

A.N OTHER

PERSONAL FINANCIAL PLAN

Plan Prepared on 9th March 2009

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TABLE OF CONTENTS

I.PERSONAL DETAILS..... 3

II. INTRODUCTION..... 3

III. OBJECTIVES 3

Short Term Objectives 3

Long Term Objective 4

Investment Objective 4

IV. CURRENT FINANCIAL POSITION 4

 ❖ *Summary of Findings* 4

 ❖ *Monthly Spending* 4

 ❖ *Net worth Statement* 6

V. RECCOMENDATIONS 7

 ❖ *Monthly Spending* 7

 ❖ *Investment Objective* 7

 ❖ *Investment options* 8

 ❖ *Long Term Objective* 8

VI. OTHER RECCOMENDATIONS 9

 ❖ *Emergency Fund*..... 9

 ❖ *Insurance*..... 9

VII. CONCLUSION 11

I. PERSONAL DETAILS

Client Name: **A. N Other**
Age: **22 years**
Occupation: **Student**
Residence: **Nairobi**
Marital Status: **Single**
Contact: **XXX-XXX-XXX**

II. INTRODUCTION

Overview of financial planning

A financial plan is basically a guideline that helps one identify financial goals and work out a plan to achieve them to ensure financial stability and independence. It helps you handle all aspects of your money which includes but not limited to spending, borrowing, saving and investing. In addition to charting your financial future, this plan through the interactive sessions is also aimed at educating you, the client on general aspects of finance in order to build confidence and make well-informed financial decisions.

This plan will identify your current objectives, financial position and define a road map to achieving your identified objectives. It should be reviewed regularly on implementation to evaluate the success and adjust it to meet with client circumstances at the time.

It is important to note that financial planning is an on-going and long term process and clients are advised to be patient and take a long term view in order to achieve the best results. Every effort has been taking into ensuring the accuracy of the plan, however the success of the plan may be limited by adverse market conditions that cannot be accurately forecasted at this particular time. All assumptions will be stated where possible.

As an independent personal financial adviser, I do not receive any commissions or third party referrals. I work on your behalf and not affiliated with any insurance companies, fund managers or other product providers whose services I may recommend. All recommendations made are therefore objective and in the best interest of the client.

III. OBJECTIVES

Short Term Objectives

There are no immediate short term (within a year) objectives identified which frees more cash to meet your other objectives/goals. However any goals that come up can be fitted into

your budget ensuring it does not adversely affect your spending budget. If need be, we can evaluate the new objective and re-adjust the plan to cater for it.

Long Term Objective

The only long term objective identified at the time of making this plan is the intention to save enough money in 10 years time to make the initial mortgage deposit needed when wanting to buy a home using mortgage finance.

The desired house is valued at sh10 million (at current market price) and thus would require 5% (current mortgage rates) initial deposit based on the house' value which translates into a mortgage deposit of sh500,000 in the next 10 years.

Assumption: Not factored the time value of money and thus are operating under the assumption of zero inflation.

Investment Objective

The identified investment objective is to save and invest annually a third of your total income or sh80,000. The aim of this is to ensure you are able to grow your wealth and have your investments finance your future spending thereby achieving complete financial independence.

IV. CURRENT FINANCIAL POSITION

❖ **Summary of Findings**

- Total monthly income is sh20,000
- Monthly saving on average is sh10,700
- No Investments
- Net worth is sh24,000

❖ **Monthly Spending**

Below is a summary of your estimated monthly and yearly spending.

