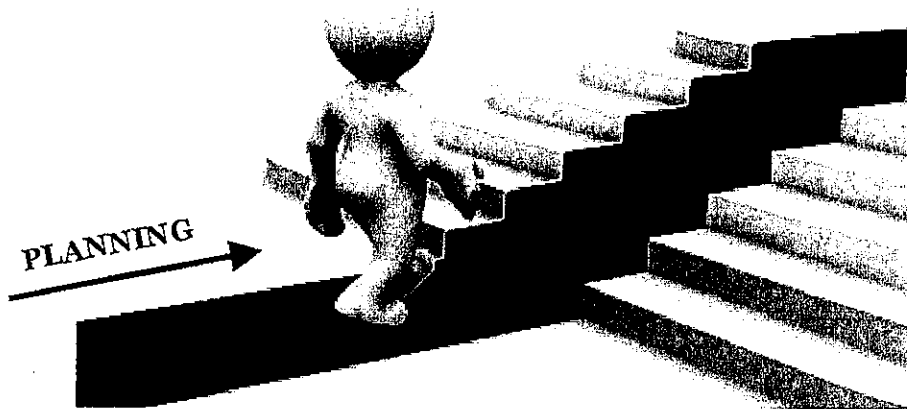


Capital Markets Project (Tu 6:30pm)  
April 13, 2014

## Personal Financial Plan

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### STEPS OF FINANCIAL PLANNING



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## Linting Cai Personal Financial Plan

### Overview

Planning is always important to ensure a direction for your day-to-day actions. “Financial plans are written, organized strategies for maintaining financial health and accomplishing financial goals.”<sup>1</sup> When it comes to daily life, many people make spending and investment decisions apart from a personalized financial plan. This can be dangerous no matter how good the investing choices are as sometimes they may be pure luck. To maintain a stable financial position, a plan with multiple time horizons is needed.

I created my personal financial plan in the following three steps:

1. Current Financial Situation
2. Projected Income and Cash Flow
3. Financial Goal Strategies

The worksheets and instructions on the following pages show more specific and detailed plans according to the outline. Although most data, especially those within the long-term plan part, are predicted based on the current situation, some of them are rough estimates and coupled with assumptions, they provide a financial perspective on how to make decisions about money. As Mr. Natali said in his book *The Missing Semester*: “We make decisions about money every day. When you're making bad decisions, it can become a trap, and one that's often hard to dig out from.”<sup>2</sup> A practical plan can reduce the possibility to get into the trap.

### Starting Date

May 2017, after graduation of a Master's degree (Business related)

Education Level: Bachelor in Business Administration, major in accounting and finance, minor in economics and history; Master in business related field (undecided)

Intended Graduation age: 24; Anticipate retirement age: 60

Family members: 2 (Mother and Father, retire at 55 and 60)

### Step1: Current Financial Situation (\$)

The first step to create my financial plan is to understand my current financial situation thoroughly. I focus on the net worth i.e Total Assets-Total Liabilities, which is the real spendable capital. Thus, I can formulate realistic goals later.

## Linting Cai Personal Financial Plan

Assets (What I Own)		Liabilities (What I own)	
<b>Cash &amp; Cash Equivalents</b>		<b>Current Bills</b>	
Cash on Hand	10,000	Charge Accounts	4,000
Checking Account	10,000	Credit Card Balances	0
Savings Account	10,000	Utilities	1,000
CDs	0	Rent	5,000
Life Insurance Value	5,000	Insurance Premiums	1,000
Savings Bonds	0	Taxes	1,500
Money owed to me	100	Other Bills	700
<b>Total Cash Equivalents</b>	<b>35,100</b>	<b>Total Current Bills</b>	<b>13,200</b>
<b>Personal Property</b>		<b>Outstanding Debt</b>	
Estimate Equity in Home	1,000	Home Mortgage balance	0
Other Real Estate	0	Other Mortgages	0
Household Furnishings	0	Automobile Loan balance	8,000
Specific Items of Value (laptop)	1,000	Student Loan Balance	0
Automobiles	10,000	All Other Loan Balances	1,000
Other Personal Property	0	<b>Total Outstanding Debt</b>	<b>9,000</b>
<b>Total Real &amp; Personal Property</b>	<b>12,000</b>	<b>Total of All Liabilities</b>	<b>22,200</b>
<b>Invested Assets</b>		<b>Total Assets</b>	
Stocks & Mutual Funds	1,500		49,700
Bonds	1,000	<b>Total Liabilities</b>	<b>22,200</b>
Government Securities	0	<b>Net Worth</b>	<b>27,500</b>
Pensions	100		
<b>Total Invested Assets</b>	<b>2,600</b>		
<b>Total of All Assets</b>	<b>49,700</b>		

This table is a snapshot on the starting date of my financial plan before I get any income. The \$10,000 in each account of cash, savings and checking may come from my parents' support, which is the main source of my personal assets. For the liabilities column, the automobile loan dominates, as I'm going to buy a car after graduation.

