# Chapter 2: Financial Goals

Welcome to Chapter 2 of the FCS 340 readings. This chapter will cover the concepts of goal setting; making SMART financial goals that are specific, measurable, achievable, relevant, and time-bound; determining your net worth; and discovering your financial assets. Please review the key terms for this chapter below. This chapter discusses the importance of setting SMART (Specific, Measurable, Achievable, Relevant, and Time-bound) financial goals. It emphasizes that clear goals provide direction, motivation, measurement of progress, decision-making, personal and professional development, clarity and vision, time management, accountability, and satisfaction. The chapter also explains how to write a SMART goal, including the criteria for specificity, measurability, achievability, relevance, and time-boundedness. Additionally, it provides an example of converting a non-SMART financial goal into a SMART one by adding specific, measurable, achievable, relevant, and time-bound components.

#### Key Terms

**SMART Goal**: Specific, Measurable, Achievable, Relevant, and Time-bound objectives guiding effective goal setting.

**Net Worth**: The value of assets minus liabilities, representing one's financial position.

**Assets**: Resources owned with economic value, such as cash, property, or investments.

**Debts/Liabilities**: Financial obligations owed to others, including loans, mortgages, or credit card debt.

## Goals

(The Church of Jesus Christ of Latter-day Saints, 2017a)

Elder M. Russell Ballard taught, “Let me tell you something about goal setting. I am so thoroughly convinced that if we don’t set goals in our life and learn how to master the technique of living to reach our goals, we can reach a ripe old age and look back on our life only to see that we reached but a small part of our full potential. When one learns to master the principle of setting a goal, he will then be able to make a great difference in the results he attains in this life” (Ballard, 1981).

(The Church of Jesus Christ of Latter-day Saints, 2017b)

“This is a gospel of repentance, and we need to be repenting and resolving. Indeed, the process of repenting, making commitments, and setting goals should be a continuous one… I commend the practice to you” (Hunter, 1992).

Goals should:

* Be specific and measurable.
* Be written down and placed where you can see them at least daily.
* Have set completion times.
* Have specific actions to take to accomplish the goal.
* Be constantly reviewed, reported, and updated.

### **The Importance of Goals**

(ChatGPT, 2024)

Goals are important for several reasons:

* Direction and Focus: Goals provide a sense of direction and purpose. They help you focus your efforts on specific outcomes, guiding you toward what you want to achieve.
* Motivation: Having clear goals can be a powerful motivator. They give you a reason to work hard and stay committed, as progress toward achieving goals can be rewarding and fulfilling.
* Measurement of Progress: Goals serve as benchmarks for measuring progress. They allow you to track your accomplishments and assess how well you are moving toward your desired outcomes.
* Decision Making: Goals can influence decision-making processes by helping you prioritize tasks and activities that align with your needs and wants.
* Personal and Professional Development: Setting goals encourages personal and professional growth. It pushes you to learn new skills, overcome challenges, and develop the resilience needed to succeed.
* Clarity and Vision: Goals provide clarity on what needs to be achieved. They contribute to creating a vision for the future, helping you articulate what success looks like.
* Time Management: Goals assist in effective time management. When you have clear goals, you can allocate your time and resources more efficiently, focusing on activities that contribute to goal attainment.
* Accountability: Goals create a sense of accountability. When you set specific goals, you become responsible for your actions and progress toward those goals.
* Satisfaction and Well-Being: Achieving goals leads to a sense of satisfaction and accomplishment. This, in turn, contributes to overall well-being and a positive mindset.

## SMART Goals

Regular goals are often broad and vague, such as wanting to get fit or hoping to improve certain skills. These goals lack specific details, making it hard to track progress or determine success. In contrast, SMART goals are designed to be more effective in helping individuals meet their aspirations. A SMART goal clarifies exactly what needs to be accomplished, how progress will be measured, and when the goal should be achieved, thereby increasing the likelihood of success.

### What Are SMART Goals?

 (University of California, 2016)

* Statements of the important results you are working to accomplish
* Designed in a way to foster clear and mutual understanding of what constitutes expected levels of performance and successful professional development

### What Are the SMART Goal Criteria?

 (University of California, 2016)

* S - Specific: What will be accomplished? What actions will you take?
* M - Measurable: What data will measure the goal? (How much? How well?)
* A - Achievable: Is the goal doable? Do you have the necessary skills and resources?
* R - Relevant: How does the goal align with broader goals? Why is the result important?
* T - Time-Bound: What is the time frame for accomplishing the goal?

