GODWIN INSURANCE BROKERAGE

7 Keys to Achieve Financial Success

"What should I do?" Over the years, I've been asked innumerable times by people for advice about investments, insurance, and other financial matters in the hope that there is a simple, one-size-fits-all strategy that can be easily implemented in their own lives.

I wish there was a single solution, that one plus one always equals two, but that is not the case in the real world. Every person is unique with a differing set of goals, responsibilities, knowledge, tolerance of risk, time, and energy. As a consequence, the path you will travel to reach your goals is personal and suited to you alone; it begins with determining your desired destination. The first step to getting the things you want out of life is to decide what you want.

What Does "Financial Success" Mean to You?

H.L. Hunt, a famous Texas oil man of the 1950s, supposedly said, "Money is just a way of keeping score." He was wrong. The pursuit of wealth is not a game – it is the means by which you achieve the following:

- **Security**. The desire to protect yourself and your loved ones from unknown possible future calamity is a good reason to build monetary assets.
- **Physical Comfort**. As Spike Milligan said, "Money can't buy you happiness, but it does bring you a more pleasant form of misery."
- **Free Time**. Wealth means no waiting in lines, following your own agenda, and spending your hours in the pursuit of your own desires, not those of another.
- **Peace of Mind**. Knowing that you have prepared for any curves that life might throw at you brings confidence, tranquility, and satisfaction.

Your financial success should be translated into a series of financial milestones, specific assets, or levels of net worth to be reached at each stage of your life. You might, for example, might want to purchase a home by age 35 or pay for college education for your children. Accordingly, the amount, composition, and financial characteristics of your financial assets will necessarily vary over time as your circumstances change and a new milestone is targeted.

Core Financial Principals

Neither I nor any other "expert," regardless of our professional credentials or business achievements, can guarantee that you will reach any of your personal milestones. However, there are principles and key practices that are followed by every successful investor and will improve the odds that you too can achieve your objectives.

1. Spend Less Than You Earn

This first principle is easily the hardest to implement and the most essential to your success. However, it is crucial that you understand the difference between a "need" and a "want." For instance, you may "need" a reliable method of transportation to move from one location to another, while you "want" the newest luxury-model automobile with leather seats, GPS system, and chrome wheels. Don't be seduced by the false promises of advertisers and salesmen. Use your money for essentials and save the excess for the future – the time for extravagance is *after* you've reached your goals.

2. Trust Your Instincts

No one has your interests in mind to the same degree that you do. You and your family will be the ultimate beneficiaries or victims of your financial decisions or those made on your behalf. For that reason, you should *never* take or agree to any investment action that you do not fully understand and are in total agreement with.

3. Fulfill Responsibilities to Loved Ones

Remember, you're not the only one in the boat. If something happens to you, such as the loss of your job, a serious illness, a disabling accident, or a premature death, others dear to you will be affected emotionally and financially. These obligations are best met by the judicious purchase of three important forms of insurance:

- **Health Insurance**. The likelihood that you will experience an illness, medical condition, or accident requiring medical treatment is extremely high, and the costs of the subsequent treatment can be devastating. As a consequence, the purchase of health insurance should be every person's first priority. You can save money on premiums by enrolling in your employer's plan if it provides one, and by selecting a high deductible before the insurance company becomes liable. The difference between a $300 deductible and a $3,000 deductible can be several thousand dollars a year for a family. If you can qualify for a health savings account (HSA), establish one through **Lively** for the tax benefits it provides.
- **Life Insurance**. A young, single person needs only enough insurance to pay his debts and burial expenses; parents with one or more children need enough insurance to replace their incomes for the family until the children become adults or through college. The cost of raising a child to

age 18 (not including college), for example, was $226,920 in 2010 for the average middle-class family. The average cost for college tuition and room and board for a full-time student is an additional $17,633 per year; if you want your kids to go to a private four-year college, plan on a whopping $32,790 per year. Fortunately, the cost of term life insurance for a young adult is surprisingly inexpensive. For example, a healthy non-smoker at age 25 might buy coverage for as low as $25 a month for $500,000 of insurance. Both income earners in a family should have term life insurance, as their income should be replaced in the event of a death. Godwin **Insurance Brokerage** is one of the best places to search for a life insurance policy. We will show you quotes from all the top companies so you know you're getting the best rate possible.

