(1 + r)^n - 1}{r}$$

Step 3: Plug in the Numbers

$$FV = 1,250 \times \frac{(1.0066667)^{360} - 1}{0.0066667}$$

Step 4: Final Calculation

$$FV = 1,250 \times 1,491 \approx 1,863,750$$

Step 1: Initial Investment

Initial Investment *

\$0

Amount of money that you have available to invest initially.

Step 2: Contribute

Monthly Contribution

\$1,250

Amount that you plan to add to the principal every month, or a negative number for the amount that you plan to withdraw every month.

Length of Time in Years *

30

Length of time, in years, that you plan to save.

Step 3: Interest Rate

Estimated Interest Rate *

8

Your estimated annual interest rate.

Interest rate variance range

Range of interest rates (above and below the rate set above) that you desire to see results for.

Step 4: Compound It

Compound Frequency

Monthly

Times per year that interest will be compounded.

CALCULATE

RESET

The Results Are In

In **30** years, you will have **\$1,862,949.31**

How much income can I draw from this in retirement?



Option 1: The 4% Withdrawal Rule

How it works

You withdraw **4% of the portfolio in year one**, then adjust that dollar amount for inflation each year.

The math

- $\$1,860,000 \times 4\% = \$74,400$ per year
- That's **\$6,200 per month**

Pros

- ✓ Portfolio stays **liquid** (you keep control)
- ✓ Potential for **growth** if markets do well
- ✓ Ability to leave money to heirs
- ✓ Flexible (you can spend more or less)

Risks

- ⚠ **Market risk** (especially early retirement downturns)
- ⚠ Income is **not guaranteed for life**
- ⚠ Emotional stress during bad markets
- ⚠ Requires discipline (no overspending)

Option 2: Annuity Income

We'll assume a **single premium immediate annuity (SPIA)** or income-focused annuity purchased at retirement.

- ⚠ Rates vary by age, gender, and market conditions — this is illustrative.

Typical payout range

For someone in their mid-60s:

- **5%–6% payout rate** is common

Let's use 5.5% for a middle-ground example.

The math

- $\$1,860,000 \times 5.5\% = \$102,300$ per year
- That's **\$8,525 per month**
- **Guaranteed for life**

Pros

- ✓ **Guaranteed income** (no market stress)
- ✓ Higher predictable cash flow
- ✓ Longevity protection (you can't outlive it)
- ✓ Simplifies decision-making

Trade-offs

- ⚠ Capital is **no longer liquid**
- ⚠ Usually **little or no inheritance** (unless riders added)
- ⚠ Inflation protection may cost extra
- ⚠ Less flexibility



My favourite way to look at this is a “quick and dirty” calculation:

How Much Do I Need for Retirement?

The 25x Rule (Simple & Practical)

The 25x rule is an easy way to estimate how much you need for retirement.

Rule:

Save 25 times your annual retirement spending.

It's the reverse of the well-known 4% rule.

How It Works

1. Estimate how much you want to spend **per year** in retirement
 2. Multiply that number by 25
 3. The result is your **target retirement portfolio**
-

Examples

- $\$60,000/\text{year} \times 25 = \1.5M
- $\$75,000/\text{year} \times 25 = \1.875M
- $\$100,000/\text{year} \times 25 = \2.5M

If you have **\$1.86M**, a 4% withdrawal provides about **\$74,400 per year** (\approx \$6,200/month).

NOW THAT WE KNOW THE GOAL: HOW DO WE GET THERE?

Once you have a rough retirement target, the next decision is how much risk you're willing to take to reach it. **There is no free lunch in investing.**

Higher expected returns always come with higher uncertainty.

Lower risk always comes with lower expected returns.

Every portfolio is a choice along that spectrum.

OPTION 1: 100% EQUITIES (MAXIMUM GROWTH, MAXIMUM VOLATILITY)

Expected long-term return (historical range)

- ~7–9% real return (after inflation) over long periods
 - Short-term returns can be wildly positive or negative
-

OPTION 2: EQUITIES + BONDS (GROWTH WITH STABILITY)

Expected long-term return

- ~5–7% real return, depending on the mix
 - Smoother ride than all equities
-

OPTION 3: BONDS AND “BOND-LIKE” ASSETS (STABILITY & PREDICTABILITY)

Expected return

- ~2–4% real return
- Much more predictable
- Often income-focused

STEP FIVE:

SENSE-CHECK YOUR PLAN



DOES *this* PLAN *actually fit your life?*

01 / Does this plan feel realistic?

- Can you actually follow it month-to-month?
- Are the savings and investing targets achievable without constant stress?
- If life got messy for a year, could you stay mostly on track?

02 / Does it match your risk comfort?

- How would you feel during a market downturn?
- Would short-term volatility cause panic or second-guessing?
- Are you sleeping well with this level of risk?

03/ Does it support what matters most right now?

- Does it protect your essentials first (cash flow, emergency fund, insurance)?
- Are near-term needs balanced with long-term goals?
- Does it reflect your current season of life?

04 / What assumptions are we making?

We ask:

- What if returns are lower?
- What if income changes?
- What if priorities shift?

If something changes, do you know what to adjust?

YOU SHOULD LEAVE THIS STEP KNOWING:

- **WHICH LEVERS MATTER MOST (SAVING MORE, WORKING LONGER, SPENDING LESS, CHANGING RISK)**
- **WHAT ACTUALLY MOVES THE NEEDLE**
- **THAT SMALL ADJUSTMENTS OVER TIME BEAT DRASTIC CHANGES LATER**

STEP SIX:

TAKE INTENTIONAL ACTION



How action actually happens



Automate what you can (contributions, transfers, bill payments)



Sequence decisions (you don't need to do everything at once)



Assign ownership (what you do vs. what other people do)

EXAMPLES OF INTENTIONAL ACTIONS

- INCREASING RETIREMENT CONTRIBUTIONS BY 1-2% THIS YEAR
- SETTING UP AUTOMATIC MONTHLY INVESTING
- REALLOCATING SAVINGS SITTING IN LOW-YIELD ACCOUNTS
- OPENING OR FUNDING AN EMERGENCY RESERVE
- CHOOSING A "DEFAULT" PORTFOLIO ALIGNED WITH YOUR RISK TOLERANCE

STEP SEVEN:

REVIEW, ADJUST, AND CONTINUE



Your financial plan is not a one-time decision, it's a living system.

Life changes. Markets change. You change.

This step is about staying aligned, not staying perfect

WHAT GETS REVIEWED REGULARLY

- Your goals – Are they the same? Have priorities shifted?
 - Your progress – Are you saving, investing, and spending as intended?
 - Your assumptions – Income, expenses, returns, timelines.
 - Your risk comfort – Does your strategy still feel right emotionally and practically?
-

CHANGES YOU CAN INFLUENCE

- Career or income shifts
- Family or relationship changes
- Housing decisions
- Savings and investment behavior

CHANGES YOU CAN'T CONTROL

- Market returns
- Inflation
- Tax and policy changes
- Economic cycles

The goal isn't to predict these, but to be able to adapt thoughtfully when they occur.

The big picture

If your goals stay the same, small adjustments often keep you on track.

If your goals change, the plan should change too.

Your Webinar Title

This is how financial
independence is built:
Review. Adjust. Continue.