## How To Write Your S-M-A-R-T Goal

(University of California, 2016)

### S – Specific

When setting a goal, be specific about what you want to accomplish. Think about this as the mission statement for your goal. This isn’t a detailed list of how you’re going to meet a goal, but it should include an answer to the popular ‘w’ questions:

* Who: Consider who needs to be involved to achieve the goal. You? Your spouse? Friends?
* What: Think about exactly what you are trying to accomplish and don’t be afraid to get very detailed.
* When: You’ll get more specific about this question under the “time-bound” section of defining S.M.A.R.T. goals, but you should at least set a time frame.
* Where: This question may not always apply, especially if you’re setting personal goals, but if there’s a location or relevant event, identify it here.
* Why: What is the reason for the goal?

### M – Measurable

What metrics are you going to use to determine if you meet the goal? This makes a goal more tangible because it provides a way to measure progress. Financial goals are easier to measure than other goals because of the assigned value. For example, it can be simple to check in periodically to see how much money you have saved for your new car and determine if you are on track or need to save more.

* As the M in SMART states, there should be a source of information to measure or determine whether a goal has been achieved.
* The M is an indicator of what success for a particular goal will look like.
* Measurement methods can be both quantitative (money saved or earned, etc.) and qualitative (healthier emotions when debt-free, etc.).
* How do you know you have achieved your goal? What will you do to check in periodically to see how close you are?

### A – Achievable

This focuses on how important a goal is to you and what you can do to make it attainable and may require developing new skills and changing attitudes. The goal is meant to inspire motivation, not discouragement. The achievable category in SMART goals focuses on setting realistic and attainable objectives. An achievable goal considers the current resources, constraints, and capabilities, ensuring that the goal is within reach with a reasonable amount of effort and resources. It’s about balancing ambition with realism to avoid setting goals that are too far-fetched or impossible to reach. Think about:

* How to accomplish the goal,
* If you have the tools, skills, and means needed,
* If not, consider what it would take to attain them.

### R – Relevant

Relevance refers to focusing on something that makes sense with your broader goals. This is the motivating factor within your goal. If you don’t really care to achieve the goal, you probably won’t make it very far. Consider questions such as:

* Is this a high priority for me?
* What other goals would I like to achieve before this one?

### T – Time-Bound

Anyone can set goals, but if they lack realistic timing, chances are you’re not going to succeed. Providing a target date for deliverables is imperative. Ask specific questions about the goal deadline and what can be accomplished within that time period. If the goal will take three months to complete, it’s useful to define what should be achieved halfway through the process. Providing time constraints also creates a sense of urgency.

## What Is a SMART Financial Goal?

(Stephens & ChatGPT, 2024)

A SMART financial goal is a SMART goal that includes a monetary element. Financial goals are among the easiest goals to track and achieve because there is a tangible amount that can tell you if you are on track to reaching your goal. Below is an example of how you can take a non-SMART financial goal and make it SMART by adding some key components:

Non-SMART Goal: Become more financially secure by setting up an emergency fund.

Now see how we can develop that goal into something more powerful by adding SMART components:

### Specific:

* Clearly define the goal. Be precise about what you want to achieve.
* Example: Save 6,000 for an emergency fund in the next 12 months.

### Measurable:

* Establish criteria for measuring progress toward the goal.
* Example: Save 500 per month to track progress toward the 6,000 goal.

### Achievable:

* Ensure that the goal is realistic and attainable given your current financial situation.
* Example: Considering my monthly income and expenses, saving 500 per month is achievable.

### Relevant:

* Align the goal with your overall financial objectives and priorities.
* Example: Building an emergency fund is relevant to my goal of achieving financial security.

### Time-Bound:

* Set a specific timeframe for achieving the goal. This adds a sense of urgency.
* Example: Have a 6,000 emergency fund within the next 12 months.

Putting it all together, a SMART financial goal might look like this:

"To increase my financial security, I will save 6,000 for an emergency fund by saving 500 per month over the next 12 months."

This goal is specific (increase financial security by saving for an emergency fund), measurable (6,000), achievable (saving 500 per month), relevant (aligns with the goal of financial security), and time-bound (within the next 12 months).

## How Goals Impact Your Financial Plan

(Stephens & ChatGPT, 2024)

Goals play a fundamental role in shaping and guiding a financial plan. They provide the overarching purpose and direction that steer financial decision-making. By establishing clear and specific financial goals, you can create a roadmap for allocating resources, managing expenses, and making strategic investment choices. Whether the goals are short-term, like saving for an emergency fund or a major purchase, or long-term, such as retirement planning or homeownership, they influence the structure and priorities of the financial plan.

