First Ascent Asset Management

Laying the Foundation—Identifying Your Target

Lewis Carroll, the author of Alice in Wonderland, once said, “If you don’t know where you are going, any road will get you there.” In the world of investing that translates: “If you don’t know what your goals are, you can’t develop an investment strategy.”

You need a target to shoot for. If you don’t know what you are trying to accomplish, you will have no frame of reference for making decisions.

Take stock of what you have now and what you want to have in the future. Identify the gap between the two. If you want to have $1 million at retirement, and you have $600,000 today, the gap is $400,000. That is your target.

Determine how much of the gap you can cover by savings and other sources like an inheritance or employer contributions to your 401(k) plan. The amount that remains needs to be covered by growth in your investments.

In setting your goals, be specific. The more specific you can be, the better. “I want to have $1 million” is a very specific goal.

“I want to buy a vacation house on Cape Cod.” That is less specific because it leaves open the question of which house and how much the house will cost.

“I want to have enough money to live comfortably in retirement.” That is even less specific because it leaves open the question of how much you need to live comfortably, when you are going to retire and how long you will live after retirement.

You can see that identifying your goals often leads to more questions, more discussion and more refinement of those goals. That is the way it should be. And it is OK if you cannot precisely answer every question about your goals. In fact, that is to be expected.

Identify all your goals. Most people have more than one financial goal. By identifying all of them you will get a more complete picture of your target. Prioritize your goals. Identify those that are “must have” versus “like to have.” This will help in setting your strategy and in making decisions in case you cannot reach all your goals.

Be specific about time. Every goal should be accompanied by a deadline—what we call a “time horizon.” That’s the time by which you want to accomplish your goals.

Time is incredibly important in investing. If your target is to generate $1 million through your investments in 20 years, that calls for one strategy. If you want to generate $1 million by next year, that calls for a different one, probably involving a trip to the casino or the purchase of lottery tickets.

It is fine to express your time horizon in terms of a range. For example, "I would like to buy a vacation house on Cape Cod in the next 10 to 15 years." That's perfectly acceptable. In fact, flexibility can be very helpful in devising an investment strategy.

Setting and prioritizing goals can be difficult. Most of us do not naturally think in these terms and the task can seem overwhelming. A good financial advisor has the tools and the training to talk you through and help you organize the process.

So what are the main take aways from this lesson?

- Set goals before you begin investing because you need a target to shoot for
- Be as specific as possible in setting your goals
- Identify all of your goals and try to prioritize them
- Be as specific as you can about deadlines—set a time horizon for each goal

Thank you and I look forward to our next class together.