Financial Goals



Setting Goals

A **goal** is a destination, something you want or need, which you acquire by taking certain steps. It gives direction to your plan of action. One of the most valuable things you can learn to do is to identify your goals clearly. Your goal might be to travel to Florida over Spring Break. You may have a goal to install a new equalizer in your car's sound system. Or it might be to buy a new coat because your old one is too small.



To be really effective, goals should always be in writing and should be meaningful to you. Your friend's goals might be really cool, but they won't mean as much to you as your own goals, which are based on your values. It's helpful to define your goals in a **"SMART"** way. Think of it like this:

S pecific. "I want to spend my entire Spring Break at Daytona Beach." Not "I want to do something fun over Spring Break."

M easurable. "I need $120 for my share of the gas, hotel room, and food for the week." Not "I need some money for my trip."

A ttainable. "I'll save $15 a week from Thanksgiving until Spring Break." Not "I'll win a weekly radio call-in contest to get the money to pay for my trip."

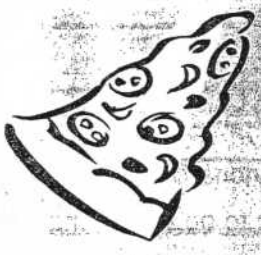
R ealistic. "I plan to drive from Omaha to Daytona in about 24 hours by using four drivers." Not "I want to drive from Omaha to Daytona in about half a day."

T ime-bound. "I'll have the $200 for my trip expenses saved up by March 5th." Not "I want to save up enough money by early spring."

Think of your goals as what you want to be, do, or have—in other words, where you want to go. Remember, part of setting SMART goals means they are realistic and attainable.

It's very helpful to break up your goals into three time periods for planning purposes.

Sample SMART Goal Timelines.



Short-term: to save $25 by the 1st of next month so I can take my friend out for pizza and a movie.

Intermediate-term: to save $10 a week for the next 25 weeks to buy a new outfit for the prom.



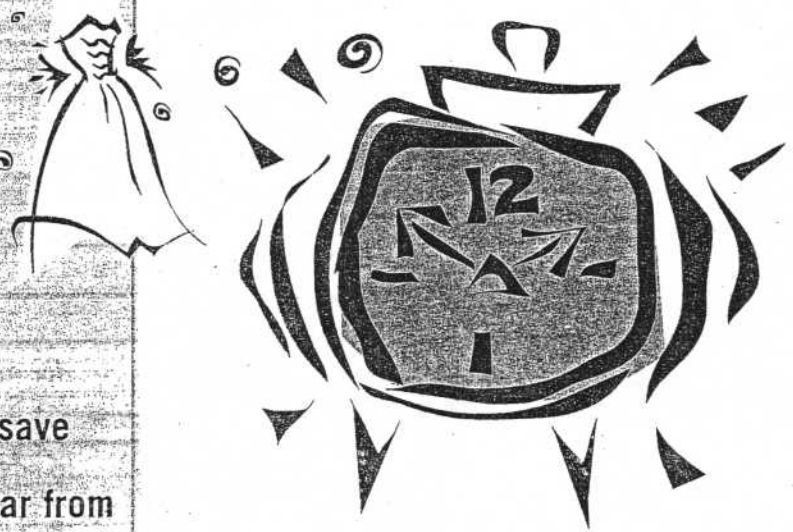
Long-term: to save $2,000 per year from summer jobs for the next four years for a down payment on a new car.

Timelines for Goals

Short-term goals have a time frame of up to three months. Intermediate-term goals take place between three months and one year. And long-term goals are out more than a year. Those long-term goals require patience to achieve and a willingness to give up something you want now in return for something better later.

This is known as **delayed gratification.** For example, a person can buy a new shirt now on credit—and possibly pay more for it—or save up the money to pay cash for it later. With the national savings rate close to zero, many people are apparently choosing instant gratification instead of waiting!

If you're like most people, you may have noticed that the total of all of your goals takes more money than you can set aside each week. Don't puzzle over that too long for now. We'll talk about how to handle that problem later.





Action Steps

"Little Steps = Big Goals"

First, write down two BIG financial goals you would like to reach in your lifetime. Remember, reach for the stars. The sky's the limit!