Goals also act as benchmarks, allowing you to measure progress and adjust strategies accordingly. Additionally, the pursuit of financial goals instills discipline, encourages regular saving and investing, and fosters a sense of purpose in managing your finances. Goals serve as the foundation upon which a financial plan is built, providing focus, motivation, and a systematic approach to achieving financial well-being.

## Short-Term Goals

(ChatGPT, 2024)

Short-term goals are objectives that can be achieved relatively quickly, typically within a time frame of a few months up to one year. These goals serve as stepping stones toward the accomplishment of larger, more long-term aspirations. Short-term goals are important for providing immediate direction, motivation, and a sense of progress. They are dynamic and can be adjusted as circumstances change. They can provide you with a sense of accomplishment and progress, making the pursuit of larger, long-term objectives more manageable. Here are some examples of short-term goals:

#### Emergency Fund

* Goal: Save 6,000 for an emergency fund by saving 500 per month over the next 12 months.

#### Monthly Budgeting

* Goal: Create and stick to a monthly budget for the next three months to better manage expenses.

#### Pay Off High-Interest Debt

* Goal: Pay off 500 of credit card debt within the next two months by cutting down on eating out and paying 250 per month.

#### Save for a Specific Purchase

* Goal: Save 200 per month for four months to buy a 800 laptop to better help with my education.

#### Reduce Monthly Expenses

* Goal: Identify and implement strategies to reduce monthly expenses by 10% or roughly 360 over the next three months.

#### Side Hustle Income

* Goal: Generate an extra 300 per month through a side hustle for the next six months.

#### Contribute to Retirement Account

* Goal: Increase monthly contributions to a retirement account by 100 for the next three months.

#### Education or Training Investment

* Goal: Save 75 per month to pay for a 150 workshop in two months.

#### Insurance Review

* Goal: Review and update insurance policies to ensure adequate coverage within the next month.

#### Car Maintenance Fund

* Goal: Save 200 in a car maintenance fund within the next two months.

#### Home Repairs

* Goal: Set aside 300 for minor home repairs within the next three months.

## Long-Term Goals

(Stephens & ChatGPT, 2024)

Long-term goals are often more complex and may require careful planning, persistence, and adaptation to changing circumstances. While short-term goals provide immediate direction, long-term goals offer a sense of purpose and vision for the future, guiding you toward a meaningful and fulfilling life.

Long-term goals are objectives that typically require a more extended period for achievement, often spanning years or even decades. They often involve a combination of saving, investing, and strategic financial decisions to achieve the desired outcomes. Setting clear and realistic long-term goals can help you stay focused and motivated on your financial journey. Here are some examples of long-term financial goals:

#### Retirement Savings

* Goal: Save 10% of my income to accumulate 1 million in a retirement savings account by the age of 65.

#### Homeownership

* Goal: Set aside 10% of my income to build up a 20% home down payment within the next five years.

#### Debt-Free Living

* Goal: Reduce expenses and pay an additional 20% towards debts to be debt-free within the next 10 years.

#### Investment Portfolio Growth

* Goal: Invest 20% of income in passive mutual funds to grow wealth over the next 20 years.

#### Small Business Ownership

* Goal: Set aside 500 per month to have 6,000 to start and grow a small business in one year.

#### Travel and Adventure Fund

* Goal: Save 200 per month to go on a road trip with my family in 3 months.

#### Career Advancement

* Goal: Budget 50 each month towards education and skill development to advance my career, leading to increased earning potential over the next 15 years.

#### Healthcare Savings

* Goal: Set aside 100 per month for 10 months so you can cover your 1,000 medical deductible.

#### Sabbatical or Early Financial Independence

* Goal: Save and invest 25% of your income so you don’t have to work for money in 10 years.

(The Church of Jesus Christ of Latter-day Saints, 2017a)

You can choose to work toward other long-term goals in addition to your current financial priority, which may include saving for education, a mission, a car, a home, or a family vacation or other recreational expenses. There will be many temptations to choose the short-term perspective over the long-term perspective. Goals can give you a reason to say no now by giving you something to look forward to in the future.

### Prayerful Consideration

Setting goals can be a challenging process but an effective tool in helping you fulfill your potential. Prayerfully consider how the principle of setting SMART goals can best be applied to your unique situation.

## Net Worth

Now that you have an understanding of how goals, a budget, and a financial plan can help you get to where you want to be in the future, let’s take a look at where you are now by developing your understanding of your net worth.