### Step 2: Projected Income and Cash Flow (Annual \$)

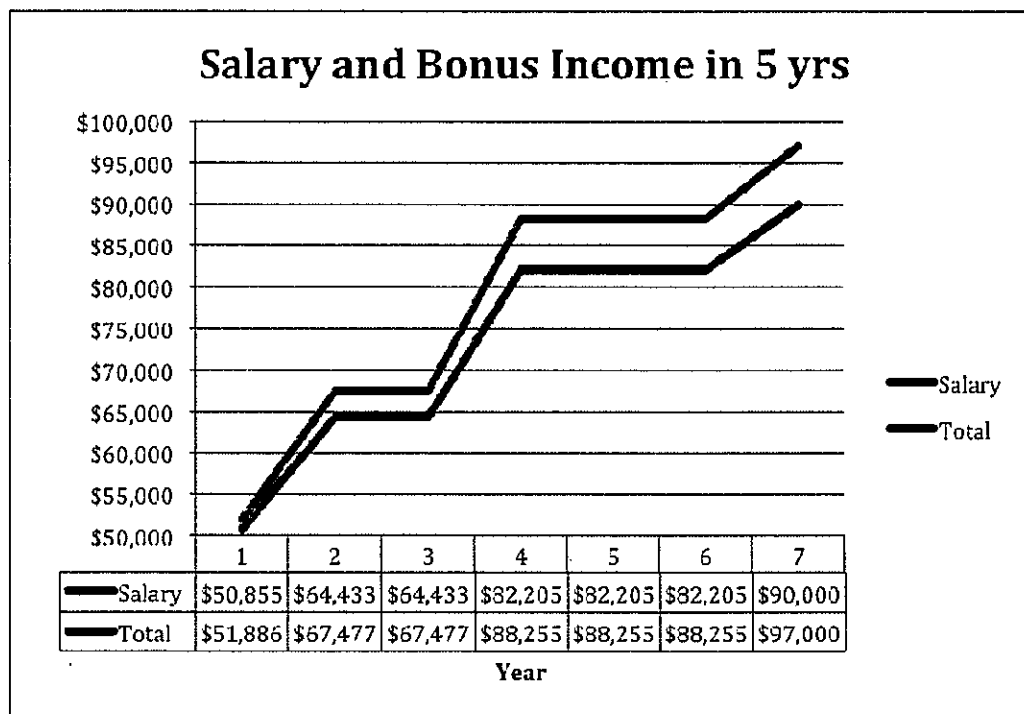
Income sources would mainly be salary and bonus income in the following five years. The typical career path for a graduate student with a MAcc degree starts with an entry-level accountant. After 1-2 years, you can probably get promoted to be a senior accountant. There's a salary difference between tax, consulting and audit department. However, this difference is subtle at this level, so I use the average data of the three

## Linting Cai Personal Financial Plan

salary ranges. After 4-5 years working experience, a senior accountant can be assigned to an accounting manager position, which would bring a leap on salary. Besides, bonus increases in an accelerating rate with promotions.

Year	Age	Potential Job	After-tax Bonus	After-tax Salary	Total
0-1	24-25	Accountant	\$1031	\$50,855	\$51,886
1-3	25-27	Senior Accountant	\$3044	\$64,433	\$67,477
3-5	27-29	Accounting Manager	\$6050	\$82,205	\$88,255

(Data source: United States » Master of Accounting (MAcc) Job Market Overview » Updated: 12 Apr 2014) <sup>3</sup>



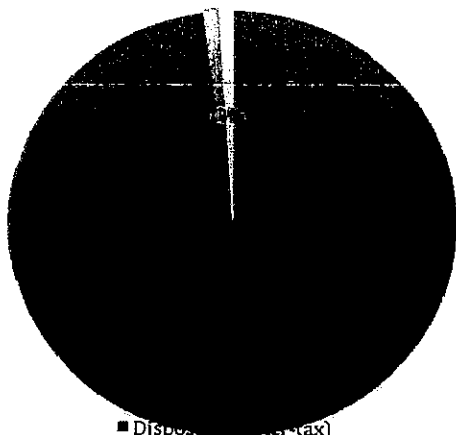
As the line chart shows, there is a stable salary and bonus increase working as a public accountant. "According to the Salary Guide, a graduate degree or professional certification can increase a candidate's base compensation by an average of 10 percent." <sup>4</sup> I should try to get a MAcc degree and a CPA license to enhance the competitiveness in the job market. Although the differences in size of firm, location and specific accounting field may cause variations in salaries, the financial security is in a certain high level in general for a certified accountant.

