How to prioritize your financial goals

Articulate where you want to be in the near, medium and long-term; only then can you establish financial milestones needed to get there

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It's a given that financial goals must be marshalled according to life goals. After all, as the old saying goes, "If you don't know where you're going, you will probably end up somewhere else." Veteran money coach and Certified Financial Planner Karin Mizgala vividly recalls a surprising encounter with a client who had actually achieved her financial goals. We'll call her Charlene.

When B.C.-based Mizgala, CEO and co-founder of advice-only financial planners Money Coaches Canada, ran the numbers and told her client she was ready to retire, Charlene's response was unexpected and unforgettable. "She burst into tears," Mizgala remembers. It was a complete mix of delight and horror in almost equal measure. "It was like opening the bird cage and saying 'Fly!'" But the truth of the matter was Charlene was pretty comfortable in the cage.

This true story illustrates the importance of basing your financial plan on your real-life goals. "A goal is the fundamental starting point for any financial plan," Mizgala says. Without doing that preliminary thinking, "it's pretty hard to create any robust and meaningful plan."

But when you're slogging along in the mid-point of a career and raising a family, you may not have the leisure or perspective to visualize what your after-work life might look like, or the financial milestones needed to get there.

"Lots of our time spent with clients is to help them tease out goals. It's not easy," Mizgala says. Most arrive with general statements such as, "I want more money or to retire." To be meaningful, a goal ought to be specific. A simple discussion with your partner can be a good starting point. "It can be a revealing exercise that comes as a surprise to a spouse; 'I didn't realize you wanted that.'"

Broadly speaking, Mizgala finds most clients want to achieve one or more of the following financial goals: to buy a house or real estate as an investment; to get out of debt; to help get the children educated and launched; and have enough cash left over to do as they please in retirement. "Not many have goals different than those," she says.

As with any long-term challenge, you need to take it one manageable step at a time. Not sure where to start? Long-time MoneySense contributor Bruce Sellery helps answer the question with his Priority Pyramid which establishes the fundamentals of wealth-building.

There's little point in chasing 1% cash-back if you're paying 20% annual interest on credit-card debt for instance. First, familiarize yourself with your actual cash flow, get debt down to manageable levels and keep spending within your means. Only then can you start to focus on what to do with any surplus. The pyramid dictates that any initial surplus needs to be in liquid savings (such as a TFSA) in order to handle unexpected emergencies. Once that's in place, you can move to the next higher priority, which eventually includes investing for long-term growth.

That’s the high-level overview but when it comes to actual tactics you can implement, consider these 11 steps to financial freedom and accompanying worksheets to turn your priorities into action.

Investment coach Aman Raina of Toronto-based Sage Investors says those with a better chance of achieving their goals tend to have at least a high-level financial plan or “roadmap that will identify milestones and action items.” Raina cites himself as an example; he’s saving for his kids’ university education. He knows how much will be needed and when, and has planned out updates to his asset mix so his investments will be 100% safe and liquid by the time he needs the cash. “Having a financial plan instills a discipline and engagement to stay true to our goals and removes the emotional battles that can take us off the path.”

Raina also recommends developing an investment playbook to help prioritize and select investments. An investment playbook defines your investing goals and ideology, establishes proper asset allocation, outlines the entry and exit points for buying and selling securities, determines how you’ll invest in rising or falling markets, defines your contribution rate and ultimately what your withdrawal strategy will be once the money is required.

The future will most certainly arrive; Charlene can attest to that. When it does, the financial plan you set in motion decades earlier will hopefully determine whether your response will be tears of joy or of regret.