

[Home](#) > [News & Opinion](#) > [Business News](#)

Building wealth: Ten steps to take to achieve financial independence

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The other day a longtime client asked me how he should go about advising his adult son who, according to my client, was short on financial prudence, has a hodgepodge of investments and has no financial direction or a plan.

This got me thinking not only about this gentleman but many others who for one reason or another are confused by the complexity of the investment world resulting in inertia and inaction.

The 10 steps below are short cuts based on my experiences advising clients over the years and, in my opinion, can become important stepping stones in not only getting a financial planning process started but also keep it on track.

Step 1: Have goals

Nothing complicated here, figure out what you need to achieve financially and when. From buying a house, to your children's education, to retirement. Details are crucial, amounts and dates are necessary. Pen and paper or a computer is needed for this exercise. This will propel you to Step 2 below -- particularly if you can visualize achieving these goals.

Step 2: Motivate yourself to save

Motivation is always self-induced and is based on inner needs. Make it easier by squeezing savings from your paycheck by automatic deductions to your 401K, savings account and brokerage accounts. Wait on buying that new gizmo or that faraway expensive trip that you can't afford.

Step 3: Pay off debt

Debt particularly credit card debt will wreck any financial plan and kill to a large extent any chance of securing a financial future. Job No. 1 should be to pay off debt, particularly the high interest rate variety and doing this must take precedence over spending or even saving if you want to come out ahead.

Step 4: Invest for the long term

Now that you have a nest egg, be determined to invest it for the long haul. Building a future requires accumulating assets, growing them and preserving them. Avoid tinkering with your portfolio. If this is one of your hobbies, replace it with a different hobby.

Step 5: Allocate assets

Building a good portfolio starts and ends with proper asset allocation. This in its simplicity means what the overall proportion of stocks, bonds or cash is in your portfolio. Remember to invest in stocks only for the long run and invest in bonds and other fixed investments for the near term.

Step 6: Diversify portfolios

Portfolios should be diversified so that there is a mix of investments which zig and zag at different times based on market conditions. Putting too much of your money in one stock or industry may work sometimes but it can be hazardous to your portfolio.

Step 7: Review investment choices

Simply picking investments that are hot today or buying stocks from a cocktail chatter is down right crazy. Get the facts, make informed judgments. From stocks to mutual funds, you can get streams of data from your library or internet if you are willing to do the work.

Step 8: Trade little

This is the bane of many a portfolio. Excessive trading based on the news of the day is a sure way to lose long term and make your broker rich at your expense. Good investments stand the test of time. If you have paid attention to picking good investments you will need to trade very little except for unusual circumstances.

Trading should be limited to situations when fundamental reasons of why you owned an investment have changed. However, you should rebalance your portfolio on an annual or semi-annual basis or when market conditions warrant it.

Step 9: Keep your cool

Market volatility is nothing new. Markets will shift based on the sentiment, events and stories or even gossip. To react to each episode by shifting your portfolio is not only unwise but can be costly from the perspective of long term performance.

Step 10: Hire a professional if you need help

Based on the nine steps above, if you have concluded that you need assistance or simply lack time or are unable to pay attention to financial matters, it is best to hire a professional.

There are professionals who can help you from financial planning to portfolio management and it may be time for you to look and find one who will meet your needs.

There is no doubt that the above 10-step plan requires inner drive, persistence and careful attention. However, the rewards are long-lasting and are more likely to help you reach your financial independence than ignoring your personal finances and hoping for divine providence to intervene on your behalf.