

BASIC PRINCIPLES OF FINANCIAL MANAGMENT

Palamarchyk D.P.

1st year student

Academy of Law and Business Management

Southern University

email: daniil.palamarchyk@gmail.com

Scientific supervisor: Galoyan Y.E.,

PhD, Head of the Academy of Humanitarian Technologies

Abstract: The article deals with the sphere of financial management. It touches upon the basic principles of financial management that are resulted in the efficiency of the whole management process.

Keywords: financial management, assets, software diversification, employment benefits.

Organize Your Finances

Organizing your finances is the first step to creating wealth. Credit cards, bank accounts, personal loans, brokerage accounts, mortgages, car loans and retirement accounts should to be tracked. Budgeting software can provide complete solutions to track all such accounts, make on-time payments and more. Jeff Morris, a certified public accountant in Bethesda, Maryland, points out: "Once you enter your accounts and balances into budgeting software, you will be able to spend less time getting organized and more time making sense of your situation."

Spend Less Than You Earn

Personal financial software provides powerful tools to help you track and budget your spending and take steps to achieve your long-term goals. If you learn to track your finances and know where you spend the most, you'll be able to control your money. "The best way to ensure that you either overcome debt or avoid it in the first place is to never spend more than you make," Morris says.

Put Your Money to Work

Take advantage of the time value of money. Morris gives the following example: "A 21-year-old who invests \$17.50 a day until retiring at the age of 65 at a 5 percent average annual investment return can be a millionaire. At age 30, the

required daily savings amount almost doubles. At age 40 the amount quadruples." So save early and often, even if the amount is small.

Limit Debt to Income-Producing Assets

With credit cards and car loans, every penny you spend to repay that debt is money flushed down the drain. All but a few models of cars depreciate to zero and require more in repairs and finance charges than can be reasonably expected to be returned to the owner upon being sold. Morris explains, "With their ultra-high interest rates, credit cards utilized to buy household goods and clothes that quickly wear out are bad bargains. If you have to be in debt, stick to financing items that retain their value over time, like real estate and education."

Continuously Educate Yourself

Budgeting software often links to hoards of research that puts the collective knowledge of Wall Street at your fingertips. "Read every financial periodical, book and blog you can find from well-regarded financial authors," Morris recommends. "Understand why you are investing so that you will stick to your plan. Periodically gather research so you do not miss excellent investment opportunities."

Understand Risk

The key to understanding return on investments is that the more you risk, the better the return should be. This is called a risk-return trade-off. Investments like stock and bonds that have a higher rate of return often have a higher risk of losing the principal that you invested. Investments like certificates of deposit and money market accounts with a lower rate of return have a lower risk of losing principal. Since no one knows the future, you cannot be 100 percent sure any investment will do well. Morris explains, "If you diversify your investments, one can go sour without severe impact to your overall portfolio."

Diversification Is Not Just for Investments

Find creative ways to diversify your income. Everyone has a talent or special skill. "Turn your talents into a money-making opportunity. Investigate ways to make money from home and launch a home-based business," Morris says. The extra income can supplement your full-time income or even result in an exciting

career change. Good financial management software can show you how even a slight improvement in income can positively change your financial profile.

Maximize Your Employment Benefits

Employment benefits like a 401(k) plan, flexible spending accounts and medical and dental insurance yield some of the highest rates of return that you have access to. "Make sure you are taking advantage of all the ways benefits can save you money by reducing taxes or out-of-pocket expenses," says Morris.

Pay Attention to Taxes

Financial planning software helps you manage your tax information. For example, quicken quickly analyzes taxable investments and provides powerful organizing tools that make year-end tax filings go much smoother. Morris emphasizes, "We all know that any money you make is going to be taxed. That is why it is important to consider the related tax implications for every investment."

Plan for the Unexpected

Despite of your best efforts, you'll face unforeseen emergencies. Morris urges, "Save enough money and stock up on insurance to be able to weather extended unemployment, accidents, catastrophic medical care, large car or house repairs and natural disasters." Increasing the amount of money you save when times are good can help you manage the cost impact of hedging against bumps in the road, making sure unexpected financial exposure does not derail your long-term goals and your family's financial security.

References

1. Moran D.R. 12 Month to \$1 Million [Internet resource] – URL: <https://www.booktopia.com.au/12-months-to-1-million-ryan-daniel-moran/book/9781948836951.html> (date accessed: 05.05.2020)
2. Napoleon H. Think and Grow Rich [Internet resource] –URL: <https://www.booktopia.com.au/think-and-grow-rich-napoleon-hill/book/9781640952492.html> (date accessed: 26.11.2021).
3. Charles Moyer R. Contemporary Financial Management [Internet resource] – URL: <https://www.booktopia.com.au/contemporary-financial-management-r-charles-moyer/book/9781337090582.html> (date accessed: 27.01.2017)
4. Komarova A. Analysis of Introduction of Digital Technologies into the Financial Sphere [Electronic resource] // Intellectual resources – to regional development. – 2020. – № 1. – p. 194-199.

5. Turabian A. S. Analysis of Financial Marketing Influence on Entrepreneurship [Electronic resource] // Intellectual resources – to regional development. – 2020. – № 1. – p. 273-277.

6. Alekseeva E.V., Muradova S.S. Securities market: textbook. – Rostov-on-Don, 2009. – (Ser. Higher education).