Setting financial goals

aviso wealth

The importance of setting financial goals

As with most things, what you focus on usually gets results. So, whether you want to save up for a vacation, a new home, or for your retirement, setting investing goals is one of the best ways to help ensure you achieve them.

When you're considering what your goals are, there are a couple things to keep in mind. Each of your investing goals – and you probably have several – should:

- Have a purpose. You may have several different financial goals – buying a car, putting aside a house down payment, funding your child's education, or saving for retirement.
- Be specific. It's difficult to achieve a goal that is vague. Define the dollar amount you're working toward, as well as the time you have to invest. In other words, think about how much you want to invest, and when you'll need to access the funds.
- Be achievable. Set smaller goals that you can achieve. If you frequently fail to achieve the goals you set, you could become discouraged. Set yourself up for success.

The first thing to do is identify your goal(s), figure out what you're saving for, and how much you'll need to put away.

How to set investing goals

Once you've identified your goal(s), you'll need to think about:

1. How long is your investment time horizon? Is this a short-, medium- or long-term goal?
2. How much risk are you willing to accept/tolerate for the return on your investments?
3. How could your investment choices (your asset allocation) affect your goal?

Investment time horizon

This is the period of time you expect to hold your investment.

The longer your goal's time horizon, the longer you'll be able to take advantage of the power of compounding and the longer you'll be able to recover from any market downturns. Because of this, generally speaking, the longer the investment time horizon, the more aggressive you can be with asset choices. However, that will depend on your tolerance for risk.

Risk tolerance

Risk tolerance is the level of risk you're willing to accept for the possibility of higher returns. The value of many investments fluctuates over time, with some asset types being more volatile than others. Most stocks, for example, tend to be more volatile and carry more risk than most bonds. Both stocks and bonds are more volatile than holding cash.

Your own risk tolerance could be a factor of your age, goals, profession and income level. Only you can decide what level of risk you're willing to accept in your investments

Asset allocation

Once you've established your goal, time horizon and risk tolerance, you need to determine your asset allocation (or investment mix) of equities, fixed income and cash-based investments in your portfolio.

Many investment types – stocks, bonds, ETFs, mutual funds, etc. – come with some level of risk, especially over the short term. The further out your goal is, the longer you'll have to recover from any downward fluctuations in your investments. Your aim is to choose an asset model calibrated to meet your goals, while exposing you to a level of risk that you are comfortable with.

For example, if you are 35 years old and your goal is to save for retirement at age 65, your investment time horizon is long. So, if you decided to invest in stocks, which generally carry more risk than other common investments, you would have the benefit of time to ride out any dips in the stock market.

Conversely, if you're investing toward a home you plan to purchase in the next couple of years, it might be prudent to avoid a higher-risk investment. If your investment value dips just when you need to access your money, you'd end up with less money than anticipated.

For more information, please consult your advisor and tax professional.