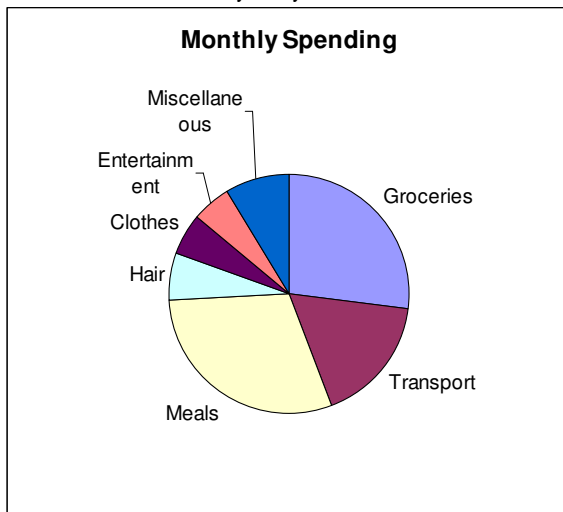


Fig.1.1: Chart of monthly spending

Item	Groceries	Transport	Meals	Hair	Clothes	Ent'ment	Misc.	Total
Percentage	27%	18%	30%	6%	5%	5%	9%	100%

Fig. 1.2: Table illustrating percentage monthly spending

<u>Estimated Spending</u>	<u>Monthly</u>	<u>Yearly</u>
<u>Income</u>		
Allowances	Ksh20,000	Ksh240,000.00
Other	Ksh0	Ksh0.00
Total Income	Ksh20,000	Ksh240,000.00
<u>Expenses</u>		
Groceries	Ksh2,500	Ksh30,000.00
Transport	Ksh1,600	Ksh19,200.00
Meals	Ksh2,800	Ksh33,600.00
Hair	Ksh600	Ksh7,200.00
Clothes Allowance	Ksh500	Ksh6,000.00
Entertainment Allowance	Ksh500	Ksh6,000.00
Miscellaneous	Ksh800	Ksh9,600.00
Total Expenses	Ksh9,300	Ksh111,600.00
Net Saving	Ksh10,700	Ksh128,400.00

Fig. 1.3: Table illustrating spending

Key assumptions:

- No inflation
- No Income taxes charged
- Income and expenditure remain constant throughout the year

This is an estimated monthly spending based on the information provided by the client so far. This will be used as a basis to budget your spending for now and can be reviewed as and when the need arises.

❖ Net worth Statement

Your net worth is the best overall measure of your financial resources. It is calculated by subtracting your total assets (what you own) by your liabilities (what you owe others). It is meant to indicate your financial position at a particular time and ideally your net worth should grow periodically as an indication you are growing financially.

Below is a summary of your net worth as at 1st March 2009.

Net Worth = Assets - Liabilities

ASSETS		LIABILITIES	
<u>Cash & Bank Balances</u>		<u>Current Liabilities</u>	
Cash at hand	Ksh4,000.00	Short Loan	Ksh0.00
Cash at Bank	Ksh20,000.00	Credit Card	Ksh0.00
Emergency Fund	Ksh0.00	Other	Ksh0.00
	Ksh24,000.00		Ksh0.00
<u>Investments</u>		<u>Long Term Liabilities</u>	
Shares	Ksh0.00	Mortgage	Ksh0.00
Bonds	Ksh0.00	Car Loan	Ksh0.00
Real Estate	Ksh0.00	Other	Ksh0.00
	Ksh0.00		Ksh0.00
<u>Fixed Assets</u>			
Vehicles	Ksh0.00		
House	Ksh0.00		
Personal Effects	Ksh0.00		
	Ksh0.00		
TOTAL ASSETS	Ksh24,000.00	TOTAL LIABILITIES	Ksh0.00

Net Worth = Sh24,000

V. RECCOMENDATIONS

❖ **Monthly Spending**

The monthly spending is important because it will affect your ability to achieve other identified financial goals. During our interactive sessions, we identified the grocery expense is an avoidable expense as you are able to obtain them at no cost from home. This should therefore bring your expected net monthly saving to approximately sh13,000 per month.

In order to better archive your monthly savings target (which will be used to finance your financial objectives), adherence to the budget is key. This therefore means spending should be a conscious decision analyzing your needs, wants and objectives when making purchases.

