



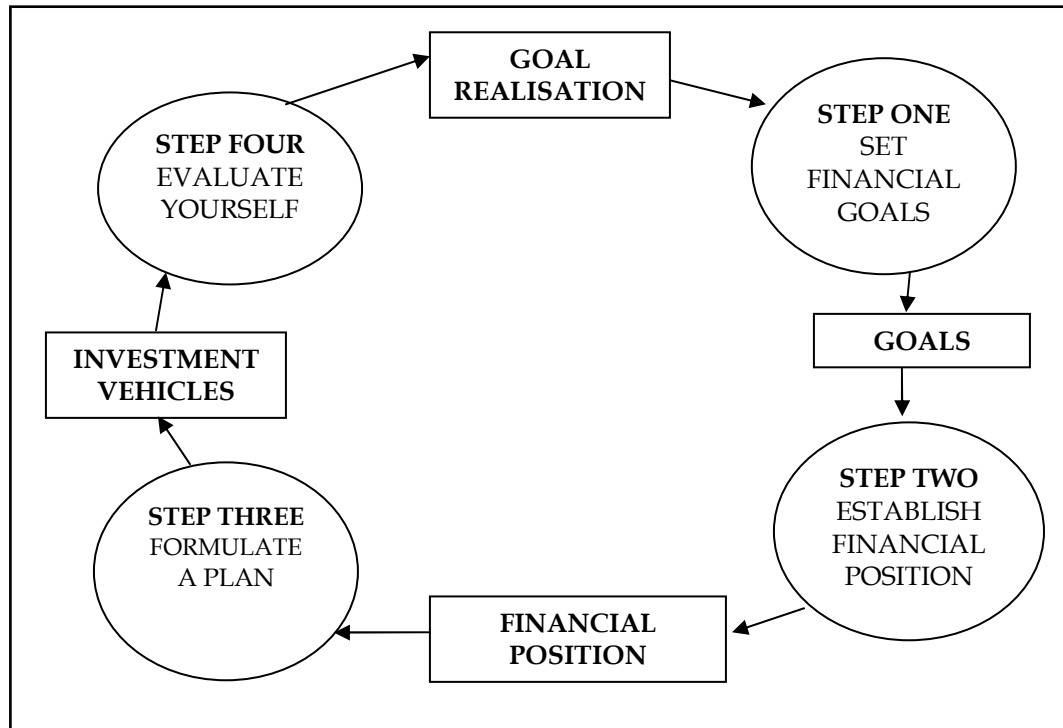
Financial Planning Guide

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DEVELOPING A FINANCIAL PLAN

| | |
|--|-----------|
| 1. THE FINANCIAL PLANNING PROCESS | 12 |
| 2. FINANCIAL PLANNING | 12 |
| 2.1 STEP ONE: SETTING YOUR FINANCIAL GOALS | 13 |
| 2.1.1 Importance Of Financial Goals | 13 |
| 2.1.2 Examples of Financial Goals | 13 |
| 2.1.3 Where to Begin: Make a personal list of goals | 14 |
| 2.2 STEP TWO: ASSESSING YOUR FINANCIAL POSITION- A NET WORTH STATEMENT | 14 |
| 2.2.1 A Net Worth Statement | 14 |
| 2.2.2 Benefits Of A Net Worth Statement..... | 14 |
| 2.2.3 Developing Your Net Worth Statement..... | 14 |
| 2.2.4 Example Of A Net Worth Statement | 15 |
| 2.2.5 Self Assessment | 16 |
| 2.3 STEP THREE: FORMULATING A PLAN..... | 17 |
| 2.3.1 Budget Principles To Keep In Mind | 17 |
| 2.3.2 Example of a Monthly Budget..... | 17 |
| 2.4 STEP FOUR: WHAT TYPE OF INVESTOR ARE YOU? | 18 |
| 2.4.1 Safe Investor | 18 |
| 2.4.2 Income Investor | 18 |
| 2.4.3 Growth Investor | 18 |
| 3. HOW SHALL I INVEST? | 18 |
| 4. AN INDIVIDUAL’S INVESTMENT OPTIONS | 19 |

1. The Financial Planning Process



2. Financial Planning

Personal Finance is the application of the principles of finance in the management of personal or family income.

