

HOW ARE YOU (financially)?

Your financial well-being is tied to your financial capacity. It is related to your ability to afford the basic daily necessities of life and beyond. A positive answer to such normal greetings will border on how well you have planned and managed your finances. This will require some fundamental accounting skills.

Financial Literacy

Some level of financial literacy is necessary to achieve financial independence or freedom. Either you are financially well (sound) or financially broke. This can be easily determined by examining your monthly income as against your monthly expenses and thereby deriving a surplus or deficit

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Income	800
Expenses	<u>600</u>
Surplus/Deficit	<u>200</u>

Save & Invest

The road to financial independence requires a culture of savings and investment. No matter your level of income, it is crucial to adopt the culture of saving a portion of your monthly income or daily wage. A good understanding of the importance of savings will engender a healthy management of expenses.

Savings is good but the magic for financial sustenance and wealth creation is investment. It is mandatory to invest in financial assets to maximise your wealth. The medium for investment varies and takes many forms. It is important to know where to invest to grow your money. Some of the investment vehicles are Treasury bills, Mutual Funds, the Stock market (GSE) or landed property. Otherwise one can also invest in a small business.

Plan, Plan, Plan

Have a plan. At all times have a plan. Don't leave your destiny to chance. It is said that those who plan and prepare are always able to grasp the

opportunity to create wealth when it arrives. Research has shown that those who plan for the future end up with more wealth than those who do not. Successful people are goal oriented. They set goals and develop a plan to achieve them. If you fail to plan then you are planning to fail. Play smart with your goals. Make sure they are specific, measurable, attainable, realistic and time bound.

Become a planner. Set goals and develop an action plan to reach them. Even the process of writing down some goals will help you to achieve them. Being goal oriented and following a plan means taking control of your life. It is an important step toward improving your financial independence and security.

Take charge

You are responsible for your financial wellbeing. Your skills, knowledge and experience are your best asset. The value of your future earnings depend on the financial decisions you make. You have the choice of maximizing your income and minimizing your expenses. This is a very basic way of creating surplus for investment. Your job and future career are the most important factors in achieving financial independence and security. Be diligent with your work and choose the career that best fits your skill set.

Take yourself as a financial asset. Investing in you will pay off in the future. Increase your value through hard work, continue to upgrade your skills and knowledge and make smart career choices.

Plan for retirement

Retirement is a period when you cease to earn income from a regular job but continue to live your lifestyle. It can be bliss or hellish. The key to welcome retirement is to save diligently toward that point in your lifecycle.

Your savings target for retirement could be estimated by the number of years expected to live after retirement multiplied by the annual income of the year of retirement. A good retirement life is not an entitlement but a reward for your hard work, and successful planning.

Avoid Debt

Borrow money only for investments. Never borrow money to finance a lifestyle. It is inappropriate to borrow money for general expenses. That is a slippery road to poverty and stress in the future. Be wary of the opportunities granted by credit institutions to buy liabilities and expenses. A high level of borrowing will deprive you of the opportunity to invest in assets and create wealth.

Borrowing money should be used only for investment. This might mean investing in stocks, bonds and other capital market instruments. It may also be used in your education, extra training or to start a business. In all these cases, borrowing can provide the leverage you need to reach your financial goals faster.

Be Financially Literate

Making money is one thing; saving it and making it grow is another. Financial management and investing are lifelong endeavors. Making sound financial and investment decisions is important for achieving your financial goals. The more knowledgeable and experienced you are in financial matters, the fewer mistakes you will make.

Research has shown that people who are financially literate end up with more wealth than those who are not. There is a strong monetary incentive for becoming financially sophisticated. Taking the time and effort to become knowledgeable in the areas of personal finance and investing will pay off throughout your life.

Conclusion

We must all strive to achieve financial independence. It is not necessarily easy, but it is achievable if we understand our priorities, set appropriate goals and take the proper steps toward reaching them. 'How are you' encompasses your physical, spiritual and financial wellbeing. What is your response?

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(The writer is a financial and management consultant & Good corporate governance advocate. We also offer public and institutional training in accounting, finance and internal control).