However as your income increases over time, spending patterns will also change as well as priorities and thus it is advisable to review your existing budget and accommodate the new changes.

❖ **Investment Objective**

Investments provide you the opportunity to grow your wealth. With a monthly saving potential of sh13,000 or sh156,000 annually, this is quite an impressive amount for a student. However it is inefficient to have all this money kept in the bank earning minimal interest (if any) and accumulating bank charges.

Ideally the older you grow, the less dependant you should be on employment income. What happens when you retire and your employment income ends? What do you fall back on? (See illustrations below). Investments are also important as they provide an avenue through which you can achieve other financial goals.

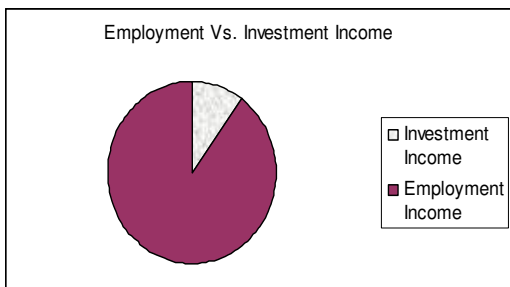


Fig.1.4: At 30 years of age

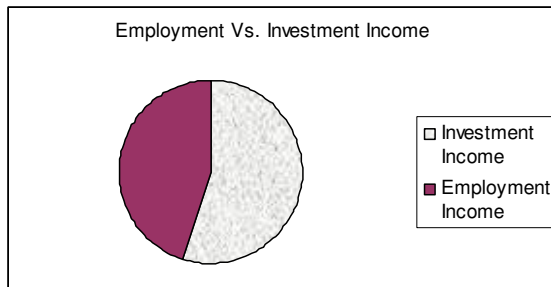


Fig.1.5: At 45 years of age

Periodic investments can help you grow your wealth while taking care of inflation. There are no ideally established standard levels of investments however during the interactive sessions we settled on a manageable investment target of sh20,000 quarterly or a third of total annual income. This figure can always be reviewed as when and need arises based on your circumstances.

❖ **Investment options**

There are various investment options however some are not accessible to young people due to the high capital requirements. However stocks and bonds are accessible to most young people. These can be invested in directly or indirectly through collective investment schemes.

As indicated during our interactive sessions you are not comfortable with investing in the stock market directly. Therefore the most applicable investment option is the indirect investments. You can do this by investing in unit trusts. I recommend the Zimele balanced fund though more volatile than money market units, they have a higher investment return in the long run and is in line with your risk profile. In addition, the capital requirements at sh5,000 are quite manageable for your income level.

You may in future pursue a direct investment option when you become more financially and investment savvy. You should also consider the future option of forming an investment club with other like minded individuals to pool more funds to invest in preferred investment options such as real estate or business ventures and learn more about investments.

It is always important to remember investment is a risk and thus the value of your investment may rise or fall depending on market conditions. To mitigate against this risk, it is important to diversify your investment portfolio with time. (An example below)

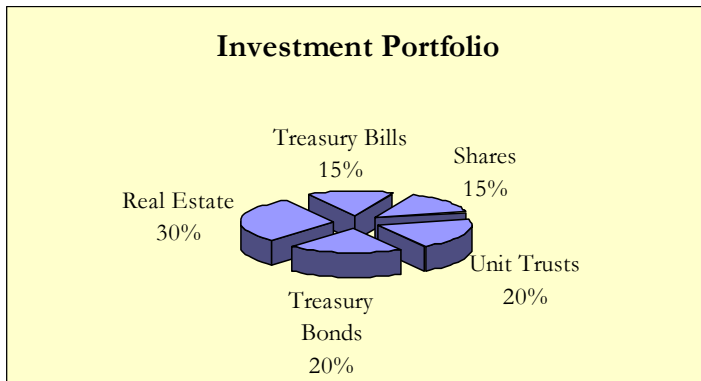


Fig. 1.6: Example of investment portfolio

❖ **Long Term Objective**

The identified long term objective can be financed through proceeds made from investments. It can also be supplemented by your employment income which is expected to rise with time. The combination of the two (investment proceeds and employment income) will give you more options in the choice of house to purchase.