Financial Planning is an approach that helps to identify financial goals and design a strategy to achieve these goals while taking into account the available investment alternatives. †

It is the process of:

- Assessing one's financial position
- Establishing one's goals and
- Formulating a plan to achieve these goals.

Financial Planning therefore entails preparing for the future by making informed money management decisions in the present.

Creating a financial plan involves a step by step process that helps individuals understand the 'big picture' of where they are financially (current status) and establish where they want to be.

† Developing a financial plan means taking control of what one has now, and disciplining themselves to manage their finances so that they are able to reach the goals that they have set for themselves and their families.

2.1 Step One: Setting your Financial Goals

A financial goal is an overall objective or target, usually driven by specific future financial needs. Given an individual's goals, one is able to establish a pattern of income and expenses, and decide on suitable investments that will enable those goals to be achieved.

2.1.1 Importance of Financial Goals

Setting goals and creating a financial plan remains key to any form of financial success. Financial goals are important because:

- They set direction by establishing targets and this provides the individual with a structured way to achieve their goals.
- They help establish the amount of money to be set aside in order to achieve the desired goal.
- They often include a plan for getting the individual to meet their target by establishing regular saving habits.

2.1.2 Examples of Financial Goals

- **Home Ownership:** House rent is referred to as a present and future cost as it is a constant expense. The best way to solve such an expense is to own a home.
- **Education:** The best investment is in oneself.
- **Retirement:** A pension scheme is an investment whose aim is to provide an individual with a sufficient and consistent source of income after retirement. This ensures that the individual is able to maintain a desired standard of living.
- **Emergencies:** These are sudden, unexpected expenses that require immediate need for money. An individual should be able to access funds immediately if the need arises without compromising any investments or negatively affecting their future value.
- **Medical Expenses:** It is important to keep in mind that one's livelihood depends on good health and being able to comfortably pay for any unforeseen illnesses. Some forms of medical cover include personal accident cover, which helps when one is unable to work due to disability.

2.1.3 Where to Begin: Make a personal list of goals

Prioritize your goals with the most important ones coming first and indicate the date when each specific goal should be achieved. Realistic time frames are important in realizing goals. Once you have decided on your financial goals and the number of years to meet each specific goal, you will be able to find a savings option that will fit your time frame for achieving the goals.

| What are the goals to save or invest for? | By when? |
|---|----------|
| 1. _____ | _____ |
| 2. _____ | _____ |
| 3. _____ | _____ |

2.2 Step Two: Assessing Your Financial Position- A Net Worth Statement

2.2.1 A Net Worth Statement

This summarises an individual’s financial position at a point in time. It acts as a measure of one’s financial health and provides valuable insights on where they stand financially.

2.2.2 Benefits of a Net Worth Statement

- **Money Management:** It helps one make better use of income and maintain better control of expenditures.
- **Financial Goals:** It helps an individual determine how much money to set aside in order to achieve financial goals.
- **Investment:** It helps one make appropriate decisions concerning investments.
- **Debt Management:** It helps an individual judge their ability to pay off current debts and take on additional ones.

2.2.3 Developing Your Net Worth Statement

To begin your journey towards financial security, you need to make some preparations. Part of your preparations will include the development of a net worth statement. This statement helps you determine "**where you currently stand financially**" and serves as a measure of your overall financial position.

It involves examining your entire financial situation by developing two lists on a piece of paper:

- On one side of the paper, list what one owns: - “assets.”
- On the other side, list what one owes other people - “liabilities” or “debts”.

