New Year’s Financial Resolutions

The new year is a symbolic time for fresh beginnings and provides an opportunity to review and reflect on the past year. We can revisit past aspirations and contemplate decisions made, set new goals, and vow to commit to these new ambitions throughout the course of the upcoming year so that we might be better individuals at year end.

In addition to the main areas of our lives that we re-examine: our health, career and family commitments, we should also add to the list our finances. With 2008 fast approaching, there is no better time to assess and evaluate how we measured up in the financial realm of 2007 by performing an annual financial review.

To assist you with your financial health check and to guide you in setting your financial resolutions for the new year, I have listed below what I refer to as the “4 R’s” – Review, Rebalance, Reduce, Reassess.

Review

Throughout the year, events may have occurred that would have altered your financial welfare and hence warrant a review of your expenses and income, such as marriage, divorce, an addition to the family, or even a financial windfall. These events would undoubtedly affect your monthly earnings and expenditure and consequently require adjusting. With your revised budget in hand, you can plan for the future taking into account these new changes while ensuring that you live within your means thereby giving you peace of mind.

On the same token, by revisiting your budget you can determine how much extra cash, if any, you have available to put towards savings. After establishing new savings goals for the upcoming year, one of the best ways to help you reach these goals is to set up automatic transfers from your salary account to a designated savings account. In so doing, you avoid any temptation in spending your hard-earned money which has been allocated for savings.

Rebalance

Change is inevitable and as such any alterations in your financial situation, future needs, investment strategy or risk tolerances would necessitate a change to your asset allocation mix. Moreover, by the end of the year, chances are that the value of each of the securities within your investment portfolio would have earned different returns resulting in a change in the weighting of each asset class within your asset allocation strategy.

For these reasons, it is vital that you rebalance your investment portfolio to realign your investments back to your original asset allocation mix. By so doing, you will ensure that your investment goals are not compromised and that you do not encounter any additional risk.

Reduce

The heavy shopping and excessive spending for the Christmas season usually results with the ringing in of the New Year in an accumulation of credit card debt which puts your finances in a whirlwind. While it is easier said than done, it would be in your best interest to reduce this credit card debt as soon as possible as credit cards tend to carry very high interest rates. Determine how much you can realistically afford, taking into account your other financial commitments, and make it your duty to set aside a fixed amount every month to lowering this liability. This fixed amount should be separate from the minimum monthly payment that is required.

For those with multiple credit cards, start with the credit card debt that has the highest interest rate and pay the combined amount (the allocated monthly total plus the minimum payment) until the debt is completely repaid. Once the debt on this credit card is paid off, repeat this process towards the credit card debt with the next highest interest rate.

While paying off your arrears, try not to incur additional debt on your credit cards, or at least keep it to a bare minimum and use your cards only in an emergency, as the goal here is to minimize the amount owing.

Reassess

Reassess your retirement savings. With the increase in the cost of living, we want to ensure that we have enough money put aside to ensure that our golden years are lived out fully and that we are financially sound to enjoy doing the things that we love to do. Additionally, as health concerns also raise as we grow older, we want to make certain that we have funds reserved to cover any medical expenses that may arise.

I don't need to tell you of the importance of starting to save and invest for retirement as early as possible. This merely serves as a gentle reminder to not overlook your retirement plan contributions and your retirement investments. In reviewing your budget, look at your expendable income and see how you might be able to maximize on your contributions and plan accordingly. Also, consult with a financial planner to invest those savings to ensure that your contributions are not eroded by inflation.

In addition, the tax savings is an added benefit to encourage you in setting aside money today towards your retirement savings. The 2007/2008 Budget proposed an increase in the deduction for contributions to approved pension fund plans and deferred annuities from $12,000 to $25,000. This has the benefit of reducing your taxable income by the total amount you contribute to your retirement plan. So reassess your retirement savings and start the new year knowing that you are carefully planning today to fulfill your retirement dreams later on.

With your financial resolutions now in mind, you are one step further in preparing yourself for the arrival of the new year. A note of caution, your financial aspirations for 2008 should be realistic, reasonable and clearly stated so that you can meet your desired goals. It would be prudent to also set periodic dates throughout the year, maybe quarterly, to assess and measure your performance as you work towards your financial goals.

Nancy Chen
Research Analyst
West Indies Stockbrokers Limited (WISE)
nancyc@wisett.com