- **Disability Insurance**. The insurance industry suggests that the odds of suffering a disabling injury that keeps you from working at least 90 days are 80% for the average 25-year-old. While your specific odds may be lower, depending upon your lifestyle and occupation, the impact of a disability is such that you should protect yourself and your family with disability insurance**.** Most employers who offer health insurance also offer a disability component. If it is available, take it – it is a small cost to pay for peace of mind.

4. Establish an Emergency Cash Fund

Bad things can happen. The amount of funds in your emergency fund should be an amount equal to a minimum of six months' income in a cash or savings account. In other words, if you earn $60,000 after tax, have a minimum of $30,000 saved before you begin to consider other investments. While this amount may seem to be unreasonably high, you should keep in mind that according to a US News survey, the average duration between jobs in 2010 was 33 weeks – or more than seven months. It does not make financial sense to invest funds which might be needed with little notice in an investment that moves up and down in value; invariably, it will be low when you need to liquidate.

You can build emergency funds more quickly by taking advantage of employer-offered matching funds plans. In many cases, employers will match your investment dollar for dollar up to a specific percentage of your income in a company-sponsored plan. This means you make a return of 100% on your portion before you make any investment earnings. Take full advantage of any matching funds that your employer might offer.

Since your emergency fund should be kept in a low-risk security, consider the rates being offered by U.S. Treasury notes and bonds, as well as savings accounts of different banks and financial institutions like **CIT Bank**. For example, a credit union, which has similar federal guarantees for their deposits, might pay a higher interest rate on your savings than a bank.

5. Make Time Your Friend

Recognize that financial security for most people is the result of a lifetime of accumulation, not a lucky event nor a sudden miracle. There is no mythic figure handing out million-dollar gifts, and all investments are not Apple or Microsoft. However, time and consistent investment can result in very large sums.

For instance, $100 per month at age 25 invested in a savings account at 5% per year will grow to almost $145,000 by retirement at age 65. The same investment in a balanced stock and bond fund with its historical 30-year return rate of 9.5% would grow to more than $460,000 during the period. Establish the habit of making some investment, no matter how small, each month. Don't have an investment account open? Start one today with **M1 Finance**. They have no trade fees and no commissions.

6. Diversify Your Investments to Balance Risk and Reward

When you have adequate insurance and an emergency fund balance, it's time to consider other investments. There is an array of possible investments, each of them with different investment characteristics.

Common stocks are popular with beginning investors, since their prices are readily available and securities can be easily purchased or sold most of the time. Equity securities can be purchased as stock in a single company, as an unmanaged portfolio of different company stocks or of stocks in different companies in different industries, or as a portfolio of stocks managed by a highly-trained professional manager with a public track record of results. Real estate is also popular with special income tax benefits, but real estate is generally more expensive to buy and sell and less liquid; it's harder to turn your investment into cash.

Regardless of your investment choice, remember that all investments are volatile – they go up and down based upon the number of buyers and sellers at any specific time. While we are most aware of this regarding stocks because their price variations are reported in the daily newspaper, the value of real estate also varies over time. For this reason, no more than 10% of your assets should be invested in a single security or piece of real estate.

7. Relax and Take the Long, Certain Road to Financial Success

The ability to accept the unknown and to cope with the unexpected (such as wide swings in stock prices) is often referred to as "risk tolerance." Everyone has a different level of risk tolerance which can also vary from day-to-day within a single person.

If you have any investment or might be considering an investment that will keep you up at night worrying about its outcome, avoid it or get rid of it. There are too many other viable investment opportunities available that will meet your objectives for you to lose sleep or suffer undue concern. If misfortune occurs, scream, take a deep breath, and make the best decision you can based upon the facts available to you. There are few things that can't be remedied, including bad investment returns.

Final Word

Whether you're a new investor just starting on the road to financial security, or a middle-aged investor looking at your upcoming retirement, these are the keys that can help you put yourself in a comfortable financial situation. Remember that achieving financial security often takes the greater portion of one's life, and there are few shortcuts. If you've made good choices and have avoided most of life's financial disasters, you will spend the rest of your life living on the fruits of your investments, possibly leaving an estate for your children.

What other tips can you suggest that can help lead to financial success?