Big Goal

1 **First step**

2 **Second step**

Then, write down two small steps you could take today that would move you closer to achieving each big goal.

Big Goal

1 **First step**

2 **Second step**

"Those who reach,

touch

the stars."

National Endowment for Financial Education – 2001
(High School Financial Planning Program)

Key Investment Principles

The Rule of 72

Mathematicians have come up with a simple rule based on this concept of compounding. It's called the **Rule of 72,** and it tells you how long it takes your money to double in value. This is an incredible way to earn more money without lifting a finger. Well, you may have to lift a finger to move some of your earnings from your savings account to an investment, but you get the drift.

Here's how it works. You divide 72 by an interest rate to determine the number of years it will take your money to double. For example, assume you can earn 6% on your money. How long will it take $100 to grow to $200?

72 ÷ 6% interest = 12 years

That's right. At 6%, your money will double in value in 12 years.

On the other hand, say you have a set time period in mind. You can figure out what interest rate you need to earn to double your money. If you have $200 today and need a total of $400 in eight years, what interest rate do you need to earn?

72 ÷ 8 years = 9% interest

With eight years to invest, your money will double if you can earn 9%.

Along with compounding and the Rule of 72, there are some other concepts you can use to your advantage with your savings and investments.

Time

We touched on the importance of time earlier when we discussed the time value of money. But let's expand on that key point a little more. The fact is, the more time you have to reach your savings goal, the more money you will have at the end of that time.

For example, assume you're 16 years old and decide to invest $1,000 a year—money you earned from your summer jobs—in an account that grows by 9% per year. You faithfully set aside the money each year for 10 years, but you decided to stop at age 25.

At that time, you finally convince your best friends—who are also now 25—to start setting aside some money for their future. They begin now to put away $1,000 every year, and they also are able to earn 9% on their money. After 25 years, you all get together at your 50th birthday party and compare notes. Who has the most money? Figure 4.1 on the next page shows the surprising result.

Even though your friends invested more than twice as much as you did, you end up with over $46,000 more. Why? You took advantage of time, by starting to save earlier.

