

Brad Brain: If we were to meet in three year's time...

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Brad Brain: "Financial planning is all about making decisions that are consistent with your financial objectives. The problem is, what if you haven't defined your financial objectives?"

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Last week, I wrote about getting your finances back on track. I quoted Charlie Munger, who said, "A majority of life's errors are caused by forgetting what one is really trying to do." In my experience, this is one of those truisms that nobody is going to argue against, yet some people find it hard to recognize when their own behaviour is disconnected.

Financial planning is all about making decisions that are consistent with your financial objectives. The problem is, what if you have not defined your financial objectives?

Imagine this. Someone walks onto a car lot, and says, "I want to buy a vehicle. How much does it cost?" How does the car salesman answer that? They can't, really. Vehicles have different prices. You have new ones and used ones, basic and loaded models. There isn't just one price that applies to every vehicle on the lot.

"Just give me the best one," the car shopper says. Well, the best one for what? Do you want to drive in style, or do you want to haul dirt? There are sports cars and there are pickup trucks.

They are designed to do different things. Way back in the day I had an Eagle Talon. Great car. All-wheel drive, turbo. Very fun. Little bitty trunk space. I eventually traded it in on a pickup.

Nobody just walks onto the car lot and say, "give me the cheapest," or "give me the best," without first thinking about what they want to use it for. I have a motorcycle, and I have a one-ton diesel pickup. Both are great at what they do, but I don't joyride in the truck, and I don't pull a trailer with the motorcycle.

When it comes to vehicles, it's pretty obvious that certain ones are more suitable to a particular use than others. But things are not always as clear when it comes to money decisions.

I really do have people ask me, "How much do investments cost?" and I really do have people ask me "What's your best investment?" But without any context, without first defining the objectives, these questions make little sense.

A journey begins with a destination. Otherwise it is just wandering. As Lewis Carroll wrote in Alice's Adventures in Wonderland...

"Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where –" said Alice.

"Then it doesn't matter which way you go," said the Cat.

Just like when shopping for a vehicle, you need to figure out what it is that you want to accomplish. Only then can we know what is appropriate to meet your objectives.

Planning for the future can sometimes be daunting. Where do you start?

Start with this: Let's say that we were to meet for coffee three years from today. What are all the things that you would like to have happened in the time from now until then for you to feel happy about your progress? Don't just think about money. Think about your health, your family, your time, your capabilities. Think about your Great Goals in Life.

If you don't know where you are going, then any road will do. So first figure out where it is that you are trying to get to. Once you know that, the rest is easy. You just keep making decisions that are consistent with your objectives.

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