

# The Personal Financial Planning Process

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- Analyse your current finances
- Develop goals
- Identify and evaluate strategies to achieve your goals
- Establish and implement your plan
- Reevaluate and revise your plan as needed

## Key Principles of Financial Planning

- Use reasonable assumptions
- Apply marginal reasoning
  - What is going to change because of your decision?
- Consider opportunity costs
  - What will you be missing out on?
- Use sensitivity analysis
  - What if your assumption is wrong?
  - What if an external factor occurs?

## Human Capital

- The stock of knowledge or characteristics the individual has that contributes to their productivity
  - Capitalising future earnings
- This is an example of implicit financial capital
  - Has value in future
  - Explicit financial capital – has value now
- Human capital derivatives involve selling some of your human capital as an investment for someone else

## Time Value of Money

- \$100 today will not equal \$100 in one year's time
$$FV = PV \times (1 + r)^t$$
- Value depends on
  - The size of future cash flows
  - Timing of cash flows
  - Risk of cash flows