With a substantial amount, you can not only pay the mortgage deposit but in addition pay a substantial amount of the principal amount to be repaid thus reducing the overall cost of your mortgage. With time, you will establish other long term objectives and thus financing of those objectives can be reviewed as per your circumstances.

VI. OTHER RECCOMENDATIONS

❖ **Emergency Fund**

You should also establish an emergency fund that takes care of unexpected financial needs. Again, there is no standard recommendation of how big your fund should but generally is about 3 times your monthly income. This is to cushion you not only in case of unexpected emergency but also to allow you survive for sometime without a source of income if anything were to happen. In this case you should aim for having an emergency fund of between sh40,000 to sh60,000. This in the mean time can be invested in a higher interest earning money market unit trust as compared to sitting idol in a bank account. Below is your estimated (targeted) net worth position after a year

❖ **Insurance**

There are certain emergencies that may occur that no amount of saving in your emergency fund will adequately cater for that. These include incidences of hospitalization, serious car damage or theft, house destroyed by fire, permanent physical disability etc. Insurance comes in to help cushion you financially if these incidences occur and thus shifts the risk to the insurance companies because they will compensate you incase of such eventualities and allows you to remain financially stable if they occur. Currently you may be covered by insurance polices that your parents currently hold however you should start thinking about how you will cover yourself once these policies expire. Some basic types of insurance you should consider taking in future include medical insurance, life insurance, disability insurance, home insurance among others.

ASSETS		LIABILITIES	
<u>Cash & Bank Balances</u>		<u>Current Liabilities</u>	
Cash at hand	Ksh4,000.00	Short Loan	Ksh0.00
Cash at Bank	Ksh27,000.00	Credit Card	Ksh0.00
Emergency Fund	Ksh45,000.00	Other	Ksh0.00
	Ksh76,000.00		Ksh0.00
<u>Investments</u>	Ksh80,000.00	<u>Long Term Liabilities</u>	
<u>Fixed Assets</u>		Other	Ksh0.00
Personal Effects	Ksh0.00		
	Ksh0.00		
TOTAL ASSETS	Ksh156,000.00	TOTAL LIABILITIES	Ksh0.00

Net Worth = Sh 156,000

Fig. 1.7: Condensed estimated net worth statement after a year

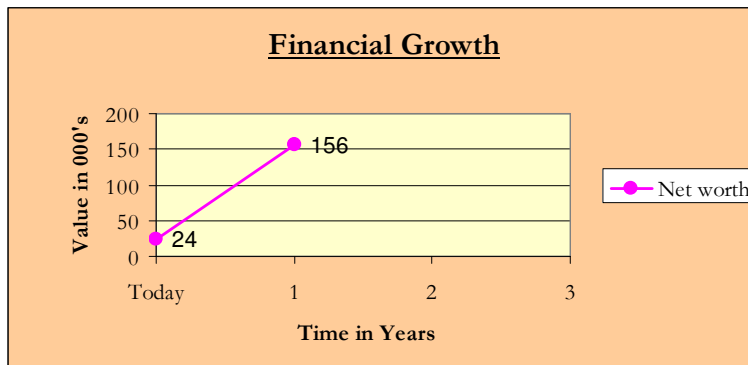


Fig. 1.8: Chart of financial growth

VII. CONCLUSION

This plan is meant to act as a guideline in managing your finances. If and when your personal situation changes, the plan can be reviewed to take into account those circumstances. I am available to monitor and review the implementation progress of the plan and make any necessary changes or suggestions if need be.

It is also important to remember financial planning is a process and it is advisable to take a long term view in order to reap the maximum benefits.