MONEY MATTERS — Tax and financial planning strategies

Six steps to being financially successful

By Jacob Ansel

FINANCIALLY SUCCESSFUL DOESN'T necessarily mean rich or wealthy. It means things like no consumer credit debt, a savings nest egg, a retirement account, and saving more than you spend. It takes sound, consistent choices to be financially successful. Here are six steps currently on my radar to helping you achieve financial success.

- All of my successful clients invest in municipal bonds. I recently reviewed the portfolios of my top ten clients and more than 75% of the portfolios were in municipal bonds. Municipal bonds are debt instruments issued by city and local governments, normally used to raise money for capital investment in local projects like schools, highways, bridges, hospitals, public housing, and utilities. As you age, your portfolio should change from risky to moderate to low risk and municipal bonds are terrific low risk investments with very low rates of default.

- Forget about getting rich quickly. Most financially successful clients didn't get wealthy overnight. It took years of working hard, saving money, paying down debt, investing wisely, and having a positive attitude. Unless you win the lottery or inherit money, it's pretty hard to get rich quickly.

- Pay down your debt, pay off your loans, and live debt free. Every one of my successful clients and wealthy acquaintances have little to no debt. It's hard to make your money work for you if you're paying interest at 5% and earning 5% in the market. Only have debt where it makes sense and you're earning more on the investment than paying for it, unless there's a specific tax reason to do so. Most, if not all, of the interest paid on a home loan is deductible while interest on a credit card at 7% is likely not deductible. A successful person always analyzes the debt vs. income ratio. Many websites provide a calculator (bankrate.com or yahoo finance) where you can calculate that ratio. You want to make sure your debt to income is as low as possible. Many financial experts say 5% or less is a fantastic benchmark. I say strive for 0% and you'll see how successful you are.

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The differences between people with money and those without comes down to a few good habits and smart choices. It's not all that complicated. It just takes some basic knowledge and a lot of willpower.

- Keeping a monthly, quarterly, and annual budget for all cash outlay is extremely important. Not having a plan or a budget is like driving a car in a foreign country without GPS or a map. Create a custom budget plan that works for you, compare your actual results to your budget, and make adjustments and changes as needed. I've interviewed many wealthy clients over time and always ask the same question: Do you have a budget or do you know how much you spend yearly on healthcare, entertainment, travel, and investments. More than 90% of successful clients do. Be aware of what you spend annually and consistently fine-tune the budget's categories to ensure you don't spend more than you invest.

- Fear of success. Learning to be successful requires a fair share of failure. Sometimes you have to fake it until you make it. The more times you fail, the closer you get to success. For some people, the idea of actually achieving success is so alien to them that they subconsciously sabotage their own efforts. Make it clear in your mind that you want and welcome success and as time goes by and milestones come and go, make sure you take regular time-outs to appreciate all of your achievements. Look successful and act successful and you will eventually be successful.

- If you do fail, don't become an ostrich, stick your head in the sand, and pretend nothing's happened. Accept the fact that you're going to screw up at some point, but the setback doesn't have to send you into a tailspin. When you blow your budget or make a poor investment choice, it's easy to give up and proceed as though nothing went wrong. It's much tougher to make yourself aware of your choices and their consequences, then resume the discipline it takes to claw out of your hole. Part of learning to deal with failure is learning to continually set goals. You have to work toward something in order to stay motivated, so set short-term, medium-term, and long-term financial goals and stick to them.

There are no great secrets to success; it's just a slow and steady process that requires dedication and awareness. ❑