(Boies, n.d.)

In developing your financial plan, assessing the current situation, or figuring out where you are at present, is crucial. This assessment becomes the point of departure for any strategy. It becomes the mark from which any progress is measured, the principal from which any return is calculated. It can determine the practical or realistic goals to have and the strategies to achieve them. Eventually, the current situation becomes a time forgotten with the pride of success, or remembered with the regret of failure.

Understanding the current situation is not just a matter of measuring it, but also of putting it in perspective and context, relative to your past performance and future goals, and relative to the realities in the economic world around you. Tools for understanding your current situation are your accounting and financial statements.

In personal finance, a critical piece in assessing your current situation is your net worth. Your net worth is a snapshot of what you own (assets) and what you owe (debts) at a given point in time. It is not a record of change over a period of time, but simply a statement of where things stand at a certain moment.

Developing your net worth starts with a list of assets and their values offset by a list of debts and their values. For organizational purposes, assets and debts are commonly listed in order of descending value. For example, in the assets listed in a net worth statement, a house worth 100,000 would be listed before a bank account balance of 5,000. In the debts listed, a home loan (mortgage) of 50,000 would be listed before an auto loan of 2,000.

The difference between your assets and your debts is your net worth. Literally, net worth is the share that you own of everything that you have. It is the value of what you have net of (less) what you owe to others. Whatever asset value is left over after you meet your debt obligations is your own worth. It is the value of what you have that you can claim free and clear. Your net worth is really your financial ownership in your own life.

Assets − Debt = Net Worth

### How Does Net Worth Play a Role in a Financial Plan?

(Stephens & ChatGPT, 2024)

Your net worth plays a central role in shaping and guiding your overall financial plan. It serves as a comprehensive measure of your financial health, encompassing both assets and liabilities. As a key metric, your net worth provides a baseline for setting and assessing financial goals. By tracking changes in your net worth over time, you can evaluate the effectiveness of your financial strategies, whether focused on saving, investing, or debt reduction.

Your net worth also informs budgeting decisions, helping you allocate resources strategically to achieve short-term and long-term objectives. For example, a positive trend in net worth may indicate successful wealth-building efforts, while a decline might signal a need for adjustments in spending or debt management. Ultimately, understanding your net worth is crucial for making informed financial decisions, managing risks, and building a solid foundation for a secure financial future.

## Assets

(Stephens & ChatGPT, 2024)

An asset is something of value that you own or control with the expectation that it will provide current or future economic benefits. Assets can take various forms and are typically classified into different categories based on their nature and purpose. Here are common types of assets:

### Financial Assets:

* Savings and Checking Accounts: Bank balances, and short-term investments that can be quickly converted to cash.
* Securities: Stocks, bonds, and other financial instruments representing ownership or debt in a company or government.
* Mutual Funds and Exchange Traded Funds (ETFs): Pooled funds from multiple investors invested in a diversified portfolio of stocks, bonds, or other securities.
* Retirement Accounts: Accounts such as government pensions or other individual retirement accounts that hold investments for retirement purposes.
* Loans: Lending money to someone with the understanding that it will be repaid with or without interest is an asset. Depending on the person to whom the money is lent, it could be highly risky or very safe.

### Physical Assets:

* Real Estate: Land, buildings, and other properties.
* Currency: Cash, coins, and other currency that you physically possess.
* Vehicles and Equipment: Cars, machinery, and other tangible assets used for various purposes.
* Livestock: Cattle for meat or dairy production, poultry for meat or egg production, sheep for meat or wool production, beehives for honey production and pollination services.
* Precious Metals: Gold, silver, platinum, jewelry, and other metals are valued for their rarity and industrial uses.
* Energy Resources: Oil, natural gas, and other sources of energy.

### Cryptocurrencies:

* Cryptocurrencies are digital or virtual currencies like Bitcoin and Ethereum that use cryptography for security and operate on decentralized networks.

Assets are essential as they contribute to wealth, generate income, and can be used as collateral for obtaining loans. It's important to note that while assets represent value, they also come with associated liabilities and risks. For a comprehensive understanding of your financial position, both assets and debts need to be considered.

Debts

(Stephens & ChatGPT, 2024)

Debt is a financial obligation or liability that arises when someone borrows money from another person or organization, with the understanding that the borrowed amount must be repaid over time. In essence, debt is a form of financial borrowing in which the borrower agrees to repay the lender the principal amount borrowed, usually with interest, within a specified period.