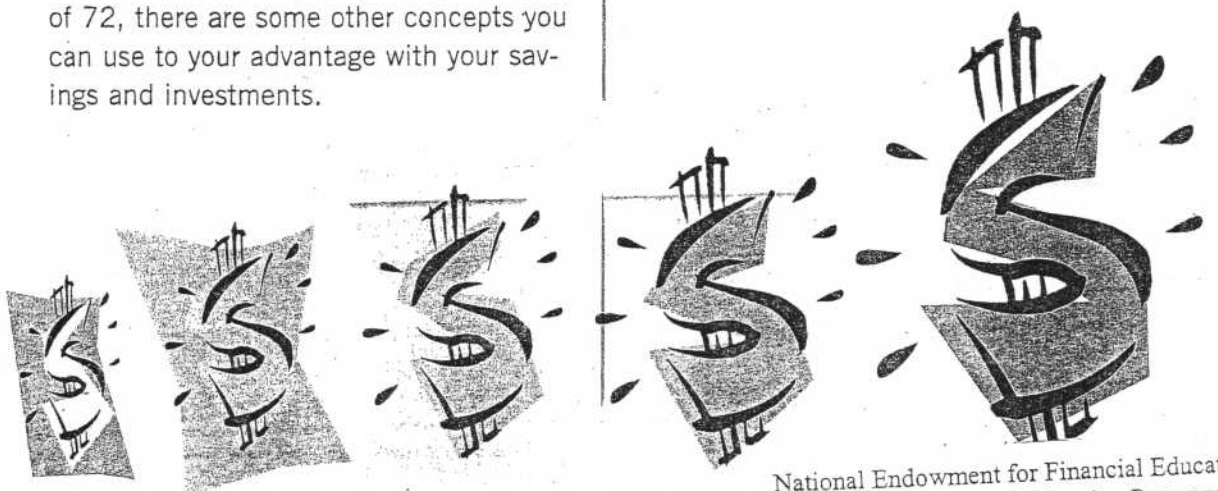


Figure 4.1

The Advantage of Starting Early

The Impact of Time on the Value of Money

You		Your Friends	
Age	Saving Early	Age	Saving Later
16	$1,000	16	
17	$1,000	17	
18	$1,000	18	
19	$1,000	19	
20	$1,000	20	
21	$1,000	21	
22	$1,000	22	
23	$1,000	23	
24	$1,000	24	
25	$1,000	25	
26		26	$1,000
27		27	$1,000
28		28	$1,000
29		29	$1,000
30		30	$1,000
31		31	$1,000
32		32	$1,000
33		33	$1,000
34		34	$1,000
35		35	$1,000
36		36	$1,000
37		37	$1,000
38		38	$1,000
39		39	$1,000
40		40	$1,000
41		41	$1,000
42		42	$1,000
43		43	$1,000
44		44	$1,000
45		45	$1,000
46		46	$1,000
47		47	$1,000
48		48	$1,000
49		49	$1,000
50		50	$1,000

Total of $10,000 Invested

Total of $25,000 Invested

Amount Available at Age 50:

$131,050 **$84,701**

Difference Due to Starting Early: **$46,349**

Morganne and Her Friends

Morganne's Grandparents invest $2,000 a year for four years (Morganne's age 18–21) at 10% interest.

Total Invested: $8,000

Value at Age 65: $615,000

Ben and Hailey invest $2,000 a year for 35 years (age 30 through age 64) at 10% interest.

Total Invested: $70,000

Value at Age 65: $596,254

Morganne

Age	Contributions	Year End Value
18	$ 2,000	$ 2,200
19	2,000	4,620
20	2,000	7,282
21	2,000	10,210
22	0	11,231
23	0	12,354
24	0	13,590
25	0	14,949
26	0	16,444
27	0	18,088
28	0	19,897
29	0	21,886
30	0	24,075
31	0	26,483
32	0	29,131
33	0	32,044
34	0	35,248
35	0	38,773
36	0	42,651
37	0	46,916
38	0	51,607
39	0	56,768
40	0	62,445
41	0	68,689
42	0	75,558
43	0	83,114
44	0	91,425
45	0	100,568
46	0	110,625
47	0	121,687
48	0	133,856
49	0	147,241
50	0	161,965
51	0	178,162
52	0	195,978
53	0	215,576
54	0	237,133
55	0	260,847
56	0	286,932
57	0	315,625
58	0	347,187
59	0	381,906
60	0	420,096
61	0	462,106
62	0	508,317
63	0	559,148
64	0	615,063
Total at Age 65		$ 615,063

Ben and Hailey

Age	Contributions	Year End Value
18	$ 0	$ 0
19	0	0
20	0	0
21	0	0
22	0	0
23	0	0
24	0	0
25	0	0
26	0	0
27	0	0
28	0	0
29	0	0
30	2,000	2,200
31	2,000	4,620
32	2,000	7,282
33	2,000	10,210
34	2,000	13,431
35	2,000	16,974
36	2,000	20,872
37	2,000	25,159
38	2,000	29,875
39	2,000	35,062
40	2,000	40,769
41	2,000	47,045
42	2,000	53,950
43	2,000	61,545
44	2,000	69,899
45	2,000	79,089
46	2,000	89,198
47	2,000	100,318
48	2,000	112,550
49	2,000	126,005
50	2,000	140,805
51	2,000	157,086
52	2,000	174,995
53	2,000	194,694
54	2,000	216,364
55	2,000	240,200
56	2,000	266,420
57	2,000	295,262
58	2,000	326,988
59	2,000	361,887
60	2,000	400,276
61	2,000	442,503
62	2,000	488,953
63	2,000	540,049
64	2,000	596,254
Total at Age 65		$ 596,254



Action Steps

"Get Started With Your Savings Habit Now!"

Think about these three ideas, which could help you get started with your savings habit—NOW. Check the one(s) you think will be the best for you, and write the date you are going to begin.

Savings Idea	How It Works	My Choice	Date I Will Begin
Pay Yourself First	From each of your paychecks or allowance, deposit a set dollar amount, or percentage, into a savings account before using any of your money for anything else. You could save 5% or 10%, or you could save a set dollar amount such as $5, $10, or more.		
Catch Your Coins	At the end of each day, put all your loose change into a "savings" container. Once a month, deposit the coins from your container into a savings account.		
Bank Your Surprises	Whenever you receive "unexpected" money, such as a cash gift, put a portion of it into a savings account.		

