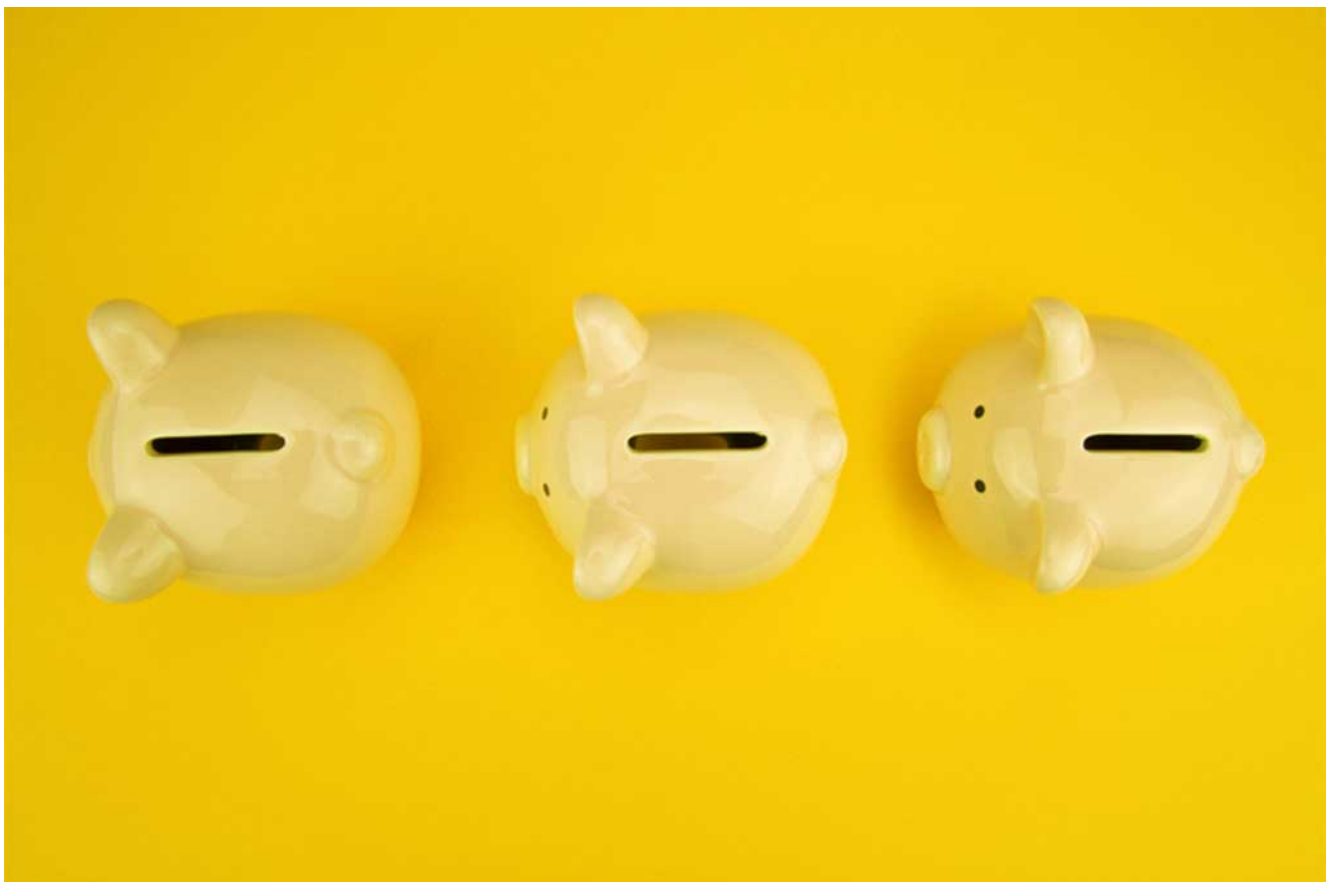


A beginner's guide to personal finance

Are you a young professional looking to start investing or saving for retirement? These four practical steps will get you started.



October 17, 2024

Starting to invest can seem challenging, especially [early in working life](#) when you're still laying secure financial foundations. Nonetheless, by following a structured and progressive approach, you can build a solid financial future. IESE's [Rafael Faus](#) has four key tips for organizing your finances and taking your first steps into the world of investments.

1. Define your goals and assess your current financial situation

Before you can even think about investing, it's crucial to [clarify your goals](#) and where you currently stand. Ask yourself: "What do I want to achieve with my money?" and "What are my short- and long-term priorities?"

Imagine your 80th birthday party, Faus suggests. What would you like people to say about you that day? This long-term scenario planning will help you identify what's most important for you, and you can then [set financial goals](#) that reflect these priorities.

Additionally, don't be afraid to think in "ideal" terms. What would you do if you had all the money you needed? What would you regret not doing if you had limited time left?

Questions like these can help you define current and future financial decisions for the life you want.

2. Create an emergency fund before investing

Before you dive into investing, it's important to safeguard enough money to cover at least six months of your expenses. This money should be in a checking account without a debit card to avoid temptation.

If you have children who are under 18, you should have a will and designate legal guardians. Additionally, prepare for unexpected events with powers of attorney and make sure you have life and disability insurance covering at least five years of net income.

3. Make a monthly and annual budget

A key step in financial planning is creating and sticking to a family budget. Start by identifying all your income sources and classifying your expenses into three categories:

- **Fixed expenses:** recurring every month.
- **Necessary variable expenses:** those that vary but are essential.
- **Discretionary expenses:** non-essential or superfluous spending.

Create a monthly budget where you allocate your income to different accounts to better

control your finances. It's recommended to have one account for direct debits, another for daily expenses and a savings account for emergencies.

4. [Investment planning and strategies](#)

Once you've established your emergency fund and followed your budget, you'll be ready to put your money to work. To begin investing, it's helpful to conduct an annual financial review and define contributions to, for example, a [retirement fund](#). These contributions should be adjusted annually to keep pace with inflation.

With an investment horizon of more than five years, you can consider riskier assets that offer higher returns. Remember, the higher the risk, the greater the potential return, but also the potential losses. Investing is not just about numbers; it's also about emotions. [Protect yourself from market emotions](#): greed and fear are the biggest enemies of investors and can lead to rash decisions.

Other [investment tips](#)

The ultimate goal of managing your personal finances and investing is to build a solid and secure financial future that allows you to achieve both personal and professional goals with the peace of mind you desire.

- **Start early:** The sooner you start investing, the more time you'll have to benefit from compound interest.
- **Diversify your investments:** Don't put all your eggs in one basket. Invest in a mix of stocks, bonds and [other assets](#).
- **Avoid market timing:** Trying to predict the market rarely works. Instead, opt for a long-term strategy.
- **Keep learning:** Stay informed and continue learning about finance and investments.

READ ALSO:

[Housing: When is it best to invest?](#)

[6 timeless money tips for volatile times](#)

[Don't buy into the market-portfolio hype](#)



Rafael Faus

Lecturer in Financial Management at IESE. His expertise includes asset management, personal financial planning, and operational finance.

www.iese.edu/insight