2.2.4 Example of A Net Worth Statement

| ASSETS – What one owns | | Ksh |
|-------------------------------|--|------------|
| Liquid Assets | Examples: Cash Savings Plan | |
| Investment Assets | Examples: Pension Stocks Land Rental Houses | |
| Personal Assets | Examples: Cars Clothes Jewelry Equipment (stereo, video, computer) Furniture | |
| TOTAL ASSETS (A) | | XXX |

| LIABILITIES – What you owes | | Ksh |
|--|---|------------|
| Current Liabilities | Examples: Household Bills Car Payments Debt due within one year | |
| Long Term Liabilities | Example: Mortgage Student Loans Car Loans Debts due after 12 months | |
| TOTAL LIABILITIES (L) | | XXX |
| NET WORTH = (Total A - Total L) Subtract liabilities from assets | | XXX |

2.2.5 Self Assessment

1. **How often do you follow your budget? (Tick)**
 - a. Always
 - b. Sometimes
 - c. Never

2. **What is your current level of debt? (Tick)**
 - a. No debt
 - b. Manageable (Regular repayments)
 - c. Unhealthy level (have skipped a payment or two)

3. **What proportion of your total income is left as surplus (Surplus = Income minus Expenses)? (Tick)**
 - a. 0 - 20%
 - b. 20-50%
 - c. Above 50%

4. **If you lost your job or became critically ill today: (Tick)**
 - A. Would you be able to take care of your needs such as food for a year?
 YES NO
 - B. Would you be able to comfortably pay your medical bills?
 YES NO
 - C. Do you have rent savings equivalent to 6 months?
 YES NO
 - D. Would you be able to pay your child's school fees for the subsequent school term?
 YES NO

5. **Once you develop your financial plan, do you implement it?**
 YES NO

6. **What are your main sources of income? (Tick)**
 - a. Employment - Salary
 - b. Self employment - your own business
 - c. Investments
 - d. Other

2.3 Step Three: Formulating A Plan

Budgeting is the ability to save money in order to build wealth. There are plenty of ways to begin saving money, even on the tightest budget.

2.3.1 Budget Principles To Keep In Mind

1. Identify all sources of income (inflows)
2. Identify all expenses (outflows)
3. Establish financial targets (goals)
4. Reduce Spending
5. Reduce Debt Levels
6. Set aside money according to goals

2.3.2 Example of a Monthly Budget

| INCOME | Kshs |
|-------------------------|------|
| | |
| | |
| | |
| TOTAL INCOME (I) | |

| EXPENSES | Kshs |
|---------------------------|------|
| | |
| | |
| | |
| TOTAL EXPENSES (E) | |

| | |
|--------------------------------|----------------|
| SURPLUS FUNDS (S= I-E) | Kshs: _____ |
|--------------------------------|----------------|

2.4 Step Four: What Type Of Investor Are You?

2.4.1 Safe Investor

Focuses on maintaining the current value of investments and preserving the initial capital. Is unable to tolerate any loss of principal, is conservative when choosing investments, and is less likely to invest in shares.

2.4.2 Income Investor

Looks at generating a steady income stream. This is often an investor who is close to or living in retirement and relying on a stream of income. The investor has less need for capital appreciation and tends to shy away from some of the risks associated with the stock market.

2.4.3 Growth Investor

Focuses on increasing the investment's value over a long-term horizon. Is most likely to be relatively young and focused on achieving capital appreciation and does not mind the risk involved in investing in the stock market.

3. How Shall I Invest?

Once you have identified your goals and the available investment alternatives, you need to decide which type of investment suits your objectives, for example:

| Category | Style | Investment Type | Benefits |
|---------------|-------------------------------|--|---|
| Safety | - Defensive | - Zimele Savings Plan - Government Securities | Offers safety and capital preservation |
| Income | - Defensive - Conservative | - Zimele Savings Plan - Government Securities | Provides regular income |
| Growth | - Assertive - Aggressive | -- Zimele Investment Plan - Zimele Personal Pension | Potential to outperform the market in the long term |

4. An Individual's Investment Options

