Steps to Financial Freedom

Have you developed a strategy to help your family cope with the economic crisis our world is facing today? If not, it’s not too late for you to determine the root causes of any financial difficulties you may have and put into operation wise solutions that will help you and your loved ones better weather this financial storm and prepare for your future.

As a certified financial planner and 30-year veteran of the financial-planning industry, I believe that personal financial planning is essential to remaining solvent in today’s world. You can begin today by taking the following seven steps to financial freedom.

Take inventory. Before you can figure out where you want to go, you must determine where you are. This is the first step.

Buy adequate life insurance. A good rule of thumb for a family with children at home is to buy life insurance on the breadwinner equal to 10 times his earnings. This will provide a lump sum of money you can invest to replace his income.

Pay off all consumer debts. This includes credit cards and finance companies—anything beyond your automobile and home. These consumer debts primarily represent consumption, not investment, and have the highest rate of interest.

Cut out all unnecessary spending, and then apply that freed-up money toward your smallest debt. Each time you pay off a debt, take the monthly payment you had been making and put it toward further debt reduction on your next-highest debt.

It may take you several years to get completely out of debt, but this is the best and quickest way to do it. Staying out of consumer debt will be one of the most critical things you can do to remain financially free in the future.

Start an emergency reserve. I advise that you set aside two to three months' living expenses—the bare-bones amount on which you could live—in an emergency reserve fund. This could be a bank account, an interest-bearing money market fund or something similar.

Ideally, I recommend that people build up at least three to six months' income in conservative, liquid accounts of some type.
It's also important to begin a long-term savings plan. Little by little, accumulate assets.

Pay off your automobiles. Financially, your best bet is to buy a reliable automobile and drive it as long as possible.
Buy used cars, service them, and keep them as long as possible. The second alternative is to buy an inexpensive new car, service it well (changing the oil regularly), and keep it for a long, long time.

Prepay on your home. Prepaying on a home can save thousands and even hundreds of thousands of dollars, regardless of whether you have a fixed or variable mortgage.

The most important of these steps for your financial security is to cut back on spending to get rid of all consumer debt, starting with the most egregious debts first. Strategize to come up with specific ideas you can implement to eliminate your debt during this difficult economic season. Challenging times create the best opportunities.

Follow the example of successful people. Often the best way to learn is to study the example of someone who has done exactly what you are trying to do.

There are people who are living debt free and prospering right now—right in the midst of a world gone financially amok. Look at the lives of some of these individuals, and let their sound financial wisdom influence your financial practices and strategies.

Jerry Tuma is founder and president of Cornerstone Financial Services, host of the nationally syndicated financial show *Smart Money* and co-author of a book by the same name. He is also a highly acclaimed speaker on the economy and investment market and author of *From Boom to Bust* (Excel Books).