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MANAGING PERSONAL FINANCE

"A Backup for a Rainy Day"

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ABSTRACT

A proper management of personal finance can give long term financial securities. We know that life is full of uncertainty. So to make our life secure we have to do a proper management of our finance. This report tries to give the answer of why it is necessary to manage our personal finance and also analyze the process of making personal financial decision. Personal Finance consists of a behavior of a person and practice of financial planning, Investing, Saving and spending with the motive to sustain and maximize value of money throughout the life. At an early stage of the career the financial planning and practice should start. Then only a person will be able to achieve financial freedom.

(**Keywords** : Personal Finance , Financial Planning , Money Value)

INTRODUCTION

Personal Financial Planning is the process of managing the money in such a way that a person able to achieve personal economic satisfaction. Everyone in this world is not same as per finance. Some people are rich and some are poor or middle class. So their need and requirements are different, so any financial activity therefore must be planned carefully to meet their needs and requirement. But remember Financial Planning is not a onetime process, it's a virtuous cycle .There is also a need to assess the financial decision again and again. Personal Finance consists of a behavior of a person and practice of financial planning, Investing, Saving and spending with the motive to sustain and maximize value of money throughout the life.

In this world , People spend their money differently like a person in their 50s will spent differently than those who are in their 20s and 30s.There are various factors because of which people spend differently . Those factors are beliefs, size of the household, saving pattern, income and age etc. So they all have to manage their finance as per keeping all this in their mind. When planning on personal finance individual should choose on range of bank products like Credit cards, Consumer loan etc and insurance like health and life insurance according to the need. The various component of financial planning are Income, Taxes, Expenses, Insurance, Loan, Debt management investment etc.

REVIEW OF LITERATURE

YetHuat Sam, Caroline Geetha, Rosle, (2012) did a study on " **What Were the Factors that Influence Financial Management Behavior of Undergraduates?** ".The Variables used in the study are gender, ethnicity, geographical location, attending of financial education program and family's influence. The collected data were analyzed by linear regression and hierarchical regression. From the result of the study, it was concluded that family's influence has the statistically influences toward dependent variables in all models.

Pru Marriott, (2009) did a study on " **An analysis of students' awareness of personal finance in higher education: A Welsh, English and Northern Irish perspective** ". His study attempts to measure the personal financial awareness, budgeting capabilities, levels of debt and part-time working hours of 365 first year undergraduate students at three UK business schools, and provides a valuable contribution to understanding the financial challenges faced by students in higher education in the UK.

Glenn Muske and Mary Winter did a study on **" Personal Financial Management Education: An Alternative Paradigm".** This paper reports the study of seven family financial managers' practices to better understand what families did and why.

Tan Hui Boon*, Hoe Siew Yee AND Hung Woan Ting did a study on **" Financial Literacy and Personal Financial Planning in Klang Valley, Malaysia".** In their study they link the financial literacy level of individuals with their engagement in personal financial planning. Their findings suggest that in contrast to their non-financially literate counterparts, the readiness of the financially literate individuals is reflected in their involvement in the multiple aspects of personal financial planning.

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Shana Larson Morris and Jean M. Lown, did a study on **" Personal Finance Education in Relation to Financial Satisfaction, Confidence, and Practices".** The study was conducted to examine the question of whether college-level personal finance education results in adoption of recommended money management practices, increases confidence in money management skills, and increases financial satisfaction. The relationship between adoption of recommended practices and financial satisfaction and confidence was also examined.

Winnie Nyamute and J.K. Monyoncho Maina did a study on **"Effect of Financial Literacy on Personal Financial Management Practices".** The variable used are Saving Practices, Expenditure Practices, Investment Practices, Money Management Practices, Retirement Practice and Unexpected Expenditure Practices. The Student t-test was used to test for the significance of differences between the means of the finance and non-f finance respondents with the aim of determining whether there is a financial literacy influences personal financial management practices. The findings of this research show that the practices of those perceived to be financially literate seem to agree with the current literature.

FINANCIAL PLANNING PROCESS

Financial Planning is the process of managing the money in such a way that a person able to achieve personal economic satisfaction. Let's see the various steps involve in the financial planning process:-

Understand the Current Financial Situation

The first step involve in the financial planning process is to understand the current financial situation .We have to identify where we stand, what is our current income and saving. How much we spend and what all assets and liability we have currently with us.

Developing Financial Goal

The second step which is involved in the financial planning process is to develop the financial goal. We have to be very clear where we want to stand after 10 yrs or so. A periodic analysis has to be done in this stage so that we can able to differentiate our needs and wants.

Identification of Alternative Course of Action

Identification of alternative course of action is a very important stage in financial planning process. In this stage we have to identify where we have to put our money. We will decide whether to invest our money in real estate, Gold, Shares, Mutual fund and Bank deposits etc.

Evaluation of alternatives

The step involve in the Financial planning process is evaluating the alternatives. In this stage we will evaluate what all alternatives we have selected. We will also do a risk return evaluation .We will map with our personal goals, Economic situation and lifestyle when evaluating the alternatives.

Creating and Implementing the Financial Plan

In this stage, we will divide our goals into short term goals and long term goals. A short term goal is that which can be achieving within 1 year where as a long term goal is that which involve financial plan that is more than 5 years. In this stage what all financial Plan we have decided will try to implement it.

Reevaluating and Revising the Plan

This is the final step involve in the financial Planning process. In this stage we will try to constantly review and revise our financial plan. We will check our financial plan and if it's not right then we will try to change or revise it.

CHARACTERSTICS OF FINANCIAL GOAL

The Various Characteristics of financial goal are:-

- A financial Goal should be specific goal rather than a general goal. A Financial Goal should be well clear and simple.
- A financial Goal Should be measureable that means we should be able to quantify it easily.
- A Financial Goal Should be assignable that means it should clearly indicate who will do it.
- A financial Goal Should be realistic that means it should be achievable with available resources.
- A financial Goal should be time bound which means it should specify when the result should achieve.

INFLUENCES ON PERSONAL FINANCIAL PLANNING

The Various Influence on Personal Financial Planning:

- Life situations are one of the factors that influences on the personal financial planning of a particular individual. Consider this example: Suppose you took a loan at the time of your education. The impact of this will be that you will be having less money for your financial planning .A fraction of your money will be spent on your education loan which you have taken when you were pursuing your studies.
- Economic factors like inflation also put pressure and influence your financial planning. As inflation means rise in general price level of goods and services. That means now you have to spend more for the same thing which you previously use to buy at less cost.
- Global influence is another factor that effects your Personal financial planning. The best example is Crude oil. As we know Crude oil prices are

driven mostly by the global demand. So if the prices of crude oil increase then your petrol price will also get increase. In this way it will give rise to inflation in various countries and put pressure on your personal financial planning.

Conclusion

If an individual follow all this and do a proper management of his personal finance then he or she should not be bother about the uncertainty in life. They always will be protected by a shield which they have created by their own. But do keep this in mind; financial planning and practice should start from an early stage of the career. Then only a person will be able to achieve financial freedom.

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