

Use Purpose-Driven Investing to Achieve Your Goals

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Do you save for one thing at a time? Or do you pursue several goals at once? If you're like me, you work toward several financial goals simultaneously, but you keep most of your money clumped in one account. It's easy to forget how much you've saved for each goal. And it's easy to borrow money from one objective to pay for something else.

In his forthcoming book *The Six Day Financial Makeover* by Robert Pagliarini advocates Purpose-Driven Investing:

Traditionally, most people invested for various vague goals and lumped all of their savings together in a single investment account. That's pretty boring. It's not very inspiring or effective.

Purpose-Driven Investing satisfies our need for a purpose *and* our need for instant gratification by thinking of each of our goals as a separate "basket". Each of our baskets represents a single goal with a clear purpose that we can see and grow.

What does this mean in the real world? It means that we have a single investment account for every goal. For example, if one of your goals is to take the family on a European vacation, create a separate savings account called "Family European Vacation Fund". This account or basket contains all of your savings toward that one goal. Every penny in the account is for the European vacation — not for retirement, a new car, your emergency fund, your kids' college tuition, or any other goal. What was once just a plain investment account is now a dream — a real goal you are committed to achieving. Account statements have been transformed from boring pieces of paper into exciting treasure maps!

In a way, Purpose-Driven Investing is like envelope budgeting, but on a larger scale. Pagliarini argues that Purpose-Driven Investing offers several advantages over traditional methods:

- **It's modeled to your personality.** You're able to customize your plan to your goals and your risk-tolerance.
- **It's intuitive.** Pagliarini says that this sort of saving is like that we did as kids: if we wanted a new comic book, we saved for it. If we wanted a bike, we saved for it.
- **It's easy to track progress.** Because each goal has its own account, you know how close you are to reaching it. When money is mixed in a single account, there's no easy way to see how close you are to individual goals.
- **There are fewer risks.** Each account is tailored to the timeline required. If you're saving for something near-term, you use the appropriate account. If you're saving for something in the future, you use a riskier account.
- **You have a better chance of reaching your goals.**
- **It's easier to prioritize goals.** When your goals are broken into separate accounts, it's simple to allocate money between them monthly. If you know you need to buy a car soon, you can prioritize that account. If you really want to max out your 401k, you can prioritize that account.

“Do what works for you,” I always say — when I read Pagliarini’s advice, I knew his method would work for me. Because I’m only a novice investor, I decided to apply the idea to my personal banking accounts, to pursue Purpose-Driven Saving.

I stopped by my credit union last week and opened an additional free savings account. “I have an extra savings account, too,” the teller told me. He leaned forward. “I’m saving for an Xbox 360,” he whispered. I laughed and told him the truth: my new account will first be used to save for a Nintendo Wii.

Here’s how I’ve set up my accounts:

- I have a checking account for daily use.
- I have a high-interest joint savings account with my wife (we keep separate finances for everything else) that serves as an emergency fund.
- I have a primary low-interest savings account that I use as a holding tank for money as it’s transferred here-and-there.
- I have a secondary low-interest savings account for short-term goals. (This is currently my Nintendo Wii fund, and contains the money I earned at our spring garage sale.)
- I have a business savings account that I use for medium-term goals (primarily technology purchases). I’m currently saving to purchase a replacement computer — my goal is to purchase a MacBook Pro by September 2007.
- I have a Roth IRA with Sharebuilder.
- I also have one remaining (non-mortgage) debt: a home equity loan. This isn’t an investment account, but paying it off is part of my personal purpose-driven money plan.

These accounts don’t earn optimal interest rates, but they’re what works for me. I’m excited about this new way of looking at my money. I have high hopes that this method will help me achieve my financial goals more quickly.