



Financial Goals and its steps for Wealth maximization : A Review

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Abstract

Money drives many decisions that we make day to day. Setting goals can help us take control and feel more confident about those decisions. First, learn what financial goals are and why they're important. Financial goals are the personal, big-picture objectives you set for how you'll save and spend money. They can be things you hope to achieve in the short term or further down the road. Either way, it's often easier to reach your goals if you identify them in advance. Having financial goals can help shape your future by influencing the actions you take today. Without establishing that goal, you're more likely to continue spending as usual while your debt piles up. Like all expenses, financial goals should be included in your budget. That way, you can take concrete steps toward reaching them while leaving room for other costs. Plan out how much time it will take to reach each goal and how much money you'll need to contribute within that period. Identifying goals and creating a realistic plan for them allows you to track progress and can motivate you to keep going. Even if you fall short, you might develop some healthy money habits along the way.

Key words: Financial, goals, personal, budge etc.

Introduction

Finance is an integral part of everyone's life and financial principles are based on pure and simple common sense. The ability to take financially intelligent decisions is financial management. Financial management is the ability to understand the impact of every financial decision on net worth and to ensure that all those actions should be undertaken that will strengthen it and do nothing that weakens it. Managing personal finances is essential to one's financial wellbeing. Money management is a critical function in self-management. It aims to give the power and the knowledge to take control of the money. It provides the means to keep track of personal expenses, personal debt and subsequently helps in calculation and enhancement of personal net worth. Personal financial management can be defined as the management of the finances of an individual, in order to achieve his/her financial goals including long-term financial security. It is concerned with procurement and utilization of funds for an individual. It is concerned with efficient



planning and controlling of the financial affairs, budgeting, financial forecasting, cash management, credit administration, investment analysis, and fund management and so on. It helps individuals determine the past performance, predict future performance, and assess the capability of generating future cash flows

Definition

“The monetary objectives of an individual or organization that are often determined by their future requirements for funds. For a business, its financial goals can be expressed as part of an overall financial plan that might include profit targets, projected borrowing requirements, covering operating expenses, and developing a debt payback schedule”.

Profit maximization

Profit Maximization is the traditional approach, in this process Companies undergo to determine the best Output and price levels in order to maximize its return. The company will usually adjust influential factors such as production costs, sale price, and output levels as a way of reaching its profit goal. The overall objective of business enterprises to earn at least satisfactory returns on the funds invested to sustain in the market for long periods.

Wealth maximization

Wealth maximization is almost universally accepted and appropriate goal of a firm. According to wealth maximization, the managers should take decisions that maximize the net present value of the shareholders or shareholders’ wealth. The wealth maximization principle implies that the fundamental objective of a firm is to maximize the market value of its shares.

	Profit maximization	Wealth maximization
Meaning	Profit Maximization is based on the increase of sales and profits of the organization.	Wealth Maximization is based on the cash flows into the organization.
Focused On	Profit Maximization emphasizes on short term goals.	Wealth Maximization emphasizes on long term goals.



Time Value of Money	Profit Maximization ignores the time value of money. Time value of money refers the money receivable today is more valuable than the money which is going to be received in future.	Wealth Maximization considers the time value of money. In wealth maximization, the future cash flows are discounted at an suitable discounted rate to represent their present value.
Risk	Profit Maximization ignores the risk and uncertainty.	Wealth Maximization considers the risk and uncertainty.
Reliability	In the new business environment Profit maximisation is regarded as unrealistic, difficult, inappropriate and immoral.	Wealth maximisation objectives ensure fair return to the shareholders, reserve funds for growth and expansion, promoting financial discipline in the management.
Objective	Profit Maximization objective leads to exploiting employees and consumers. it also leads to inequalities and lowers human values.	Wealth Maximization provides efficient allocation of resource, It ensures the economic interest of the society.

Financial Goals: 6 Simple Steps

Here are six steps to setting financial goals.

1. Figure out what matters to you. Put everything, from the practical and pressing to the whimsical and distant, on the table for inspection and weighing.
2. Sort out what’s within reach, what will take a bit of time, and which must be part of a long-term strategy.
3. Apply a SMART- goal strategy. That is, make certain your ambitions are Specific, Measurable, Achievable, Relevant, and Timely. SMART.
4. Create a realistic budget. Get a strong handle on what’s coming in and what’s going out, then work it to address your goals. Use your budget to plug leaks in your financial ship.



5. With any luck, your tough, realistic, water-tight budget will show at least a handful of leftover dollars. Whatever that amount is, have it automatically directed into a separate account designed to address the first couple of things on your list of priorities.
6. Monitor your progress

Examples of Financial Goals

1. Make a budget
2. Pay off credit card debt
3. Save an emergency fund.
4. Save for retirement.
4. Save for retirement.
6. Develop skills to improve your income
7. Save for your children's education
8. Save a down payment for a home

Short-term Goals

Short-term financial goals tend to be narrow in scope, with a limited time horizon. Short-term goals can include purchasing household furniture, minor home improvements, saving for a car or vacation, or paying for a graduate degree.

Better still, however, short-term goals should include getting the best possible handle on your budget, adjusting your spending habits, eliminating credit card debt, saving a set percentage of your income, and/or establishing your emergency/rainy-day fund.

Short-term goals can include getting serious about doing away with unnecessary spending. Do you need a landline phone? Do you need all those premium cable channels? Sound daunting already? Then perhaps your key short-term goal is to find a financial counsellor or investment adviser who can help you sort your priorities and set a plan.

Midterm Goals

The tendency to weight financial plans around the near- and long-term goals has been called the “barbell” approach. Some attention must be paid to mid-range goals — those ambitions that will take three to 10 years to pull off.



Again, apply SMART planning. Avoid setting your sights so high that frustration intervenes to short-circuit your ambitions.

Examples of mid-term financial goals include saving enough for a down payment on a house, paying off a hefty student loan, starting a business (or starting a second career), paying for a wedding, stoking your youngster's prepaid college fund, taking a dream vacation, or even a sabbatical.

A key mid-term goal would be developing multiple income streams. This doesn't mean working every weekend at the neighbourhood big-box retailer. Instead, it might mean figuring out how to monetize a hobby, or starting a side business with an underutilized skill.

Your financial counsellor or investment adviser can play a valuable role in guiding your midterm strategy.

Long-term Goals

The ultimate long-term financial goal, of course, is funding a comfortable retirement. It's never too early to get that ball rolling with regular, automatic deposits in tax-advantaged investment accounts. It's hard to beat dollar-cost-averaged investing over a period of 30 to 40 years.

Other long-term financial goals could include living debt-free, paying off your mortgage; taking a lengthy, once-in-a-lifetime trip; getting your kids through college debt-free; building an estate that would give your youngsters options in life; or leaving a legacy to a favourite nonprofits.

Conclusion

Financial Management is concerned with the proper utilization of funds in such a manner that it will increase the value plus earnings of the firm. Wherever funds are involved, financial management is there. There are two paramount objectives of the Financial Management: Profit Maximization and Wealth Maximization. Profit Maximization as its name signifies refers that the profit of the firm should be increased while Wealth Maximization aims at accelerating the worth of the entity. Profit maximization is the primary objective of the concern because of profit act as the measure of efficiency. On the other hand, wealth maximization aims at increasing the value of the stakeholders. There is always a conflict regarding which one is more important between the two. So,



in this article, you will find the significant differences between Profit Maximization and Wealth Maximization, in tabular form.

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