Types of debt include:

* Secured Debt: Backed by collateral, such as a home or car. If the borrower fails to repay, the lender can take possession of the asset.
* Unsecured Debt: Not backed by specific collateral. Credit cards and personal loans are common examples. Lenders rely on the borrower's creditworthiness.
* Short-Term Debt: Typically has a repayment period of one year or less. Examples include short-term loans and credit card balances.
* Long-Term Debt: Has a repayment period extending beyond one year. Mortgage loans, student loans, and long-term bonds are examples.
* Corporate Debt: Issued by corporations to raise capital. It can take the form of bonds or loans.
* Government Debt: Issued by governments to fund public spending. It includes government bonds and treasury bills.

Debt can be used for various purposes, such as funding education, purchasing a home or car, starting or expanding a business, or addressing unexpected expenses. While debt can be a valuable financial tool, excessive or mismanaged debt can lead to financial difficulties. Individuals and organizations need to carefully manage their debt, considering factors like interest rates, repayment capabilities, and the overall impact on their financial well-being.

## What If My Net Worth Is Low or Negative?

Having a negative net worth isn’t necessarily a bad thing. Your net worth isn’t reflective of your actual worth in any way. Many people spend a lot of time and money getting an education and finish their schooling with significant loans. Because they were likely not making much money while in school, they probably were not able to save and invest. This means they don’t have many assets to offset their debts making their net worth negative. However, because they went to school, they will hopefully be able to find a better paying job so they will be able to pay off their debts and grow their net worth over time. Current studies show that a college education has economic value because a college graduate earns more over a lifetime than a high school graduate.

(Boies, n.d.)

In some instances, if a person has significant debts and does not have enough income or assets to cover their debts, personal bankruptcy may occur. But because creditors would rather be paid eventually than never, the bankrupt is usually allowed to continue to earn income in the hopes of repaying the debt later or with easier terms. Often, the bankrupt is forced to liquidate (sell) some or all of its assets. Bankruptcy works in various ways around the world but these principles are often pretty standard.

Because debt is a legal as well as an economic obligation, there are laws governing bankruptcies that differ from state to state in the United States and from country to country. Although debt forgiveness was discussed in the Old Testament, throughout history it was not uncommon for bankrupts in many cultures to be put to death, maimed, enslaved, or imprisoned. The use of another’s property or wealth is a serious responsibility, so debt is a serious obligation.

## Tracking Net Worth Over Time

(Boies, n.d.)

It is a good practice to track your net worth over time. This allows you to see your progress from the decisions you have made. Focusing on your bank account balance or cash levels can be easy, but don’t always paint the full picture. Tracking your net worth can be a powerful way to gain insights into what is working well and areas where you may want to improve. That insight can guide you in making future financial decisions, particularly in foreseeing the potential costs or benefits of a choice. Looking backward can be very helpful in looking forward.

## Recordkeeping

(Porter & Kubin, 2013)

As you are thinking about your net worth, now can be a great time to start organizing your important documents. Important papers prove certain events occurred and they are used to document financial transactions. They may be needed at various times during your life. For example, a birth certificate is used to prove age when starting school and to obtain a driver’s license. It is also needed by relatives to obtain a death certificate.

A systematic plan for keeping track of important documents can save you hours of anxious searching for misplaced items. It can also help you reduce the amount of non-important papers cluttering your home.

Valuable papers can be sorted into two types: those needed for day-to-day use and those needed occasionally. Examples of valuable papers used frequently include a driver’s license, credit cards, health insurance cards, bank account records, identification cards, and special health documentation such as for allergies, disabling conditions, and blood type.

Examples of valuable papers used occasionally include birth, marriage, and death certificates; deeds; leases; contracts; insurance policies; military papers; and divorce decrees.

It is important to carefully store valuable papers which would be difficult or time-consuming to replace. These include items like original birth and marriage certificates and property titles. These hard-to-replace documents are ideally kept in a safe deposit box or a fire-proof, water-proof, burglar proof home safe or lock box. Other important records may be filed at home or carried in a wallet or purse. These records and papers are those needed for identification purposes or for emergency medical treatment.

People often keep a combination of paper and digital records. Digital records are kept by storing electronic images on an electronic storage system like a computer hard drive or portable drive. Electronically stored records must be legible, readable, and accessible for the period of limitations required. It is important to back up electronic files in case of a computer malfunction.

Regardless of how records are stored, regular filing and review of documents is important. Making the decision on when to discard old files is often difficult.

### Prayerful Consideration

Your available assets, debts, and record-keeping systems may be different than others. Prayerfully consider how these principles can best be applied to your unique situation.

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