

Profile

Background

A brief description of your current financial condition and profile. Include expected changes to your income, current or expected career choice, need to relocate, etc. Include your age, dependents, children, family size etc. that affect your investment needs. Simply put, provide background information needed to plan and make appropriate investment decisions specific to your needs.

Assume an active investment strategy

Assume that you have a starting portfolio of \$50,000

Assume one dependent, a child, in 8 years.

Your portfolio should consider your family's needs (you and a spouse and child).

Assume a combined household income with you and your spouse of \$120,000 in 7 years.

Objectives

Return Requirement

State the desired investment outcome. Include when funds will need to be withdrawn or accumulated.

Consider what is possible the limitations you place on your portfolio. Also consider what funding needs do you have from your portfolio and if you can assume the level of risk necessary to achieve your objective.

You need to quantify your return requirement. Is it 5%, 10%, 15%? Consider what is possible the limitations you place on your portfolio. Also consider what funding needs do you have from your portfolio and if you can assume the level of risk necessary to achieve your objective.

Assume you will fund your dependents undergraduate education.

Assume you will buy a home and need a 20% down payment for a home in 8 years.

Note: Keep in mind that we have seen very unusual swings in the market in the last year and a half. This level of volatility and performance is not typical. Beating the market over time is very difficult and many professionals can't do it.

Risk Tolerance

What level of risk tolerance are you will to accept? What level of risk can you afford to take?

When you are younger, you can take more risk, but it comes at a cost.

Assume a moderate risk level. Challenge yourself and have some fun.

You will need to quantify what a moderate risk tolerance is. You will have to deal with ambiguity in a work setting. Consider what will be used to measure risk and what number will be placed on risk. It takes longer than most people think to build a good amount of capital. By the end of this project, you will see what that means.

Constraints

What limitations do you have on investing? You must consider the *internal constraints* such as liquidity needs, time horizon, or other unique circumstances. What external *constraints* such as tax or regulatory requirements will limit your investment opportunities?

Liquidity

Assume you will have two emergencies in your life that will requiring you to draw \$5,000 from your portfolio.

Consider the other large with drawls over the life of your portfolio.

The consideration in this section coincides with your time horizons.

Consider the modified profile and your liquidity needs over the life of your portfolio.

Do not assume you will pay for your car from your portfolio. That should come from your regular income.

Time Horizon

I will let you decide when the emergencies described in the liquidity section will be needed.

Assume you will fund your child's bachelor's degree after high school.

Include the revised investment profile and funding needs in your time horizons.

Pick a number in the future when you will need the down payment for your home purchase

Taxes

Assume minimal tax planning since your income tax bracket is low.

Laws and Regulatory Environment

Assume you are prohibited from investing in options or securities traded OTC.

Unique Circumstances and/or preferences.

Limit your investments to securities listed in US exchange markets. You should also incorporate good diversification in your portfolio.

Investment Approach

Choose which investment approach you prefer.

Assume an active investment approach. Challenge yourself to see what's possible. Not having a lot of money does not determine what investment approach to take. It has to do with your belief in the markets efficiency.

Start to apply what you've learned.

Go back to the content in the book that helps you determine how much money you will need to fully fund a financial expense in the future. There was a calculation that will also show you how much money you will need to fund a portfolio today to achieve your financial objectives. That will help you determine how realistic your goals are and what you need to do to adjust your plans.