Linting Cai Personal Financial Plan

**Personal Cash Flow Statement (annual)**

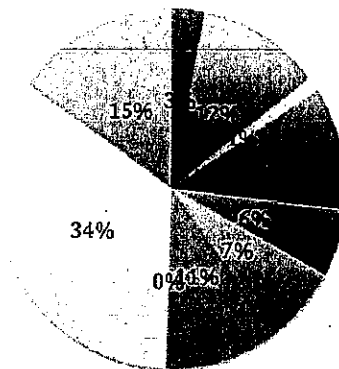
	Age24-25	Age25-27	Age27-29
<b>Cash Inflows</b>			
Disposable (after-tax) income	51,886.00	67,477.00	88,255.00
Interest on deposits (4%)*	622.63	809.72	1,059.06
Dividend payments (10% growth)	150	165	181.5
<b>Total Cash Inflows</b>	<b>\$52,658.63</b>	<b>\$68,451.72</b>	<b>\$89,495.56</b>
<b>*Assume put 30% of income into savings account.</b>			
<b>Cash Outflows</b>			
Transport	1,000.00	1,000.00	1,000.00
Groceries	3,500.00	4,000.00	3,800.00
Cell phone	300	400	500
Clothing	2,000.00	4,000.00	5,000.00
Entertainments	1,800.00	2,000.00	2,200.00
Insurance	2,000.00	2,500.00	2,300.00
Car expenses	3,000.00	4,000.00	3,500.00
Gov. loans payment	0	0	0
Mortgage/rent	0	16,877.00	16,877.00
Other	5,000.00	5,000.00	5,000.00
<b>Total Cash Outflows</b>	<b>18,600.00</b>	<b>39,777.00</b>	<b>40,177.00</b>
<b>New Cash Flows</b>	<b>\$34,058.63</b>	<b>\$28,674.72</b>	<b>\$49,318.56</b>
<b>Saving (30%)</b>			
	10,217.59	8,602.42	14,795.57
<b>Investment (60%)</b>			
	20,435.18	17,204.83	29,591.14
<b>Emergency Reserve (10%)</b>			
	3,405.86	2,867.47	4,931.86

**Cash Inflows in 5 yrs (ave.)**



- Disposable (after-tax) income
- Interest on deposits (4%)
- Dividend payments (10% growth)

**Cash Outflows in 5 yrs (ave.)**



- Transport
- Groceries
- Cell phone
- Clothing
- Entertainments
- insurance
- Car expenses
- gov. loads payment

## Linting Cai Personal Financial Plan

The salary and bonus income is the main source of cash inflow. However, as the inflow pie chart shows, the sources need to be diversified, because there is potential risk that I will be hired in the future given a depression occurs in national economy. For the sake of such risk, I decide to put 10% of each year's income in deposit as an emergency reserve ("Keeping cash in hand to cover 3-6 months' worth of your living expenses, if necessary, is a smart risk management and financial planning concept."<sup>5</sup>) As for the cash outflows, the mortgage for rent contains 34% of the pie chart. Since I'm not able to afford a house after graduation right away, this mortgage payment is a reasonable estimate. Other cash outflow items are within a controllable range. To sum up, it is necessary to keep eyes on the net cash flow, that being said, "do not let your spending dictate your savings"(The Missing Semester).

### **Step 3: Financial Goal Strategies**

**Short-term Goal (1 year):** Pay off all non-mortgage debt.

This would include but not limited to automobile, credit cards or any other high-interest unsecured loans. As I'm not going to pay any student loan, this goal is attainable as long as the primary source of income is guaranteed.

**Intermediate-term Goal (3 years):** Maintain an emergency fund equal to one year's worth of living expenses.

During this time, I just start my career path. I may be at high risk of losing job if the country going to go through an economic recession. Besides, my parents are going to retire in the near future and they may become more prone to disease. "A year's worth of living expense is a better buffer to account for things like medical emergencies or unemployment."<sup>6</sup>

**Long-term Goal (5 years):** Raise my credit score and have a retirement fund.

I'm going to set up the retirement fund over my work life. "The earlier you start saving for retirement, the better. The longer you delay, the harder it will be to reach your retirement savings goal."<sup>7</sup> My ultimate goal is to save at least 8x my ending salary to enjoy a high quality life after retirement. This goal can be divided into several 5-years span tasks: save 1x by 30, 2x by 35...6x by 55. The performance of my portfolio would also affect my retirement savings needs. The plan is subject to change according to future markets.

## Linting Cai Personal Financial Plan

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